1st Source Corporation SRCE (NAS)

Last Close	Industry	Sector
14.85 USD	Regional - Midwest Banks	Financial Services

Profile

Pricing data through 05 Nov 2009

In addition to this comprehensive company profile, Morningstar offers in-depth analyst research and ratings on selected companies.

For information about our full analyst coverage, please contact:

Morningstar Equity Research
+1 (312) 696-6869
equityresearchsales@morningstar.com

Contents

1st Source Corporation is a bank holding company that provides, through its subsidiaries, an array of financial products and services. Through its principal subsidiary 1st Source Bank, 1st Source offers commercial and consumer banking services, as well as trust and investment management, and insurance, to individual and business clients.

The bank offers specialized financing services for new and used private and cargo aircraft, automobiles and light trucks for leasing and rental agencies, medium and heavy duty trucks, construction equipment, and environmental equipment. 1st Source is not dependent upon any single industry or client. 1st Source Bank provides commercial and agriculture loans to corporations and other business clients primarily located within 1st Source's regional market area. 1st Source Bank provides a full range of consumer banking services, including checking accounts, on-line banking, savings programs, installment and real estate loans, home equity loans and lines of credit, drive-in and night deposit services, safe deposit facilities, automated teller machines, overdraft facilities, and brokerage services. 1st Source Bank provides a wide range of trust, investment, agency, and custodial services for individual and corporate clients.1st Source Bank, through its Specialty Finance Group, provides a range of comprehensive lease and equipment finance products addressing the financing needs of diverse companies. 1st Source also generates equipment rental income through the leasing of construction equipment, various trucks, and other equipment to clients through operating leases.

The Specialty Finance Group also consists of separate wholly owned subsidiaries of 1st Source Bank which include: Michigan Transportation Finance Corporation, 1st Source Specialty Finance, Inc., SFG Equipment Leasing, Inc., 1st Source Intermediate Holding, LLC, 1st Source Commercial Aircraft Leasing, Inc., and SFG Equipment Leasing Corporation I. Trustcorp Mortgage Company, is a mortgage banking company with five offices in Indiana and Ohio and a wholly owned subsidiary of 1st Source Corporation. 1st Source Insurance, Inc., is a wholly owned subsidiary of 1st Source Bank which provides insurance services to individuals and businesses covering corporate and personal property products, casualty insurance products, and group health and life insurance products.

1st Source Corporation SRCE

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
222	359	Regional - Midwest Banks	Financial Services

1st Source is the holding company for 1st Source Bank, which operates more than 60 banking offices in northeastern Indiana and southwestern Michigan. The bank provides checking, money market, savings, and individual retirement accounts, as well as certificates of deposit. The company's subsidiaries include 1st Source Insurance, a provider of general insurance through an agency in South Bend, Indiana; 1st Source Capital, a provider of small business capital; and Trustcorp Mortgage, a mortgage originator that operates eight offices in Indiana, Ohio, and

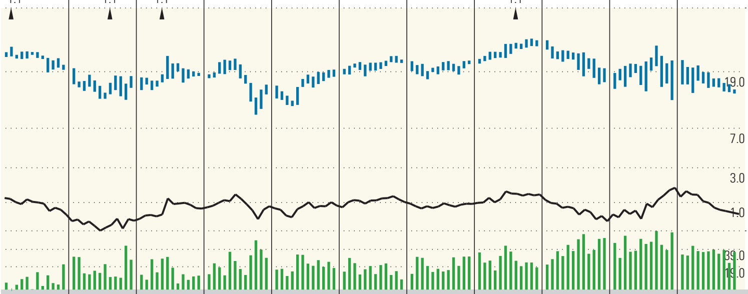
100 North Michigan Street
South Bend, IN 46601
Phone: 1 574 235-2000
Website: http://www.1stsource.com

Employees: 1280

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
-	14.85	-	-	-	-

per share prices in USD

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD	
29.48	21.03	25.52	24.45	20.58	25.54	23.73	33.46	32.62	30.00	23.92	Annual Price High
19.69	12.66	14.83	9.91	11.43	18.50	17.65	22.64	16.28	12.61	14.04	Low
1:1	1:1	1:1					1:1				Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500

52 week High/Low
23.92 - 12.61

10 Year High/Low
33.46 - 9.91

Bear-Market Rank
3 (10=worst)

Trading Volume Thousand

Growth Rates Compound Annual

	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	14.1	9.0	3.3	4.0
Operating Income %	—	—	—	—
Earnings/Share %	7.0	-2.2	10.6	0.4
Dividends %	3.6	9.2	11.5	9.7
Book Value/Share %	5.3	7.4	6.8	7.3
Stock Total Return %	-26.1	-18.1	-6.2	-1.7
+/- Industry	-2.4	0.4	3.1	0.8
+/- Market	-38.0	-10.2	-4.4	1.0

