

REFINITIV

DELTA REPORT

10-Q

SRCE - 1ST SOURCE CORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1308

■ CHANGES	394
■ DELETIONS	610
■ ADDITIONS	304

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2023** **March 31, 2024**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from **to**
Commission file number **0-6233**

1st Source Corporation

(Exact name of registrant as specified in its charter)

Indiana

35-1068133

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

100 North Michigan Street

South Bend, IN

46601

(Address of principal executive offices)

(Zip Code)

(574) 235-2000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock - without par value	SRCE	The NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock outstanding as of **October 13, 2023** **April 19, 2024** — **24,429,083** **24,489,694** shares

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1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited - Dollars in thousands)

		September 30, 2023	December 31, 2022		
		March 31, 2024		March 31, 2024	December 31, 2023
ASSETS	ASSETS				
Cash and due from banks	Cash and due from banks	\$ 75,729	\$ 84,703		
Federal funds sold and interest	Federal funds sold and interest				
bearing deposits with other banks	bearing deposits with other banks	35,406	38,094		
Investment securities available-for-sale	Investment securities available-for-sale	1,605,242	1,775,128		
Other investments	Other investments	25,075	25,293		
Mortgages held for sale	Mortgages held for sale	3,118	3,914		
Mortgages held for sale					

Mortgages held for sale			
Loans and leases, net of unearned discount:	Loans and leases, net of unearned discount:		
Commercial and agricultural	Commercial and agricultural	763,051	812,031
Solar		364,949	381,163
Commercial and agricultural			
Commercial and agricultural			
Renewable energy			
Auto and light truck	Auto and light truck	901,484	808,117
Medium and heavy duty truck	Medium and heavy duty truck	323,202	313,862
Aircraft	Aircraft	1,079,581	1,077,722
Construction equipment	Construction equipment	1,062,097	938,503
Commercial real estate	Commercial real estate	1,088,199	943,745
Residential real estate and home equity	Residential real estate and home equity	627,515	584,737
Consumer	Consumer	143,570	151,282
Total loans and leases	Total loans and leases	6,353,648	6,011,162
Allowance for loan and lease losses	Allowance for loan and lease losses	(144,074)	(139,268)
Net loans and leases	Net loans and leases	6,209,574	5,871,894
Equipment owned under operating leases, net	Equipment owned under operating leases, net	24,096	31,700
Net premises and equipment	Net premises and equipment	43,951	44,773
Goodwill and intangible assets	Goodwill and intangible assets	83,921	83,907
Accrued income and other assets	Accrued income and other assets	418,946	380,010
Total assets	Total assets	\$8,525,058	\$8,339,416
LIABILITIES			
Deposits:	Deposits:		
Noninterest-bearing demand	Noninterest-bearing demand	\$1,680,725	\$1,998,151
Interest-bearing deposits:	Interest-bearing deposits:		
Interest-bearing demand	Interest-bearing demand	2,416,864	2,591,464
Interest-bearing demand			
Interest-bearing demand			
Savings	Savings	1,180,837	1,198,191
Time	Time	1,689,066	1,140,459

Total interest-bearing deposits	Total interest-bearing deposits	5,286,767	4,930,114
Total deposits	Total deposits	6,967,492	6,928,265
Short-term borrowings:	Short-term borrowings:		Short-term borrowings:
Federal funds purchased and securities sold under agreements to repurchase	Federal funds purchased and securities sold under agreements to repurchase	48,335	141,432
Other short-term borrowings	Other short-term borrowings	223,757	74,097
Total short-term borrowings	Total short-term borrowings	272,092	215,529
Long-term debt and mandatorily redeemable securities	Long-term debt and mandatorily redeemable securities	46,533	46,555
Subordinated notes	Subordinated notes	58,764	58,764
Accrued expenses and other liabilities	Accrued expenses and other liabilities	197,180	166,537
Total liabilities	Total liabilities	7,542,061	7,415,650
SHAREHOLDERS' EQUITY			
EQUITY	EQUITY		SHAREHOLDERS' EQUITY
Preferred stock; no par value	Preferred stock; no par value		Preferred stock; no par value
Authorized 10,000,000 shares; none issued or outstanding	Authorized 10,000,000 shares; none issued or outstanding	—	—
Common stock; no par value	Common stock; no par value		
Authorized 40,000,000 shares; issued 28,205,674 at September 30, 2023 and December 31, 2022	Authorized 40,000,000 shares; issued 28,205,674 at March 31, 2024 and December 31, 2023	436,538	436,538
Authorized 40,000,000 shares; issued 28,205,674 at March 31, 2024 and December 31, 2023	Authorized 40,000,000 shares; issued 28,205,674 at March 31, 2024 and December 31, 2023		
Authorized 40,000,000 shares; issued 28,205,674 at March 31, 2024 and December 31, 2023	Authorized 40,000,000 shares; issued 28,205,674 at March 31, 2024 and December 31, 2023		
Retained earnings	Retained earnings	769,603	694,862
Cost of common stock in treasury (3,776,591 shares at September 30, 2023 and 3,543,388 shares at December 31, 2022)		(130,579)	(119,642)
Cost of common stock in treasury (3,728,016 shares at March 31, 2024 and 3,771,070 shares at December 31, 2023)			
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(151,312)	(147,690)
Total shareholders' equity	Total shareholders' equity	924,250	864,068

