# FOURTH QUARTER 2019 INVESTOR PRESENTATION

NASDAQ: SRCE

www.1stsource.com

# DISCLOSURES

**Forward-Looking Statements**

Except for historical information, the matters discussed may include "forward-looking statements." Those statements are subject to material risks and uncertainties. 1st Source cautions readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. The audience is advised that various important factors could cause 1st Source's actual results or circumstances for future periods to differ materially from those anticipated or projected in such forward-looking statements. Please refer to our press releases, Form 10-Qs, and 10-Ks concerning factors that could cause actual results to differ materially from any forward-looking statements of which we undertake no obligation to publicly update or revise.

**Non-GAAP Financial Measures**

The accounting and reporting policies of 1st Source conform to generally accepted accounting principles ("GAAP") in the United States and prevailing practices in the banking industry. However, certain non-GAAP performance measures are used by management to evaluate and measure the Company's performance. Although these non-GAAP financial measures are frequently used by investors to evaluate a financial institution, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. These include taxable-equivalent net interest income (including its individual components), net interest margin (including its individual components), the efficiency ratio, tangible common equity-to-tangible assets ratio and tangible book value per common share. Management believes that these measures provide users of the Company's financial information a more meaningful view of the performance of the interest-earning assets and interest-bearing liabilities and of the Company's operating efficiency. Other financial holding companies may define or calculate these measures differently. See the slides titled "Reconciliation of Non-GAAP Financial Measures" for a reconciliation of certain non-GAAP financial measures used by the Company with their most closely related GAAP measures.

# CORPORATE OVERVIEW

## $6.6 billion Community Bank with International Reach headquartered in South Bend, Indiana

### Community Banking:

- Locations throughout Northern Indiana and Southwestern Michigan
- Business and personal banking, payment services, lending, mortgage, and leasing
- Investment management, wealth advisory and estate planning, and retirement planning services
- Business and consumer insurance sales

### Specialty Finance:

- National and international footprint
- Construction machinery
- Corporate and personal aircraft
- Auto rental and leasing, shuttle buses, motor coaches, funeral cars, and step vans
- Truck rental and leasing

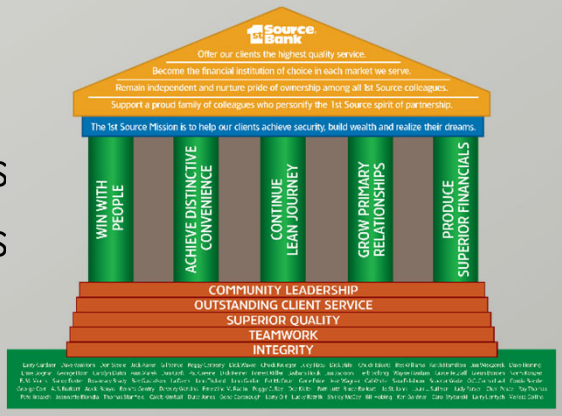
# MISSION AND VISION

## Mission

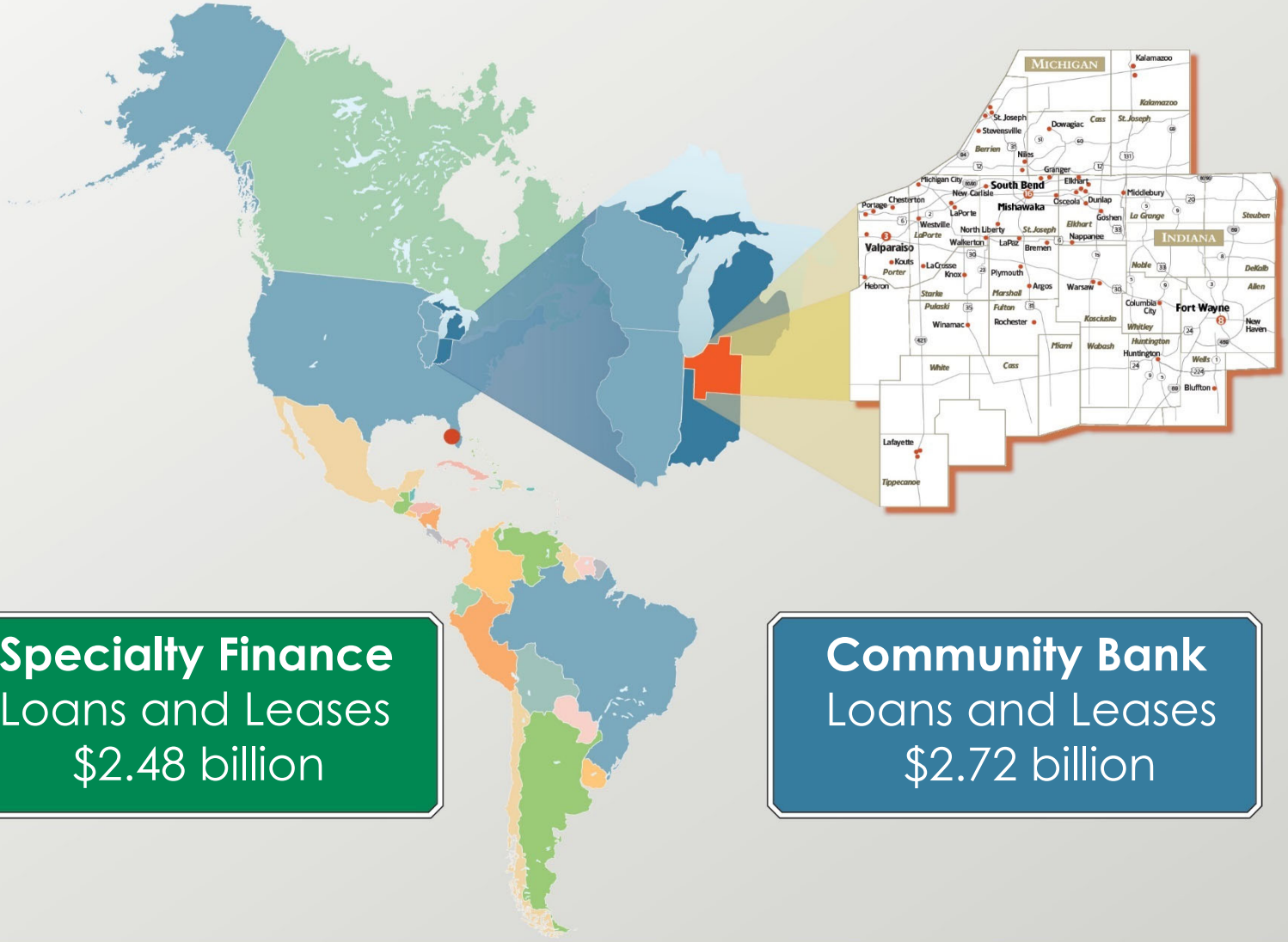
To help our clients achieve security, build wealth and realize their dreams by offering straight talk, sound advice and keeping their best interests in mind for the long-term.

## Vision

- Offer our clients the highest-quality service
- Support a proud family of colleagues who personify the 1st Source spirit of partnership
- Be the financial institution of choice in each market we serve
- Remain independent and nurture pride of ownership among all 1st Source colleagues
- Achieve long-term, superior financial results



# MARKET AREA

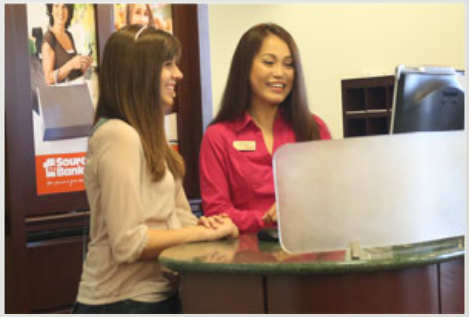



**Specialty Finance**
Loans and Leases
$2.48 billion

**Community Bank**
Loans and Leases
$2.72 billion

# **BUSINESS MIX** (LOANS AND LEASES)







| | | |
|---|---|---|
| Business Community Banking | 75% | 52% |
| Personal Community Banking | 25% | |
| Specialty Finance | 48% | |

# COMMUNITY BANKING

- **81** Banking Centers
- **101** Twenty-four hour ATMs
- **10** 1st Source Insurance offices
- **8** Trust & Wealth Advisory locations with approximately $4.5 billion of assets under management



In person



Online



Over the phone



Mobile

# COMMUNITY BANKING MARKET AREA



Higher Education



Steel Production



Regional Medical Hub



Medical Devices



Agriculture



Distribution Hub



Recreational Vehicle Manufacturing

## 17 – County Market

| | |
|---|---|
| Market Households | 804,633 |
| Client Households | 104,958 |
| Penetration | 13.0% |
| Businesses (approx) | 69,400 |
| Business Clients | 19,538 |
| Penetration | 28.2% |

As of December 31, 2018

# SPECIALTY FINANCE GROUP SERVICES



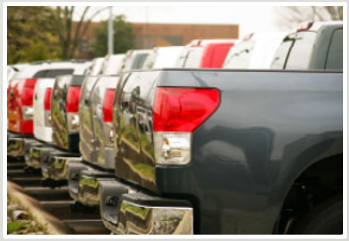
## Aircraft Division — $784MM

Aircraft division provides financing primarily for new and used general aviation aircraft (including helicopters) for private and corporate users, some for aircraft distributors and dealers, air charter operators, air cargo carriers, and other aircraft operators. See Appendix for NAICS industry detail.



## Construction Equipment Division — $705MM

Construction equipment division provides financing for infrastructure projects (i.e., asphalt and concrete plants, bulldozers, excavators, cranes, and loaders, etc.)



## Auto and Light Truck Division — $589MM

Auto/light truck division provides financing for automobile rental and leasing companies, light truck rental and leasing companies, and special purpose vehicle users: shuttle buses, motor coaches, funeral cars and step vans.



## Medium and Heavy Duty Truck Division — $295MM

The medium and heavy duty truck division finances highway tractors and trailers and delivery trucks for the commercial trucking industry and trash and recycling equipment for municipalities and private businesses as well as equipment for landfills.