Stock Performance

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD	Stock Performance
-16.9	-21.9	21.1	-17.3	30.6	20.6	0.5	42.9	-44.4	39.9	-34.7	Total Return %
-36.4	-11.8	34.1	6.1	4.2	11.6	-2.5	29.3	-47.9	78.4	-52.8	+/- Market
-6.7	-40.1	28.9	-12.4	2.7	15.7	4.0	26.8	-22.6	67.8	-21.4	+/- Industry
1.3	1.9	1.7	2.1	1.7	1.6	2.0	1.7	3.2	2.5	4.0	Dividend Yield %
477	343	430	351	453	529	520	723	417	570	359	Market Cap USD Mil

Profitability Analysis

	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	6.9	8.8	-7.5	15.4
Return on Assets %	0.7	0.8	-0.7	6.0
Revenue/Employee USD K	173.3	153.9	—	918.1
Compensation Exp/Rev	0.3	0.4	—	—
Operating Margin %	—	—	—	15.4
Net Margin %	14.2	17.7	-12.7	6.9
Free Cash Flow/Rev %	—	—	—	0.0

Financials

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
100	105	119	119	103	99	98	106	119	132	128	Net Interest Inc USD Mil
63	74	93	73	80	63	69	77	71	84	94	Fee Income
—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
36	38	39	10	19	25	34	39	31	33	32	Net Income USD Mil
1.53	1.63	1.65	0.43	0.83	1.08	1.46	1.72	1.28	1.37	1.32	Earnings Per Share USD
0.26	0.30	0.32	0.33	0.34	0.38	0.45	0.53	0.56	0.58	0.59	Dividends USD
23	23	23	23	23	23	23	22	23	24	23	Shares Mil
10.33	12.47	13.40	13.42	13.57	14.33	15.20	16.39	17.87	18.82	19.46	Book Value Per Share USD
2873	3182	3563	3407	3330	3564	3511	3807	4447	4464	4413	Assets USD Mil
239	271	306	309	315	327	346	369	431	454	574	Total Equity USD Mil
13	6	3	7	14	13	15	16	-31	10	-102	Free Cash Flow

Financial Position

	12-08 USD Mil	09-09 USD Mil
Loans (Gross)	3345	3133
Less: Allowances	80	86
Net Loans	3265	3048
Securities	743	21
Trading Assets	0	0
Intangibles	92	91
Other	364	1253
Total Assets	4464	4413
Deposits	3515	3487
Short-Term Debt	24	25
Long-Term Debt	120	110
Other	352	217
Total Liabilities	4011	3839
Preferred Stock	0	105
Total Equity	454	574

Profitability

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
1.3	1.2	1.1	0.3	0.6	0.7	0.9	1.1	0.7	0.8	0.7	Return on Assets %
15.7	14.8	13.4	3.3	6.1	7.8	10.0	11.0	7.6	7.5	6.9	Return on Equity %
22.0	21.0	18.2	5.2	10.4	15.5	20.2	21.5	16.1	15.4	14.2	Net Margin %
0.06	0.06	0.06	0.06	0.05	0.05	0.05	0.05	0.05	0.05	0.05	Asset Turnover
12.0	11.8	11.6	11.0	10.6	10.9	10.2	10.3	10.3	9.8	9.4	Financial Leverage

Financial Health

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
2023	2264	2478	2120	2161	2272	2405	2644	3125	3265	3048	Net Loans USD Mil
12	12	12	72	79	77	82	103	135	120	110	Long-Term Debt USD Mil
2127	2463	2883	2713	2487	2807	2746	3048	3470	3515	3487	Deposits USD Mil

Valuation

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Valuation
13.4	9.7	11.4	35.6	23.6	21.5	15.6	18.7	13.5	17.2	11.3	Price/Earnings
—	—	0.5	1.8	1.1	1.1	0.9	1.1	0.8	1.6	0.6	P/E vs. Market
3.0	2.0	2.1	1.9	2.5	3.3	3.2	4.0	2.2	2.6	1.6	Price/Sales
2.0	1.3	1.4	1.1	1.4	1.6	1.5	2.0	1.0	1.3	0.8	Price/Book

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	11.3	17.3	-14.3	19.8
Forward P/E	—	—	—	16.0
Price/Free Cash Flow	—	—	-5.2	17.5
Dividend Yield %	4.0	—	2.0	2.1
Price/Book	0.8	1.5	1.2	2.1
Price/Sales	1.6	3.1	1.8	1.2
PEG Ratio	—	—	—	1.8

Quarterly Results

Revenue USD Mil	Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period	63.6	51.3	54.6	52.3
Prior Year Period	48.2	53.3	53.5	45.8

Rev Growth %	Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period	31.8	-3.8	2.1	14.2
Prior Year Period	8.6	21.9	11.6	-7.7