Noncontrolling interests	Noncontrolling interests	58,747	59,698
Total equity	Total equity	982,997	923,766
Total liabilities and equity	Total liabilities and equity	\$8,525,058	\$8,339,416

The accompanying notes are a part of the unaudited consolidated financial statements.

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited - Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,					
	Three Months Ended March 31,							
	Three Months Ended March 31,							
	Three Months Ended March 31,							
	2023	2022	2023	2022				
Interest income:	Interest income:				Interest income:			
Loans and leases	Loans and leases	\$ 100,206	\$ 69,027	\$ 280,195	\$ 184,650			
Investment securities, taxable	Investment securities, taxable	5,918	6,691	18,512	19,324			
Investment securities, tax-exempt	Investment securities, tax-exempt	319	339	1,131	630			
Other	Other	883	421	2,498	1,952			
Total interest income	Total interest income	107,326	76,478	302,336	206,556			
Interest expense:	Interest expense:				Interest expense:			
Deposits	Deposits	34,405	6,556	84,538	12,485			
Short-term borrowings	Short-term borrowings	2,136	380	5,154	427			
Subordinated notes	Subordinated notes	1,060	904	3,108	2,578			
Long-term debt and mandatorily redeemable securities	Long-term debt and mandatorily redeemable securities	489	(296)	2,219	(948)			
Total interest expense	Total interest expense	38,090	7,544	95,019	14,542			
Net interest income	Net interest income	69,236	68,934	207,317	192,014			
Provision for credit losses	Provision for credit losses	859	3,167	3,955	7,903			
Net interest income after provision for credit losses	Net interest income after provision for credit losses	68,377	65,767	203,362	184,111			
					2024	2023		

Noninterest income:	Noninterest income:	Noninterest income:			
Trust and wealth advisory	Trust and wealth advisory	5,648	5,498	17,794	17,499
Service charges on deposit accounts	Service charges on deposit accounts	3,297	3,240	9,418	8,974
Debit card	Debit card	4,377	4,628	13,585	13,383
Mortgage banking	Mortgage banking	971	864	2,699	3,303
Insurance commissions	Insurance commissions	1,714	1,695	5,384	5,168
Equipment rental	Equipment rental	2,101	2,761	6,930	9,718
Losses on investment securities available-for-sale	Losses on investment securities available-for-sale	—	—	(44)	—
Other	Other	6,347	3,321	14,781	9,937
Total noninterest income	Total noninterest income	24,455	22,007	70,547	67,982
Noninterest expense:	Noninterest expense:	Noninterest expense:			
Salaries and employee benefits	Salaries and employee benefits	28,866	26,386	85,699	77,415
Net occupancy	Net occupancy	2,867	2,582	8,165	7,917
Furniture and equipment	Furniture and equipment	1,217	1,372	3,938	4,051
Data processing	Data processing	6,289	5,802	18,714	16,412
Depreciation – leased equipment	Depreciation – leased equipment	1,672	2,233	5,570	7,912
Professional fees	Professional fees	1,763	1,539	4,149	5,241
FDIC and other insurance	FDIC and other insurance	1,598	939	4,302	2,682
Business development and marketing	Business development and marketing	1,201	1,415	4,822	4,352
Other	Other	4,693	3,063	13,393	10,340
Other	Other				
Total noninterest expense	Total noninterest expense	50,166	45,331	148,752	136,322
Income before income taxes	Income before income taxes	42,666	42,443	125,157	115,771