# EXPERIENCED AND PROVEN TEAM

## Executive Team

- 5 executives with an average 38 years each of banking experience and 28 years with 1st Source

## Business Banking Officers

- 42 business banking officers with an average 18 years each of lending experience and with 1st Source from 1 to 33 years

## Specialty Finance Group Officers

- 24 specialty finance officers with an average 27 years each of lending experience and with 1st Source from 1 to 32 years

# PERFORMANCE – CLIENT

- #1 deposit share in our 15 contiguous county market
- #1 SBA Lender in our Indiana footprint
- #1 SBA Lender Headquartered in State of Indiana

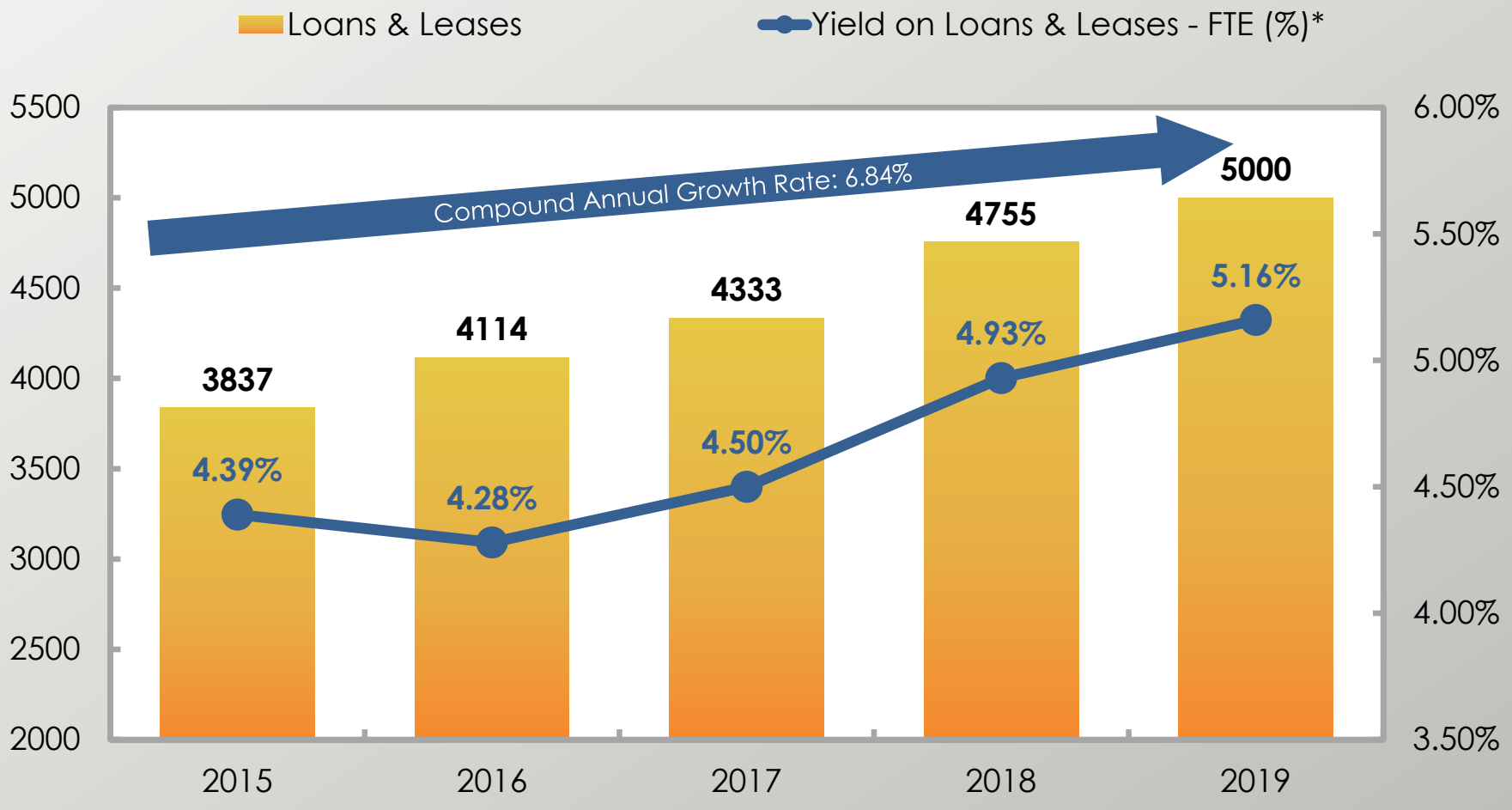



- Forbes "Top-Rated Bank Headquartered in Indiana" based on 2018 "Best-In-State-Banks" Survey
- #22 on Monitor Magazine's 2019 Top 50 Bank Finance/Leasing Companies in the U.S.
- #37 on Monitor Magazine's 2019 Top 100 Largest Equipment Finance/Leasing Companies in the U.S.
- Best Investment Firm – South Bend Tribune, 2019
- Best Places to Work: Professional Development – South Bend Tribune, 2019
- Indiana SBA Community Lender Award – 2013 – 2019
- Indiana SBA Rural Lender of the Year Award – 2019
- Honored for highest total dollars and number of SBA 504 Loans – Business Development Corporation, 2019

# FINANCIAL REVIEW

# GROWING LOAN PORTFOLIO

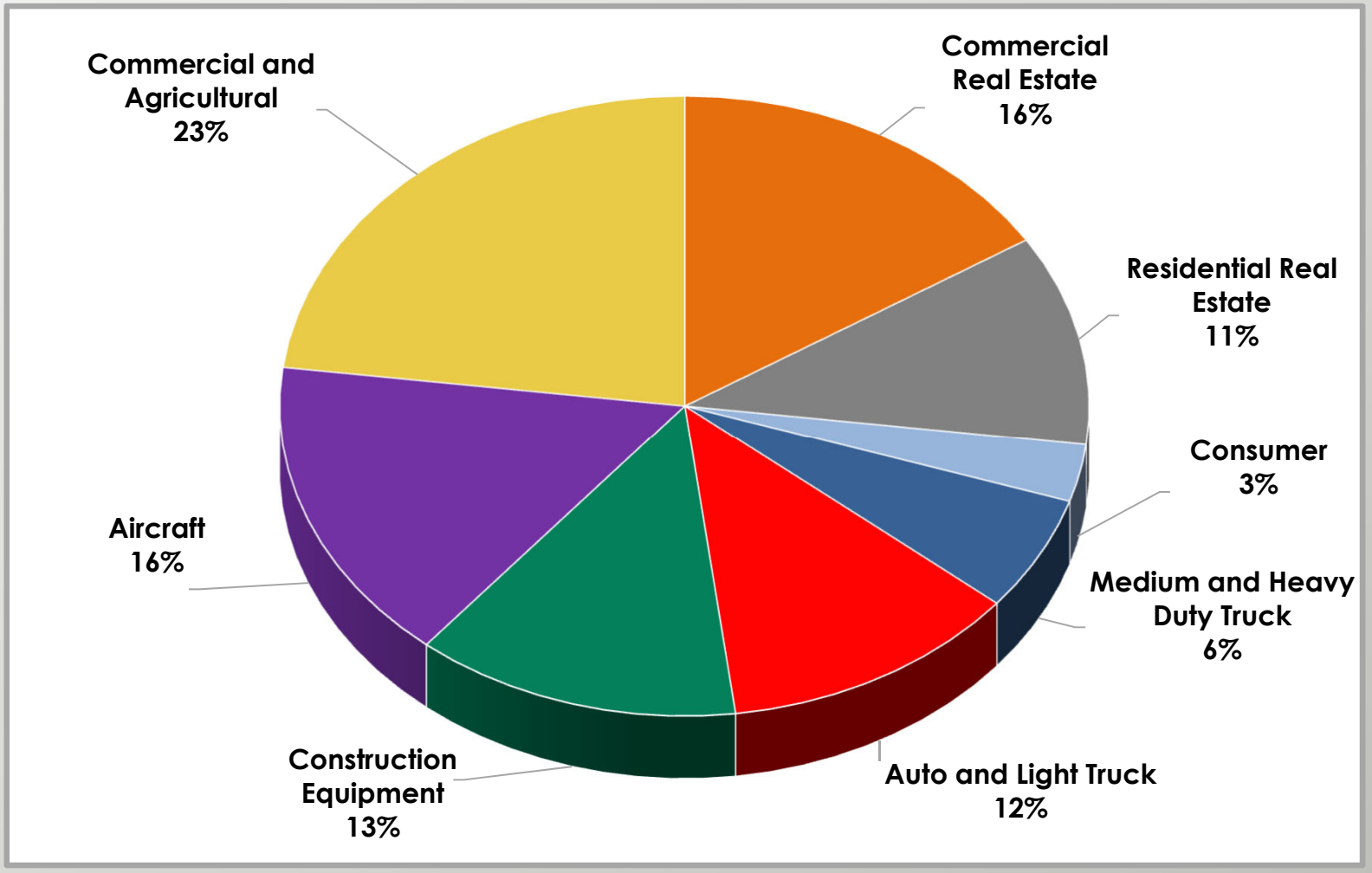
## Total Average Loans & Leases ($MM)




* See "Reconciliation of non-GAAP Financial Measures" in Appendix.