Earnings Per Share USD	Dec 08	Mar 09	Jun 09	Sep 09
Most Recent Period	0.51	0.20	0.19	0.21
Prior Year Period	0.32	0.38	0.30	0.18

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
1st Source Corporati	359	222	11.3	6.9
US Bancorp	45849	14873	26.9	6.8
Northern Trust Corpo	12177	3984	13.1	16.0

Major Fund Holders

	% of shares
DFA US Small Cap Value I	2.50
DFA Tax-Managed US Targeted Value	0.93
DFA US Micro Cap I	0.82

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

1st Source Corporation SRCE (NAS)

Last Close	Industry	Sector
14.85 USD	Regional - Midwest Banks	Financial Services

Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
JONES WELLINGTON D III	President,Director	160,300	18 Feb 2009	-
STIFEL RICHARD Q	Executive Vice President	104,474	18 Feb 2009	-
QUALEY ALLEN RUSSELL	Executive Vice President	87,335	18 Feb 2009	-
LENTYCH LARRY E	Chief Financial Officer,Treasurer	43,040	03 Sep 2009	-
FITZPATRICK DANIEL B	Director	38,900	01 Sep 2009	-
PHAIR JOHN T	Director	33,134	27 Oct 2009	-
JOHNSON WILLIAM P	Director	18,383	29 Oct 2009	-
OZARK TIMOTHY K	Director	16,684	05 Aug 2009	-
MARTIN REX	Director	5,122	06 Mar 2009	-
GERBER TERRY L	Director	4,561	24 Feb 2009	-

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
DFA US Small Cap Value I	QQQ	2.50	0.21	0	30 Jun 2009
DFA Tax-Managed US Targeted Value	QQ	0.93	0.26	0	30 Jun 2009
DFA US Micro Cap I	QQQ	0.82	0.13	-8	30 Jun 2009
Vanguard Small Cap Index	QQQ	0.75	0.02	4	31 Jul 2009
Vanguard Total Stock Mkt Idx	QQQ	0.65	0.00	7	30 Jun 2009

Concentrated Holders					
FBR Small Cap Financial	QQQQQ	0.40	1.01	19	30 Jun 2009

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
FBR Small Cap Financial	QQQQQ	0.40	1.01	19	30 Jun 2009
American Beacon Small Cp Val Inst	QQQQ	0.15	0.03	13	31 Jul 2009
Vanguard Small Cap Value Index	QQQ	0.47	0.05	10	30 Jun 2009
DFA US Targeted Value I	QQQ	0.24	0.08	8	30 Jun 2009
Vanguard Total Stock Mkt Idx	QQQ	0.65	0.00	7	30 Jun 2009

Top 5 Sellers					
DFA Tax-Managed US Marketwide Value II	QQ	0.15	0.04	-15	30 Jun 2009
DFA Tax-Managed US Marketwide Value	QQ	0.15	0.04	-15	30 Jun 2009
DFA US Micro Cap I	QQQ	0.82	0.13	-8	30 Jun 2009
SEI Instl Mgd Small Cap Value A	QQQ	0.02	0.02	-8	30 Jun 2009

1st Source Corporation SRCE (NAS)

Last Close	Industry	Sector
14.85 USD	Regional - Midwest Banks	Financial Services

Industry Focus: US Regional Banks

Jim Sinegal
Stock Analyst

A new normal or back to the future?

Our Outlook for Regional Banks

01 June 2009

Following the conclusion of the Supervisory Capital Assessment Program stress tests and the resulting infusions of new capital into many banks, investors' focus has shifted from the banks' ability to survive the current downturn to their potential earnings power on the other side. Some sources of profits, such as securitization, already appear to be relics of the distant past. Similarly, excessive leverage is unlikely to return for at least a decade, and the need for major changes in the regulatory system is painfully obvious. Although the specific changes to come are difficult to predict, we think some helpful generalizations can be made after a simple examination of banking industry dynamics.

Competition Is Here to Stay

In our opinion, regional banking is very much a commodity industry. Competition is generally intense, and there are few barriers to entry, aside from the approval of regulators. While financial innovations like CDOs, credit derivatives, and other products temporarily boosted profitability, nothing prevented industry participants from competing away excess profits resulting from these new products--in fact, a strong case can be made that competitive forces led to the demise of several financial companies and virtually the entire "shadow banking" system. This comes as no surprise--any student in a freshman microeconomics course knows that excess profits unprotected by an economic moat will eventually be competed away. Similarly, when industry profits decrease below cost of capital, firms will exit through failure, acquisition, or other means. We therefore believe profits across the banking industry should once again approximate costs of capital once the crisis is resolved.