# DIVERSIFIED LOAN PORTFOLIO

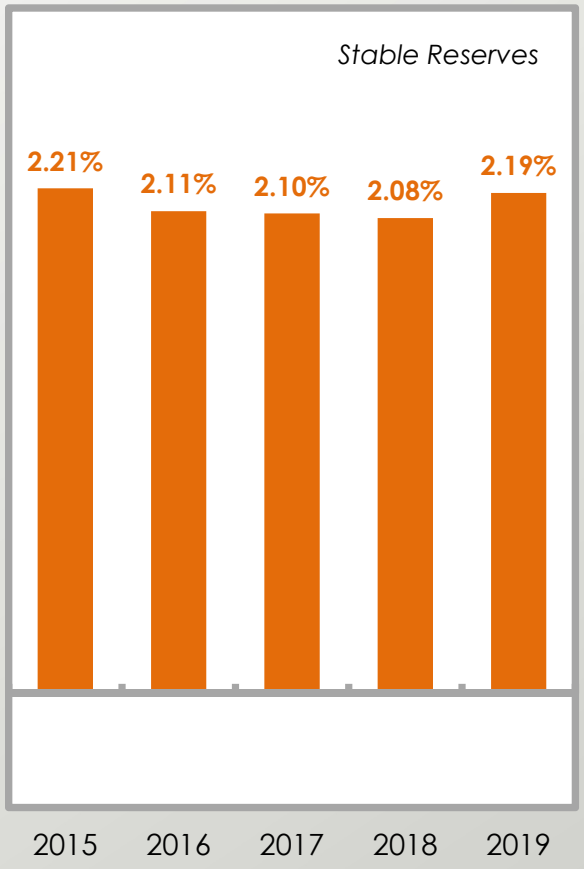
2019 Average Loans by Type



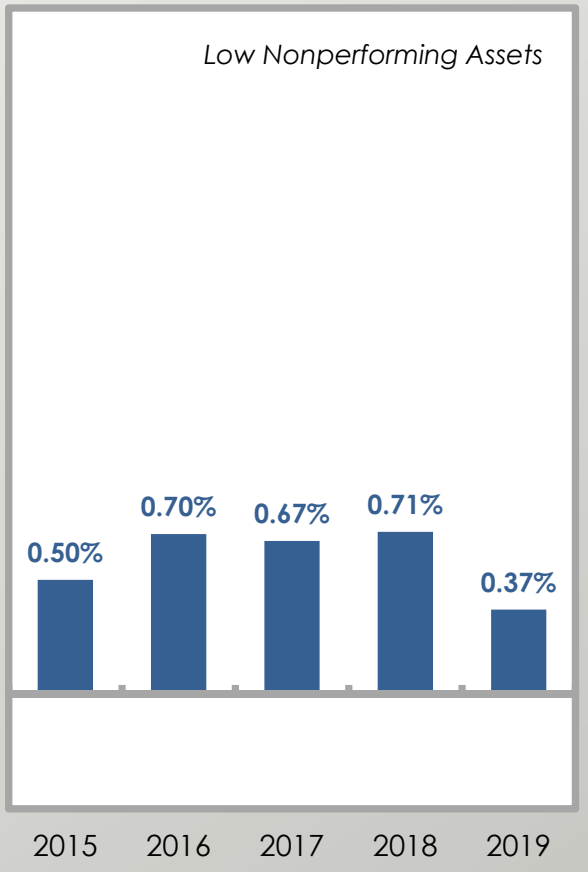
# STRONG CREDIT QUALITY

% of Net Loans and Leases

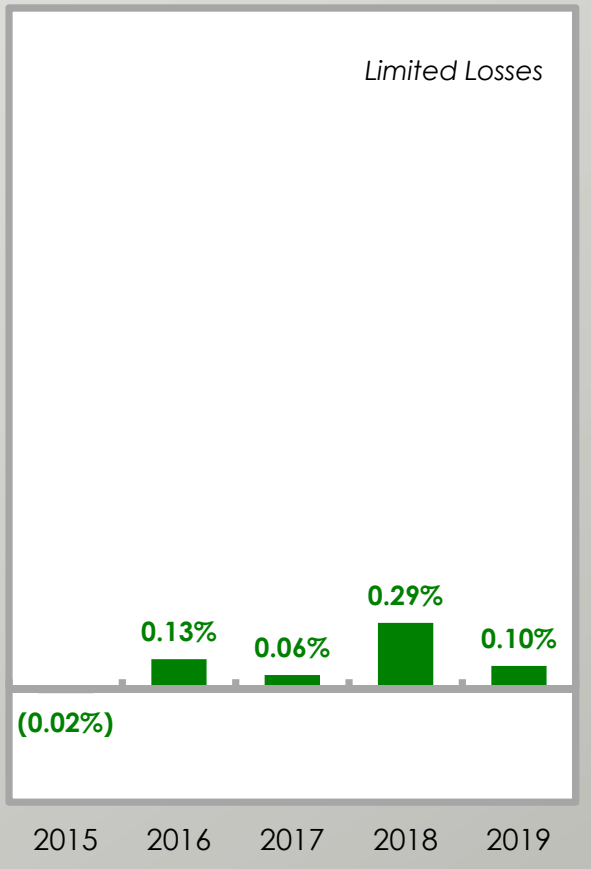
**Loan & Lease Loss Reserve**



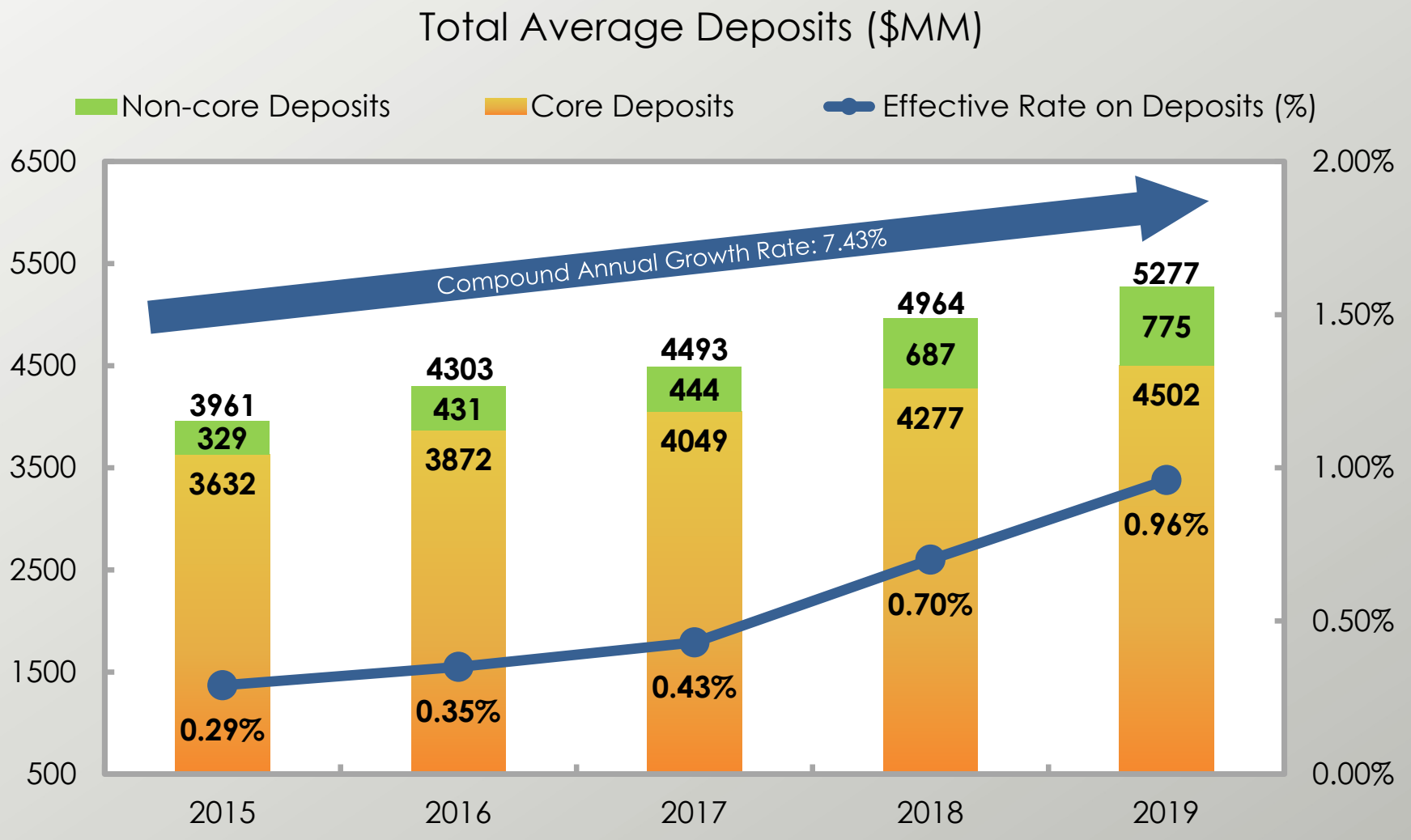

**Nonperforming Assets**




**Net Charge-Offs / (Recoveries)**



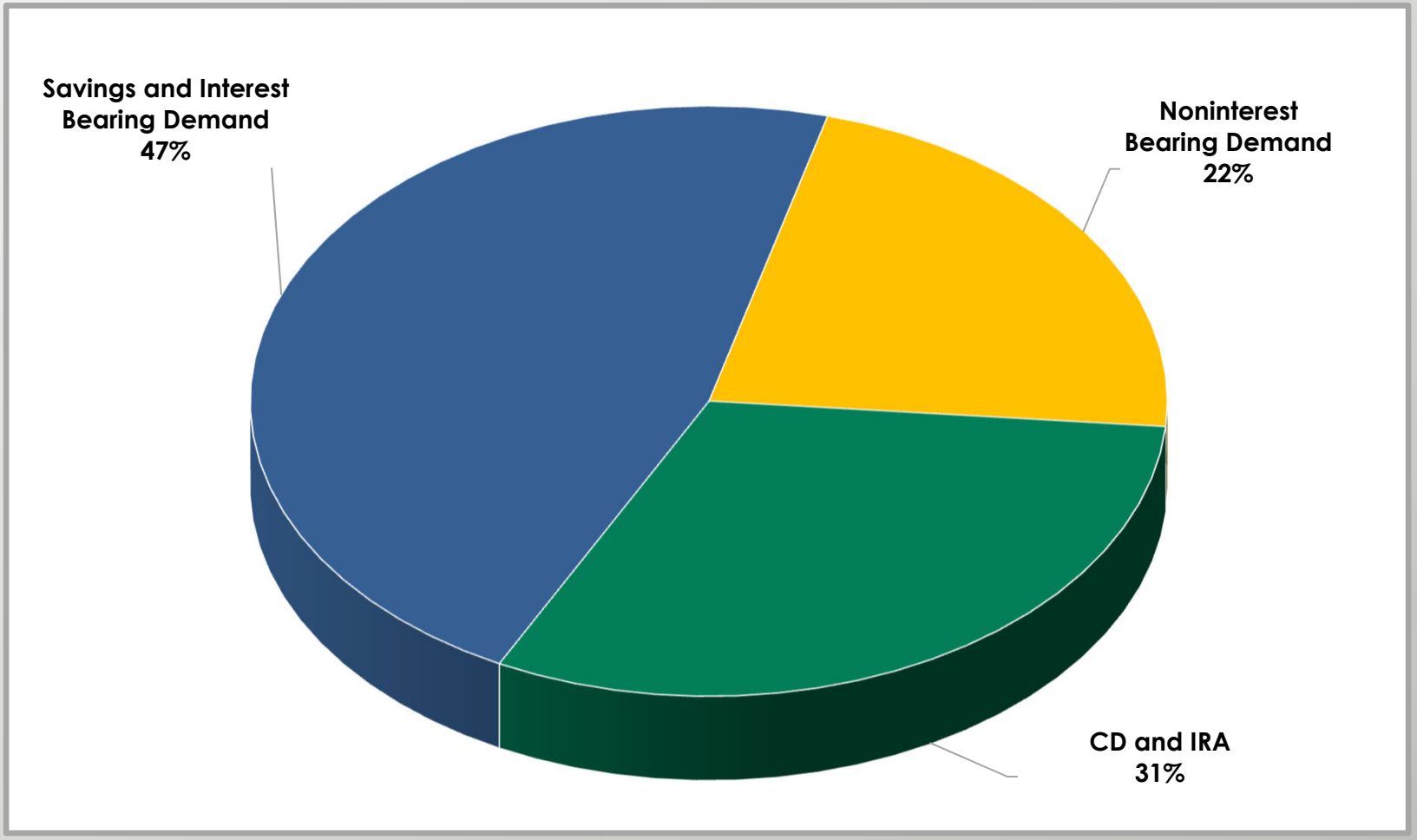
# CORE DEPOSIT FRANCHISE




* Non-core deposits include CDs over $250,000, brokered CDs, and national listing service CDs.

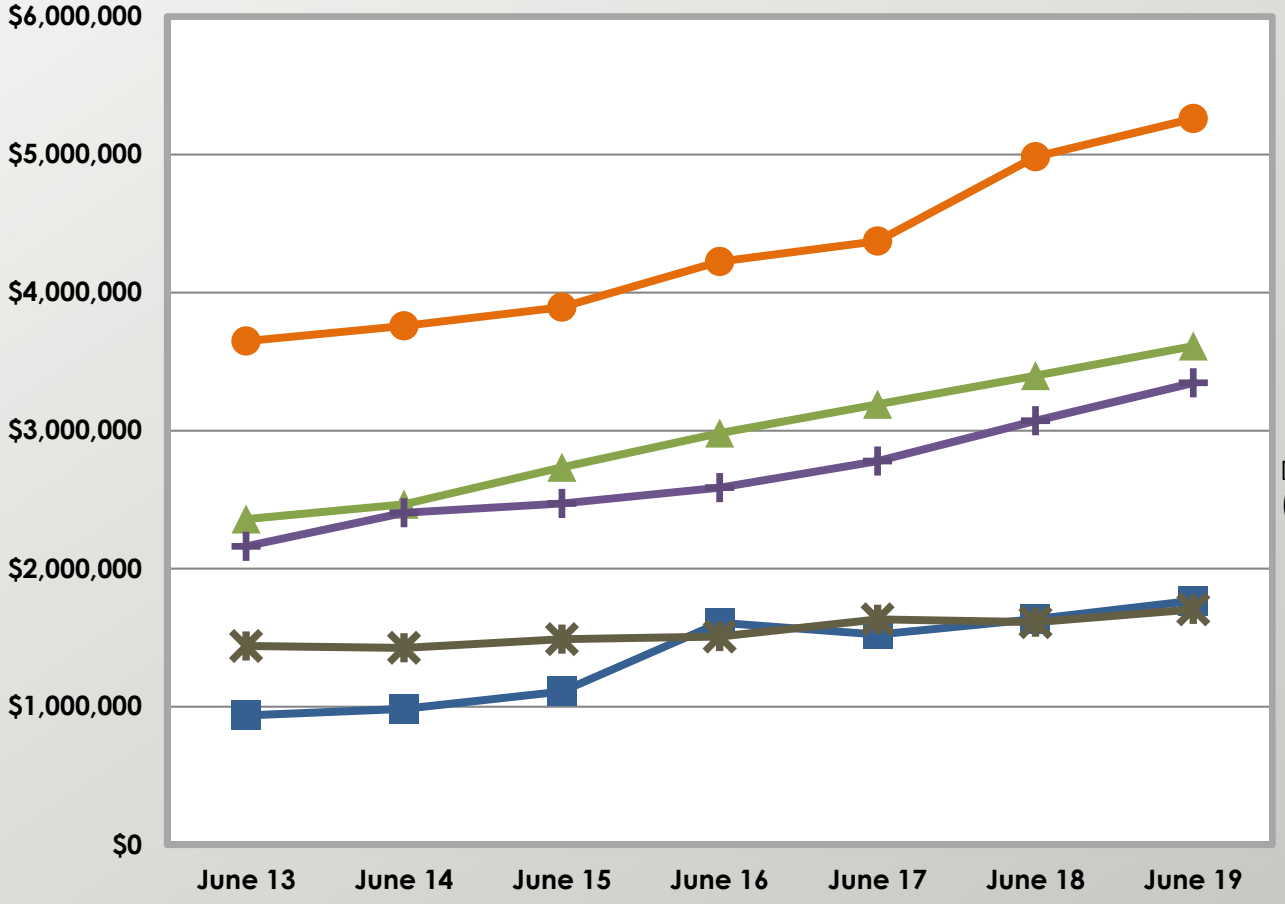
# ATTRACTIVE CORE DEPOSIT FRANCHISE

2019 Average Deposits By Type



# DEPOSIT MARKET SHARE – 15 COUNTY CONTIGUOUS MARKET*

## Leading Market Share in Community Banking Markets ($000)

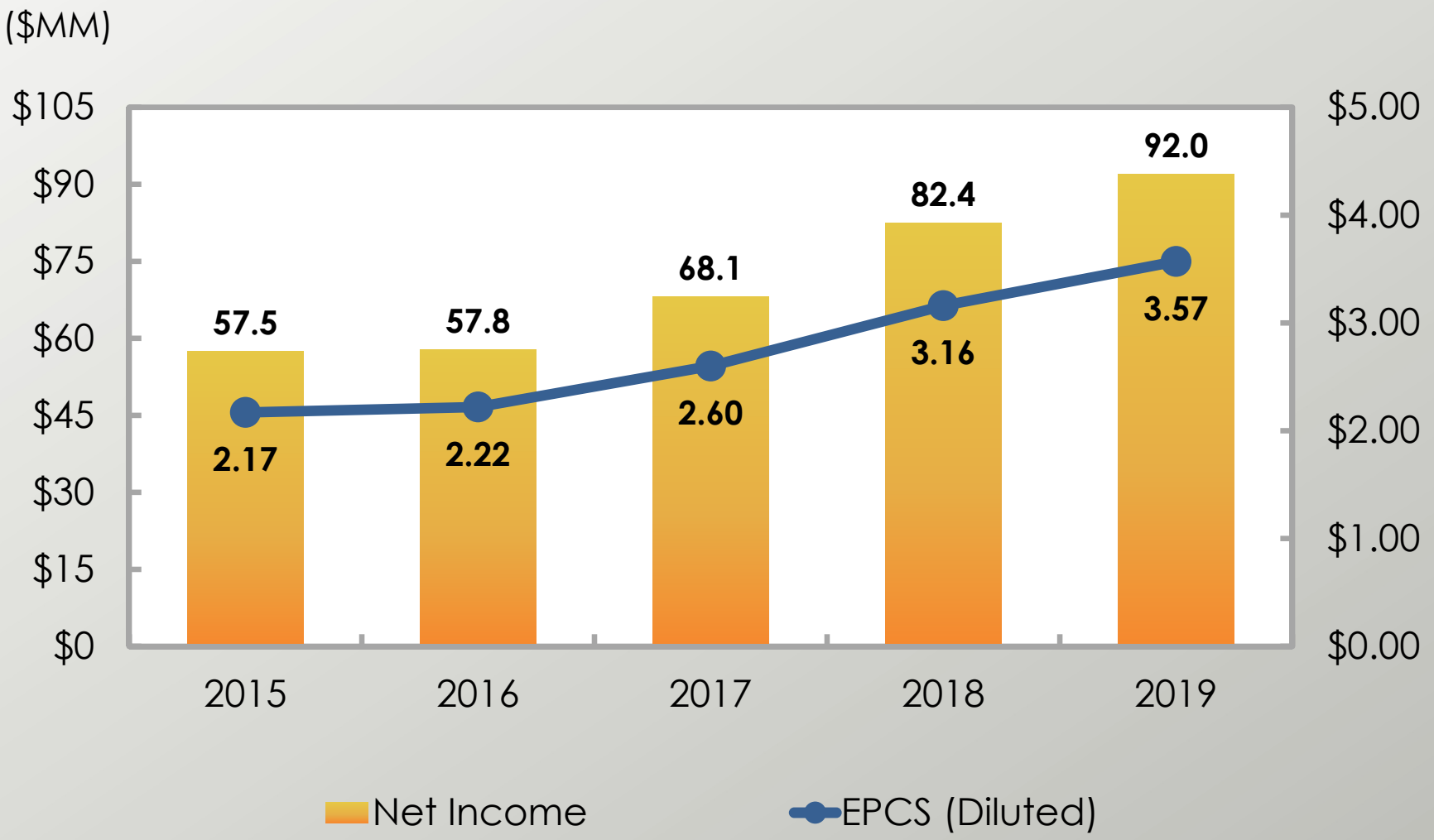



| | 2019 |
|---|---|
| 1st Source | 14.52% |
| Chase | 9.97% |
| Lake City Bank | 9.23% |
| Horizon Bank | 4.88% |
| Fifth Third | 4.70% |

Data as of June 2019 – FDIC
(via S&P Global Market Intelligence)

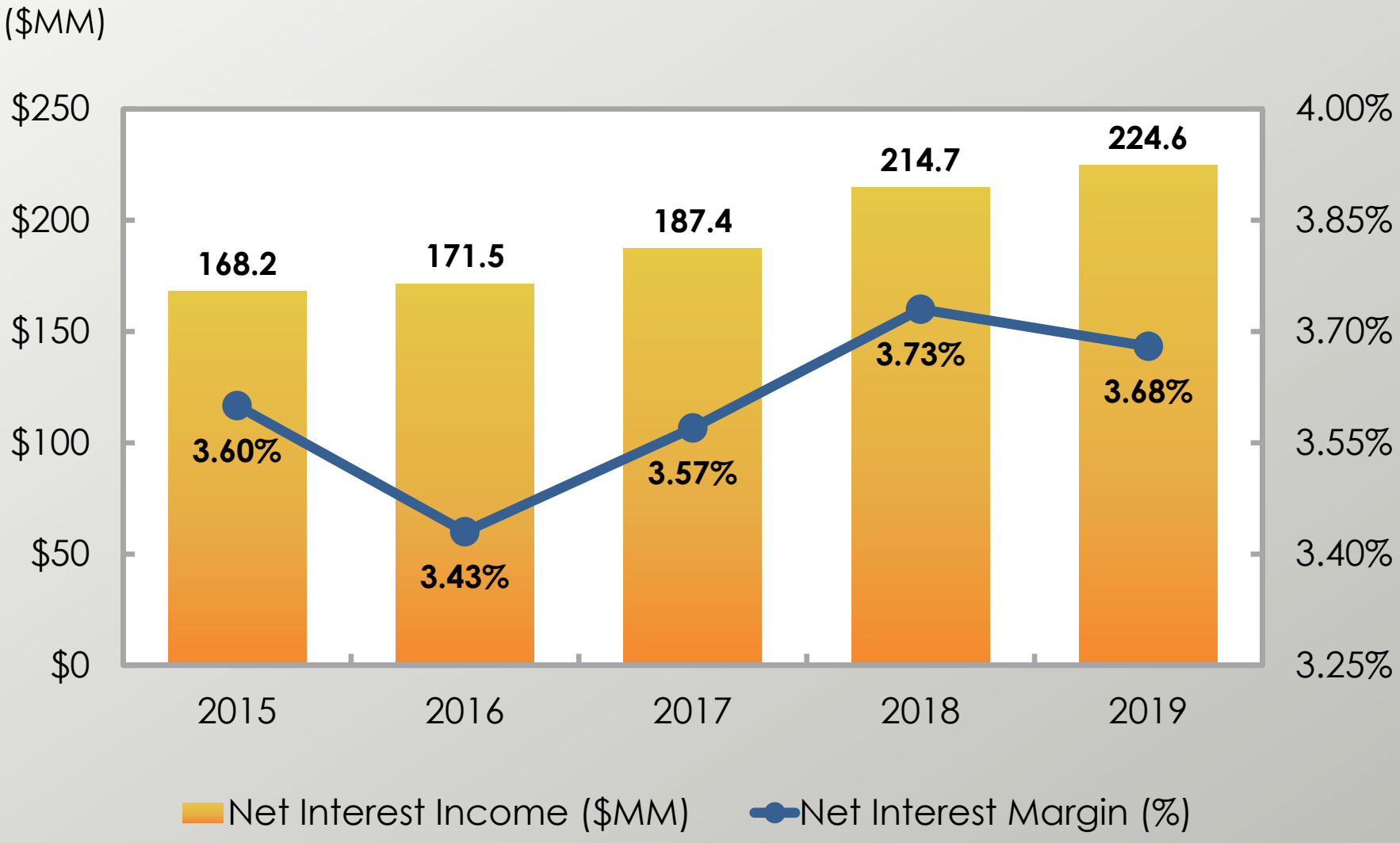
*Includes Allen, Elkhart, Fulton, Huntington, Kosciusko, LaPorte, Marshall, Porter, Pulaski, St. Joseph, Starke, Wells, and Whitley counties in the State of Indiana, and Berrien and Cass counties in the State of Michigan.