As in all commodity industries, companies that excel at controlling costs--operating, credit, and funding--should be able to continue earning excess profits. Wells Fargo 's WFC extremely low cost of deposits is a perfect example of this, as is the company's history of superior underwriting. In other cases, banks benefit from high-return businesses other than banking. PNC Financial PNC has a profitable fund servicing business, US Bancorp USB owns a payment processing operation, and both have profitable wealth management arms. The low capital requirements of these service businesses tend to boost overall returns as well, and their relative stability helps to keep these banks from venturing too far afield in search of higher returns. It's therefore not surprising that these narrow-moat banks have fared better than most in recent months. We don't believe the advantages developed by these companies over many years are likely to disappear anytime soon, and we expect that these banks are likely to continue producing returns well in excess of their cost of capital.

Regulation Will Not Affect All Participants Equally

Much has been made of the prospects for increased regulation of the banking industry, and for good reason. Lax regulation of subprime mortgages, derivatives, and other areas of the financial system no doubt contributed to the mess plaguing the financial system.

Some industry observers have put forth the possibility that banking could begin to resemble a utility in the future, rather than the profitable growth industry it has been over the past few decades. In our opinion, this comparison is tenuous at best. As Josh Peters, equities strategist and editor of Morningstar DividendInvestor points out in "The Ultimate Dividend Playbook" , utilities are naturally endowed with a substantial economic moat. In most cases, a particular utility is the sole supplier to a geographic area. Additionally, utilities are capital intensive, creating a sizable barrier to entry. It should be obvious that the banking business has neither of these features. Utility regulation is meant to limit profitability and protect customers--the banking industry suffered from the opposite problem. It is now obvious that the banking sector's problem was not excess returns, but in fact the inability to generate acceptable returns without taking on unacceptable risk.

1st Source Corporation SRCE (NAS)

Last Close	Industry	Sector
14.85 USD	Regional - Midwest Banks	Financial Services

Industry Focus: US Regional Banks

Furthermore, any attempts by regulators to control pricing in the banking industry are likely to end in disaster. On the other hand, regulation meant to reduce leverage and excessive risk-taking is almost a certainty. In assessing the effects of this change on a particular bank, it is important to identify the source of past returns. In the case of banks like Flagstar Bancorp FBC , excessive leverage and overreliance on new financial products undoubtedly were the factors responsible for the 20%-plus returns on equity it achieved earlier in the decade. However, Wells Fargo was earning 20% returns on equity in the 1980s, long before irrational exuberance took hold across the lending industry, and the superior economic characteristics of the business outlined above are still in place. In our opinion, banks like Wells are therefore less likely to suffer from a regulatory crackdown.

Furthermore, as leverage is reduced across the industry, the irresistible forces of competition will eventually drive industry returns back to an appropriate level, as firms react to the new operating environment. In fact, lending spreads are already the highest they have been in years, as rational competition has returned to the market. New regulatory policies could also benefit banks--higher capital and loan loss reserve requirements should help smooth the boom/bust cycle that periodically plagues the banking industry. Making the banking system safer will not necessarily reduce profitability--the pharmaceutical industry is heavily regulated for safety, yet quite profitable. Finally, regulators must also consider the second-order effects of overly harsh new requirements. If profitability is artificially limited, investors will be reluctant to provide the capital necessary to keep the financial system--and the economy--functioning. From a macroeconomic perspective, growth is likely to be muted as the economy delevers, but how will the system recover if future growth and profitability are hampered by regulation?

It's Not Time to Swing for the Fences

The implications of the coming changes are most serious for the weakest banks. Those that struggled to achieve their cost of capital during the boom years will face enormous pressures as the recession continues, and many will likely exit or be acquired at distressed prices, as assets are transferred to more productive uses. The mismanaged assets of Washington Mutual and National City are no doubt better off in the hands of J.P. Morgan Chase JPM and PNC, and we expect this trend to continue for some time. Banks that could not achieve satisfactory returns in the boom years will surely fare even worse without the tail winds provided by excessive leverage, perfect credit, and structured products. While a few of these weaker banks are likely to survive and perhaps experience a spectacular increase in stock price from current levels, we place these types of bets firmly in the category of speculation. Some of these players will surely not make it.

Stick to the High Ground, and Focus on Moats

On the other hand, the strongest regional and superregional banks--those with established economic moats--could benefit from the changes to come. The ability to cheaply acquire assets and market share from weakened or failed competitors could result in a nice boost to short-term growth, and the reputational benefits from passing through the crisis relatively unscathed could last for a long time, further strengthening competitive advantages where they already exist. Though Warren Buffett popularized the concept of economic moats, our own research also suggests that moats are a key factor in achieving investment success. In a highly competitive industry like banking, where truly durable competitive advantages are rare, moats are often even more important. For this reason, we recommend that investors focus their attentions on banks with narrow or wide moats and strong management teams, leaving the low-priced lottery tickets in the industry for others.