# NET INCOME & EARNINGS PER SHARE




* Available to Common Shareholders

# NET INTEREST MARGIN (FTE)*

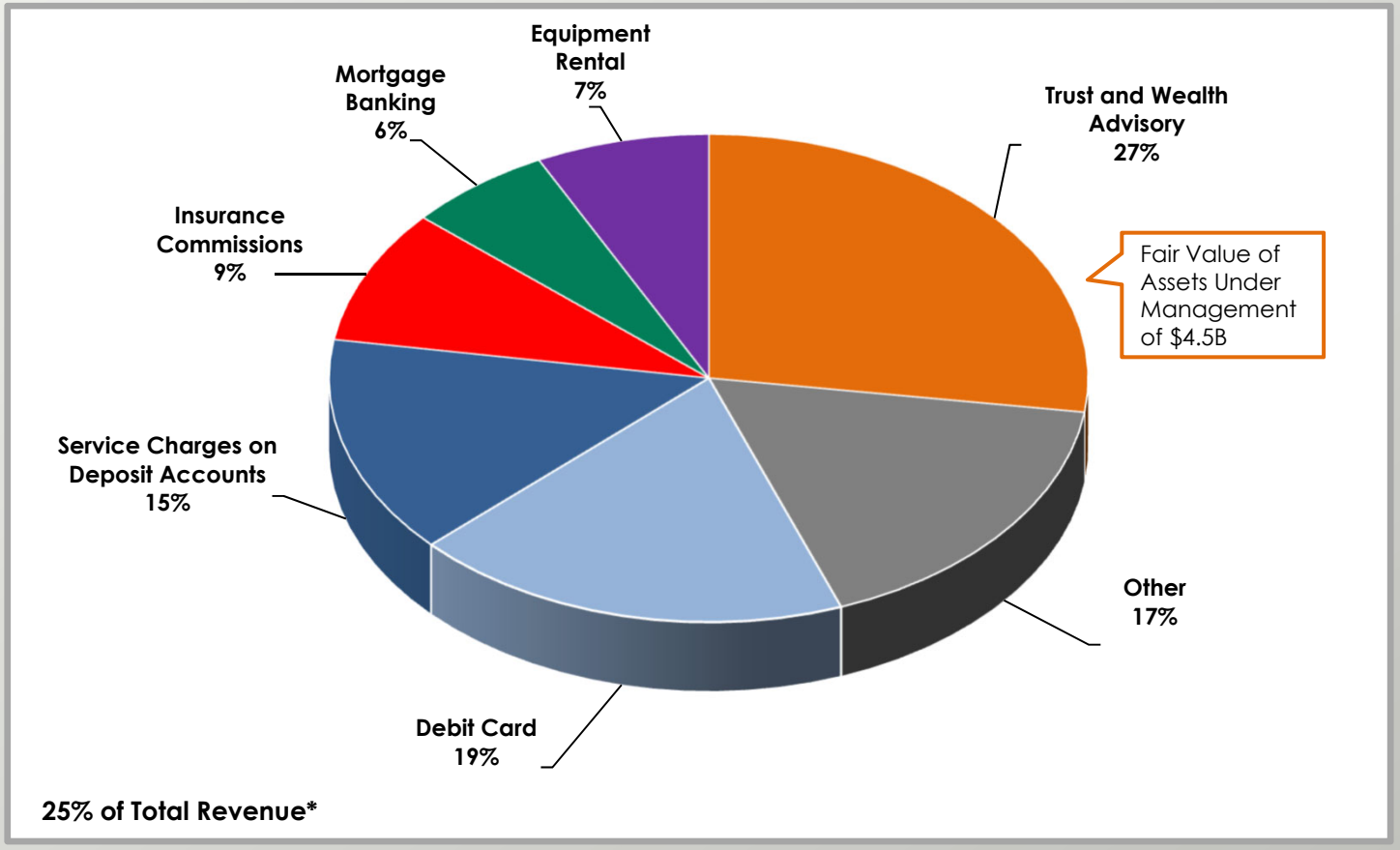



* See "Reconciliation of non-GAAP Financial Measures" in Appendix.

# DIVERSE SOURCES OF NONINTEREST INCOME

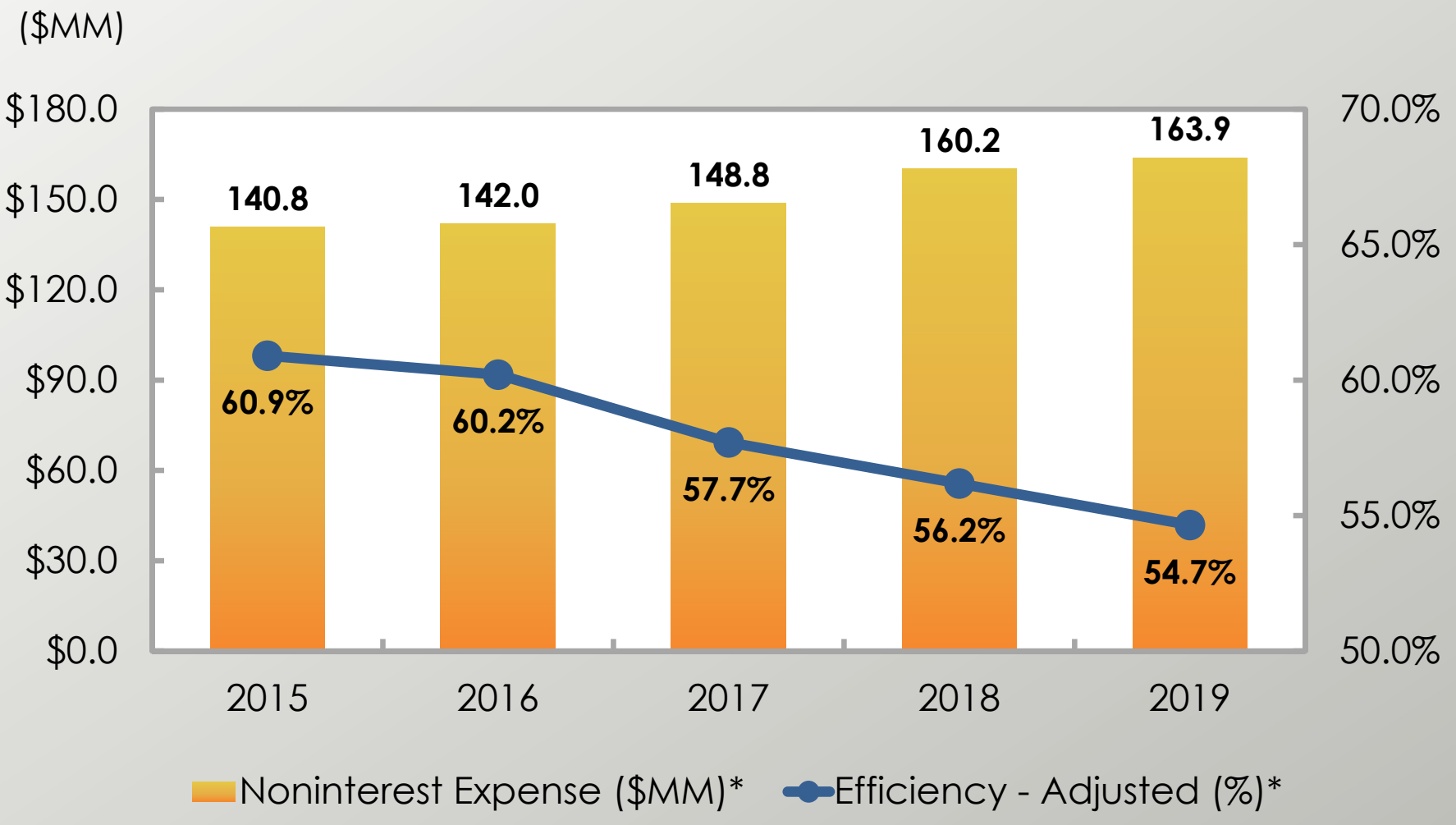
## Noninterest Income Composition

2019 YTD = $76.0MM*




* Note: Equipment rental income is shown net of leased equipment depreciation. See "Reconciliation of non-GAAP Financial Measures" in Appendix .

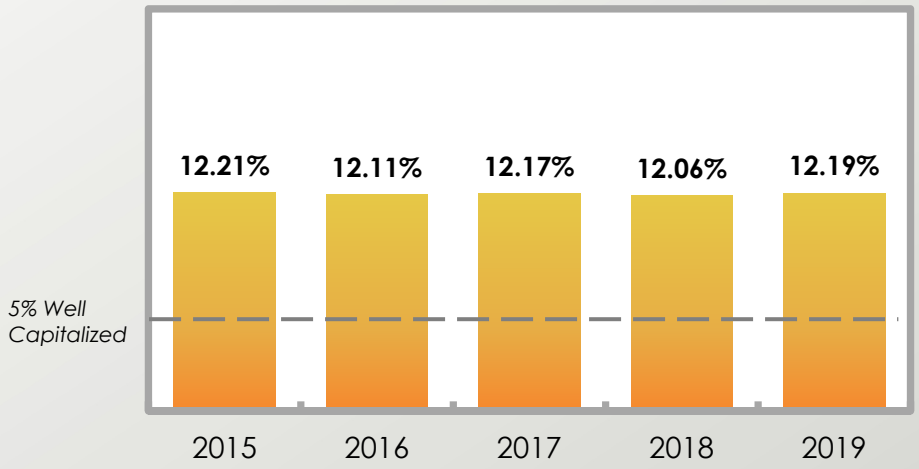
# OPERATING EXPENSES



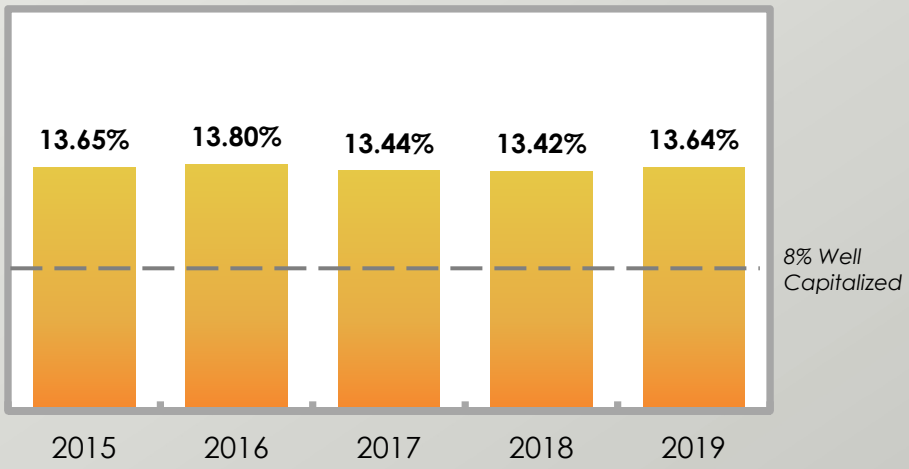

* Note: Noninterest expense is shown net of leased equipment depreciation. See "Reconciliation of non-GAAP Financial Measures" in Appendix.

# STRONG CAPITAL POSITION

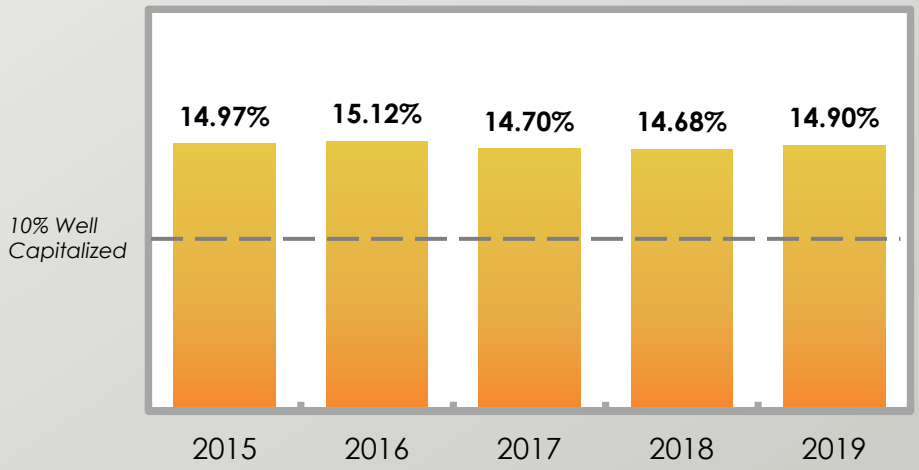
## Tier 1 Leverage Ratio



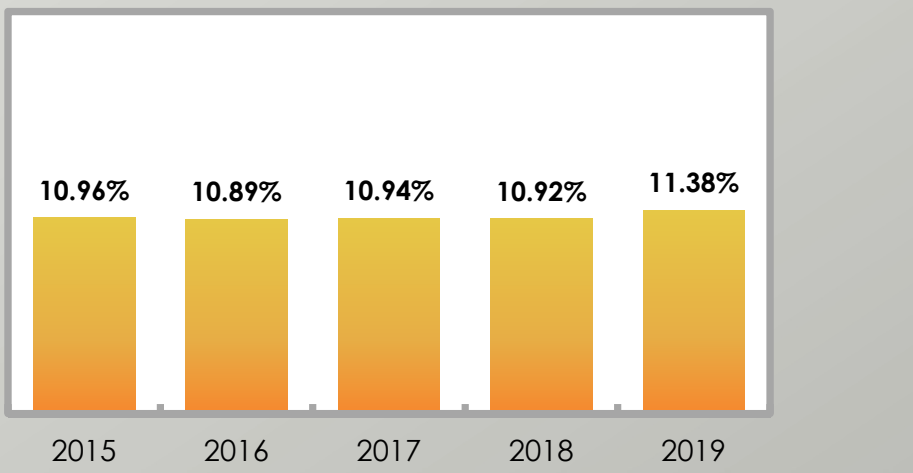

## Tier 1 Risk Based Ratio




## Total Risk Based Capital Ratio

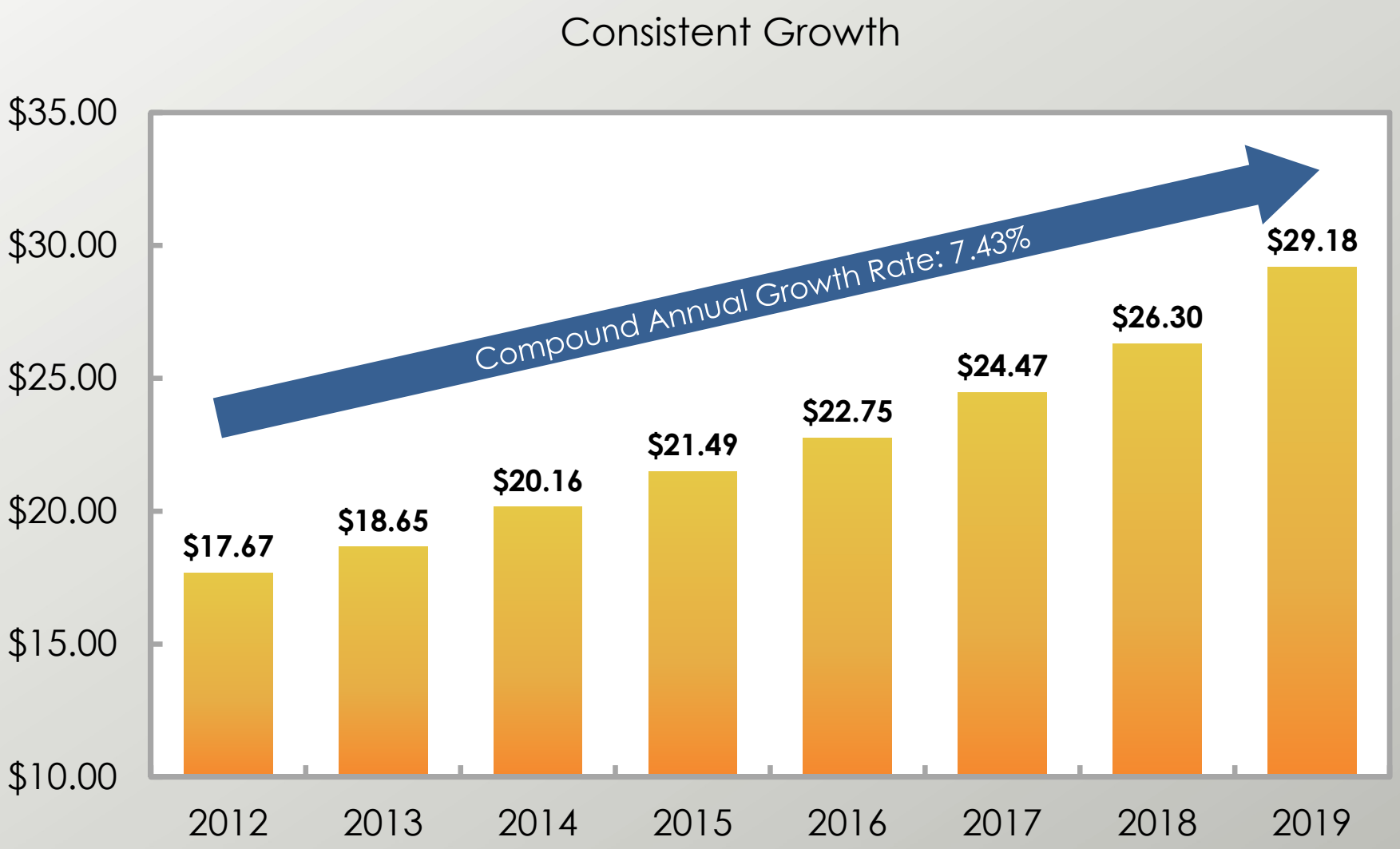



## Tangible Common Equity / Tangible Assets*




* See "Reconciliation of non-GAAP Financial Measures" in Appendix.

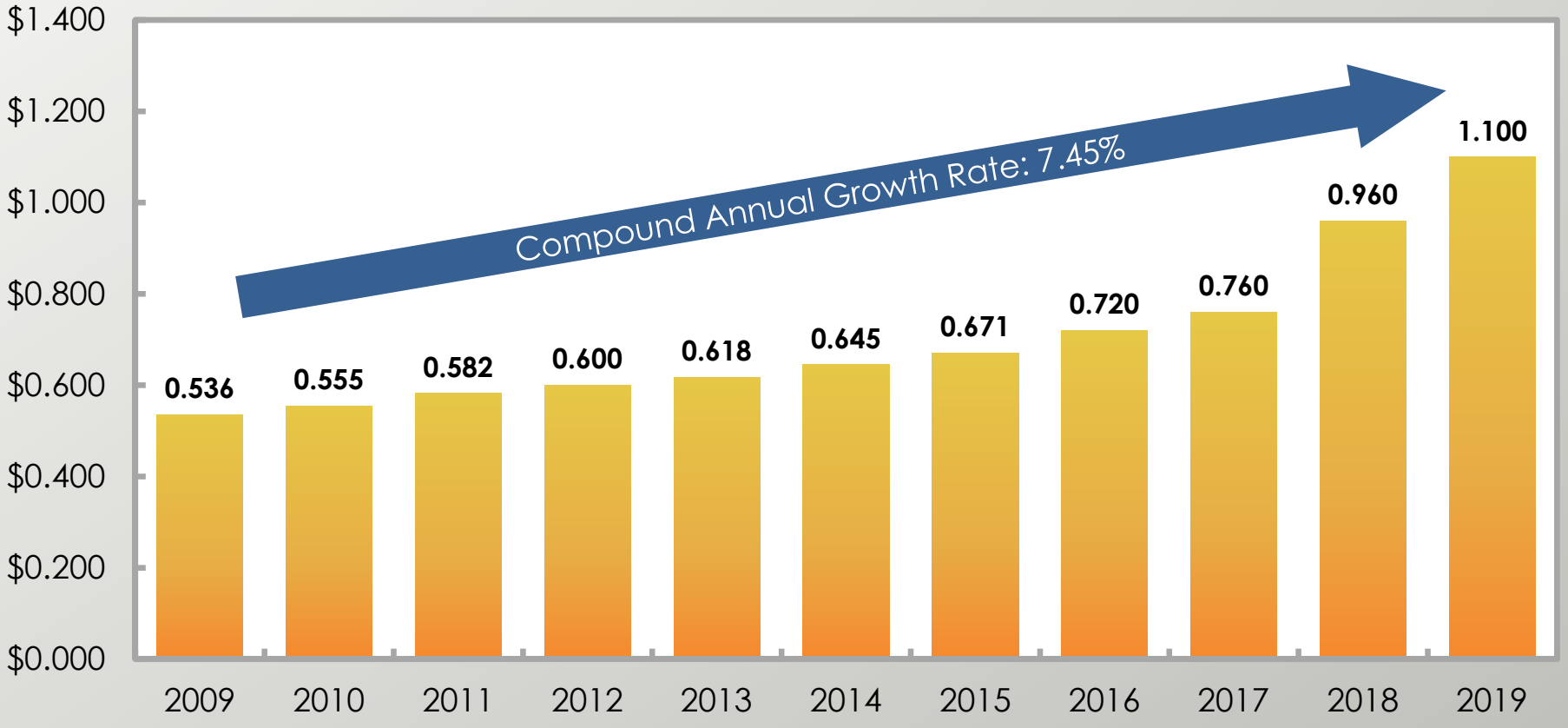
# TANGIBLE BOOK VALUE PER COMMON SHARE*



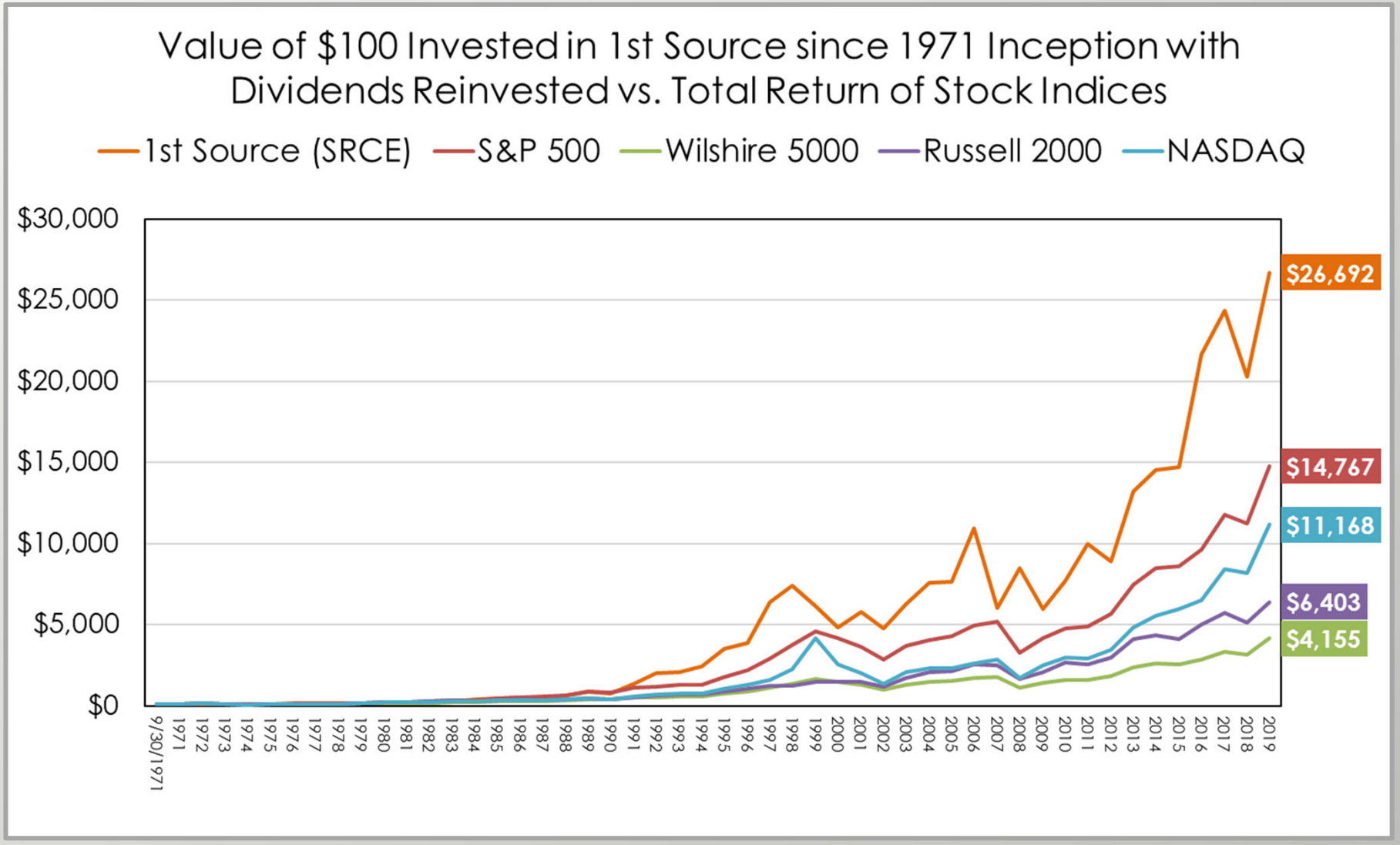

* See "Reconciliation of non-GAAP Financial Measures" in Appendix.

# COMMON DIVIDENDS PER SHARE

32 YEARS OF CONSECUTIVE DIVIDEND GROWTH



# DELIVERING RETURNS TO SHAREHOLDERS



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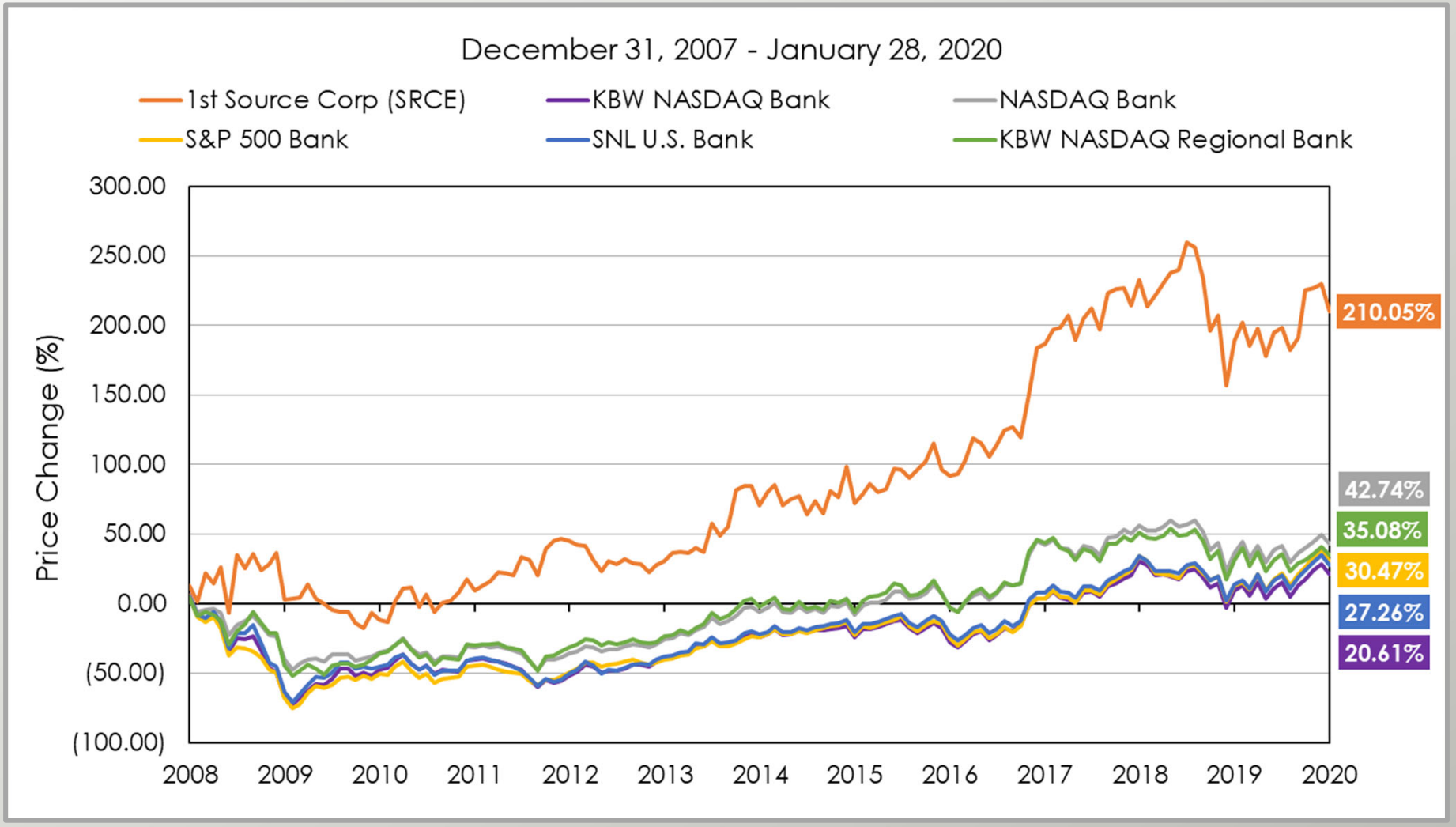

# PERFORMANCE – FINANCIAL

- 2019 KBW Bank Honor Roll – eighteen banking institutions with more than $500 million in total assets selected
- #26 of 123 banks between $5 billion and $50 billion in assets – Bank Performance Scorecard by Bank Director Magazine
- 5 Star "Superior" Rating – Bauer Financial
- 32 years of consecutive dividend growth



# INVESTMENT CONSIDERATIONS

- Consistent and superior financial performance with a focus on long-term earnings per share and tangible book value growth
- Experienced and proven team with significant investment in bank
- Diversification of product mix and geography with asset generation capability
- Leading market share in community banking markets
- Stable credit quality, strongly reserved
- Strong capital position and 32 consecutive years of dividend growth

# CONTACT INFORMATION

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**Andrea G. Short**
CFO and Treasurer
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shorta@1stsource.com

# APPENDIX

# Consolidated Balance Sheet

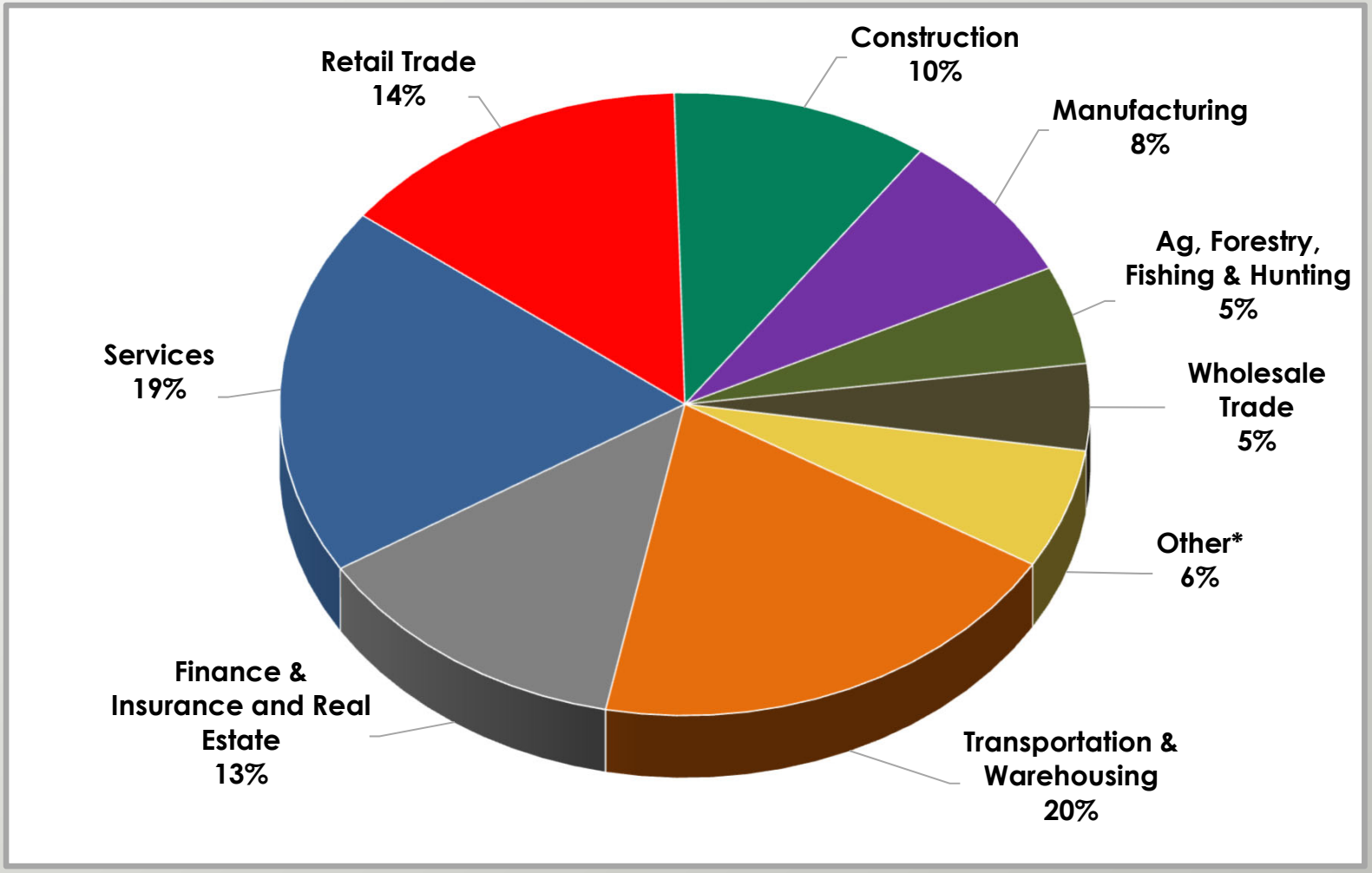
| *(Dollars in millions)* | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Cash and cash equivalents | $ 80 | $ 108 | $ 78 | $ 99 | $ 83 |
| Investment securities and other investments | 814 | 873 | 930 | 1,019 | 1,069 |
| Loans and leases, net of unearned discount | 4,005 | 4,204 | 4,541 | 4,847 | 5,106 |
| Reserve for loan and lease losses | (88) | (89) | (95) | (100) | (111) |
| Equipment owned under operating leases, net | 110 | 119 | 140 | 134 | 112 |
| Other assets | 267 | 271 | 293 | 295 | 364 |
| **Total assets** | $ 5,188 | $ 5,486 | $ 5,887 | $ 6,294 | $ 6,623 |
| | | | | | |
| Noninterest-bearing deposits | $ 902 | $ 991 | $ 1,064 | $ 1,217 | $ 1,217 |
| Interest-bearing deposits | 3,237 | 3,343 | 3,689 | 3,905 | 4,140 |
| Total deposits | 4,139 | 4,334 | 4,753 | 5,122 | 5,357 |
| Total borrowings | 350 | 424 | 342 | 329 | 276 |
| Other liabilities | 55 | 55 | 73 | 79 | 141 |
| Total shareholders' equity | 644 | 673 | 719 | 762 | 829 |
| Noncontrolling interests | - | - | - | 2 | 20 |
| **Total equity** | 644 | 673 | 719 | 764 | 849 |
| **Total liabilities and equity** | $ 5,188 | $ 5,486 | $ 5,887 | $ 6,294 | $ 6,623 |

# Consolidated Income Statement

| *(Dollars in millions)* | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Net interest income | $ 167 | $ 170 | $ 186 | $ 214 | $ 224 |
| Provision for loan and leases losses | 2 | 6 | 9 | 19 | 16 |
| Noninterest income* | 65 | 67 | 73 | 70 | 76 |
| Noninterest expense* | 141 | 142 | 149 | 160 | 164 |
| **Income before income taxes** | 89 | 89 | 101 | 105 | 120 |
| Income tax expense | 32 | 31 | 33 | 23 | 28 |
| **Net income** | 57 | 58 | 68 | 82 | 92 |
| Net income attributable to noncontrolling interests | - | - | - | - | - |
| **Net income available to common shareholders** | $ 57 | $ 58 | $ 68 | $ 82 | $ 92 |
| **Diluted net income per common share** | $ 2.17 | $ 2.22 | $ 2.60 | $ 3.16 | $ 3.57 |

* Note: Noninterest income and Noninterest expense are shown net of leased equipment depreciation. See "Reconciliation of non-GAAP Financial Measures" in Appendix.

# Aircraft Portfolio – Industries by NAICS

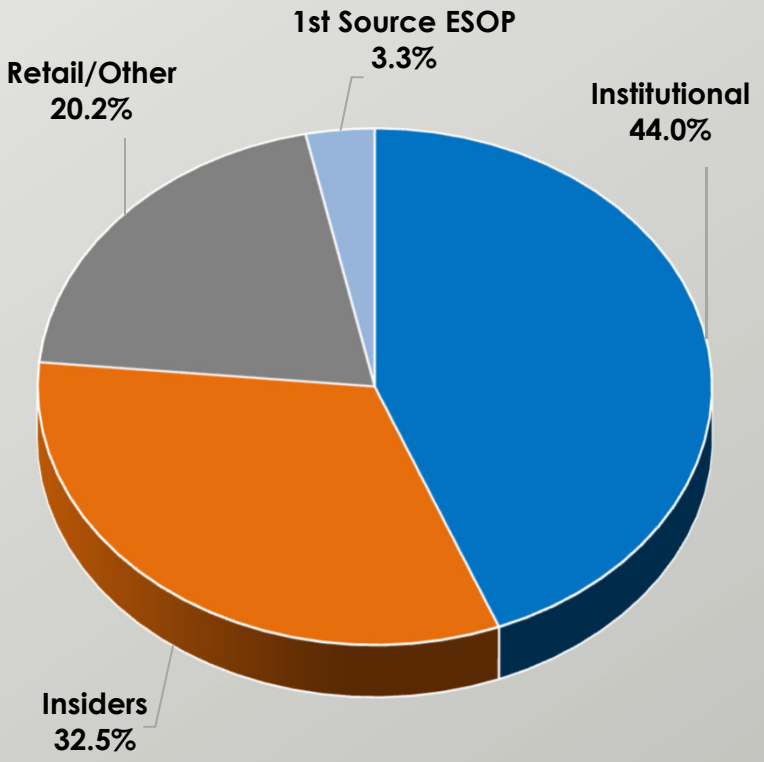



*Other includes: Mining & Utilities and Information

# Ownership Summary

| Shareholder Type | Shares | % of Total |
|---|---|---|
| Institutional | 11,216,432 | 44.0% |
| Insiders | 8,276,643 | 32.5% |
| Retail/Other | 5,164,271 | 20.2% |
| 1st Source ESOP | 852,128 | 3.3% |
| **Total Shares Outstanding(1)** | **25,509,474** | **100.0%** |

| Rank | Institution (Top 10 Institutions) | Shares | % of Total |
|---|---|---|---|
| 1 | Dimensional Fund Advisors LP | 2,068,135 | 8.1% |
| 2 | BlackRock Inc. | 1,133,378 | 4.4% |
| 3 | Wellington Management Group LLP | 940,619 | 3.7% |
| 4 | Vanguard Group Inc. | 822,589 | 3.2% |
| 5 | AllianceBernstein LP | 491,400 | 1.9% |
| 6 | Manulife Asset Management | 470,710 | 1.8% |
| 7 | Renaissance Technologies LLC | 335,014 | 1.3% |
| 8 | State Street Global Advisors, Inc. | 323,198 | 1.3% |
| 9 | Norges Bank Investment Management | 313,798 | 1.2% |
| 10 | Northern Trust Global Investments | 248,614 | 1.0% |
| | **Top 10 Institutions(2)** | **7,147,455** | **27.9%** |
| | Other | 4,068,977 | 16.1% |
| | **Total Institutional Ownership(2)** | **11,216,432** | **44.0%** |




(1) As of December 31, 2019
(2) As of September 30, 2019 or most recently reported data
Source: S&P Global Market Intelligence and Company filings

# Reconciliation of Non-GAAP Financial Measures

**Calculation of Yield on Loans and Leases**

| *(Dollars in thousands)* | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| (A) Loans and leases interest income (GAAP) | $ 168,327 | $ 175,532 | $ 194,297 | $ 234,083 | $ 257,738 |
| (B) Plus: loans and leases fully tax-equivalent adjustments | 284 | 584 | 621 | 367 | 375 |
| (C) Loans and leases interest income - FTE (A+B) | 168,611 | 176,116 | 194,918 | 234,450 | 258,113 |
| (D) Average loans and leases | $ 3,837,149 | $ 4,113,508 | $ 4,333,375 | $ 4,755,256 | $ 5,000,161 |
| Yield on loans and leases (GAAP) (A/D) | 4.39% | 4.27% | 4.48% | 4.92% | 5.15% |
| Yield on loans and leases - FTE (C/D) | 4.39% | 4.28% | 4.50% | 4.93% | 5.16% |

**Calculation of Net Interest Margin**

| *(Dollars in thousands)* | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| (A) Interest income (GAAP) | $ 184,684 | $ 191,760 | $ 212,385 | $ 257,316 | $ 282,877 |
| (B) Plus: fully tax-equivalent adjustments | 1,698 | 1,825 | 1,795 | 803 | 686 |
| (C) Interest income - FTE (A+B) | 186,382 | 193,585 | 214,180 | 258,119 | 283,563 |
| (D) Interest expense (GAAP) | 18,163 | 22,101 | 26,754 | 43,410 | 59,011 |
| (E) Net interest income (GAAP) (A-D) | 166,521 | 169,659 | 185,631 | 213,906 | 223,866 |
| (F) Net interest income - FTE (C-D) | 168,219 | 171,484 | 187,426 | 214,709 | 224,552 |
| (G) Average earning assets | $ 4,668,811 | $ 5,003,922 | $ 5,251,094 | $ 5,761,761 | $ 6,104,673 |
| Net interest margin (GAAP) (E/G) | 3.57% | 3.39% | 3.54% | 3.71% | 3.67% |
| Net interest margin - FTE (F/G) | 3.60% | 3.43% | 3.57% | 3.73% | 3.68% |

**Noninterest Income**

| *(Dollars in thousands)* | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| (A) Noninterest income (GAAP) | $ 83,316 | $ 88,945 | $ 98,706 | $ 97,050 | $ 101,130 |
| (B) Less: depreciation - leased equipment | (18,280) | (21,678) | (25,215) | (26,248) | (25,128) |
| Noninterest income - adjusted (A-B) | $ 65,036 | $ 67,267 | $ 73,491 | $ 70,802 | $ 76,002 |

# Reconciliation of Non-GAAP Financial Measures

**Noninterest Expense**

| *(Dollars in thousands)* | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| (A) Noninterest expense (GAAP) | $ 159,114 | $ 163,645 | $ 173,997 | $ 186,467 | $ 189,009 |
| (B) Less: depreciation - leased equipment | (18,280) | (21,678) | (25,215) | (26,248) | (25,128) |
| Noninterest expense - adjusted (A-B) | $ 140,834 | $ 141,967 | $ 148,782 | $ 160,219 | $ 163,881 |

**Calculation of Efficiency Ratio**

| *(Dollars in thousands)* | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| (A) Net interest income (GAAP) | $ 166,521 | $ 169,659 | $ 185,631 | $ 213,906 | $ 223,866 |
| (B) Net interest income - FTE | 168,219 | 171,484 | 187,426 | 214,709 | 224,552 |
| (C) Plus: noninterest income (GAAP) | 83,316 | 88,945 | 98,706 | 97,050 | 101,130 |
| (D) Less: gains/losses on investment securities and partnership investments | (2,130) | (3,873) | (4,569) | (320) | (653) |
| (E) Less: depreciation - leased equipment | (18,280) | (21,678) | (25,215) | (26,248) | (25,128) |
| (F) Total net revenue (GAAP) (A+C) | 249,837 | 258,604 | 284,337 | 310,956 | 324,996 |
| (G) Total net revenue - adjusted (B+C-D-E) | 231,125 | 234,878 | 256,348 | 285,191 | 299,901 |
| (H) Noninterest expense (GAAP) | 159,114 | 163,645 | 173,997 | 186,467 | 189,009 |
| (E) Less: depreciation - leased equipment | (18,280) | (21,678) | (25,215) | (26,248) | (25,128) |
| (I) Less: contribution expense limited to gains on investment securities in (D) | - | (484) | (959) | - | - |
| (J) Noninterest expense - adjusted (H-E-I) | $ 140,834 | $ 141,483 | $ 147,823 | $ 160,219 | $ 163,881 |
| Efficiency ratio (GAAP-derived) (H/F) | 63.7% | 63.3% | 61.2% | 60.0% | 58.2% |
| Efficiency ratio - adjusted (J/G) | 60.9% | 60.2% | 57.7% | 56.2% | 54.7% |

# Reconciliation of Non-GAAP Financial Measures

**Calculation of Tangible Common Equity-to-Tangible Assets Ratio**

| *(Dollars in thousands)* | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| (A) Total common shareholders' equity (GAAP) | $ 644,053 | $ 672,650 | $ 718,537 | $ 762,082 | $ 828,277 |
| (B) Less: goodwill and intangible assets | (84,676) | (84,102) | (83,742) | (83,998) | (83,971) |
| (C) Total tangible common shareholders' equity (A-B) | 559,377 | 588,548 | 634,795 | 678,084 | 744,306 |
| (D) Total assets (GAAP) | 5,187,916 | 5,486,268 | 5,887,284 | 6,293,745 | 6,622,776 |
| (B) Less: goodwill and intangible assets | (84,676) | (84,102) | (83,742) | (83,998) | (83,971) |
| (E) Total tangible assets (D-B) | $ 5,103,240 | $ 5,402,166 | $ 5,803,542 | $ 6,209,747 | $ 6,538,805 |
| Common equity-to-assets ratio (GAAP-derived) (A/D) | 12.41% | 12.26% | 12.20% | 12.11% | 12.51% |
| Tangible common equity-to-tangible assets ratio (C/E) | 10.96% | 10.89% | 10.94% | 10.92% | 11.38% |

**Calculation of Tangible Book Value per Common Share**

| *(Dollars in thousands, except for per share data)* | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|
| (A) Total common shareholders' equity (GAAP) | $ 558,655 | $ 585,378 | $ 614,473 | $ 644,053 | $ 672,650 | $ 718,537 | $ 762,082 | $ 828,277 |
| (B) Less: goodwill and intangible assets | (87,502) | (86,343) | (85,371) | (84,676) | (84,102) | (83,742) | (83,998) | (83,971) |
| (C) Total tangible common shareholders' equity (A-B) | $ 471,153 | $ 499,035 | $ 529,102 | $ 559,377 | $ 588,548 | $ 634,795 | $ 678,084 | $ 744,306 |
| (D) Actual common shares outstanding | 26,666,889 | 26,754,761 | 26,248,690 | 26,027,584 | 25,875,765 | 25,936,764 | 25,783,728 | 25,509,474 |
| Book value per common share (GAAP-derived) (A/D)*1000 | $ 20.95 | $ 21.88 | $ 23.41 | $ 24.75 | $ 26.00 | $ 27.70 | $ 29.56 | $ 32.47 |
| Tangible common book value per share (C/D)*1000 | $ 17.67 | $ 18.65 | $ 20.16 | $ 21.49 | $ 22.75 | $ 24.47 | $ 26.30 | $ 29.18 |