Income tax expense	Income tax expense	9,727	9,698	28,640	26,295
Net income	Net income	32,939	32,745	96,517	89,476
Net (income) loss	Net (income) loss				
attributable to noncontrolling interests	attributable to noncontrolling interests	—	(8)	(19)	(35)
Net income available to common shareholders	Net income available to common shareholders	\$ 32,939	\$ 32,737	\$ 96,498	\$ 89,441
Per common share:	Per common share:			Per common share:	
Basic net income per common share	Basic net income per common share	\$ 1.32	\$ 1.32	\$ 3.87	\$ 3.59
Diluted net income per common share	Diluted net income per common share	\$ 1.32	\$ 1.32	\$ 3.87	\$ 3.59
Cash dividends	Cash dividends	\$ 0.32	\$ 0.32	\$ 0.96	\$ 0.94
Basic weighted average common shares outstanding	Basic weighted average common shares outstanding	24,660,508	24,656,736	24,677,914	24,697,106
Diluted weighted average common shares outstanding	Diluted weighted average common shares outstanding	24,660,508	24,656,736	24,677,914	24,697,106

The accompanying notes are a part of the unaudited consolidated financial statements.

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited - Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,		
	Three Months Ended March 31,		Three Months Ended March 31,		
	Three Months Ended March 31,		Three Months Ended March 31,		
	2023	2022	2023	2022	
Net income	Net income	\$32,939	\$ 32,745	\$96,517	\$ 89,476
					2024 2023

Other comprehensive income (loss):	Other comprehensive income (loss):	Other comprehensive income (loss):
Unrealized (depreciation) appreciation of available-for-sale securities	Unrealized (depreciation) appreciation of available-for-sale securities	(15,287) (72,275) (4,624) (200,061)
Reclassification adjustment for realized losses included in net income	Reclassification adjustment for realized losses included in net income	— — 44 —
Income tax effect	Income tax effect	3,525 17,009 958 47,645
Other comprehensive (loss) income, net of tax	Other comprehensive (loss) income, net of tax	(11,762) (55,266) (3,622) (152,416)
Comprehensive income (loss)	Comprehensive income (loss)	21,177 (22,521) 92,895 (62,940)
Comprehensive (income) loss attributable to noncontrolling interests	Comprehensive (income) loss attributable to noncontrolling interests	— (8) (19) (35)
Comprehensive income (loss) available to common shareholders	Comprehensive income (loss) available to common shareholders	\$21,177 \$(22,529) \$92,876 \$(62,975)

The accompanying notes are a part of the unaudited consolidated financial statements.

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited - Dollars in thousands, except per share amounts)

	Three Months Ended										
				Cost of Common Stock		Accumulated Other			Total Shareholders'		
	Preferred Stock		Common Stock	Retained Earnings	Stock in Treasury	Comprehensive Income (Loss), Net	Equity	Noncontrolling Interests	Total Equity		
	Stock	Stock	Earnings	in Treasury							
Balance at July 1, 2022	\$ —	\$ 436,538	\$ 646,600	\$ (119,876)	\$ (107,011)	\$ 856,251	\$ 54,416	\$ 910,667			
Net income	—	—	32,737	—	—	32,737	—	8	32,745		
Other comprehensive loss	—	—	—	—	(55,266)	(55,266)	—	—	(55,266)		
Issuance of 6,771 common shares under stock based compensation awards	—	—	118	133	—	251	—	—	251		
Cost of 0 shares of common stock acquired for treasury	—	—	—	—	—	—	—	—	—		
Common stock dividend (\$0.32 per share)	—	—	(7,914)	—	—	(7,914)	—	—	(7,914)		
Contributions from noncontrolling interests	—	—	—	—	—	—	—	6,073	6,073		
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(196)	(196)		
Balance at September 30, 2022	\$ —	\$ 436,538	\$ 671,541	\$ (119,743)	\$ (162,277)	\$ 826,059	\$ 60,301	\$ 886,360			
Balance at July 1, 2023	\$ —	\$ 436,538	\$ 744,442	\$ (120,410)	\$ (139,550)	\$ 921,020	\$ 59,067	\$ 980,087			
Net income	—	—	32,939	—	—	32,939	—	—	32,939		
Other comprehensive loss	—	—	—	—	(11,762)	(11,762)	—	—	(11,762)		
Issuance of 7,409 common shares under stock based compensation awards	—	—	156	124	—	280	—	—	280		

Cost of 260,887 shares of common stock acquired for treasury	—	—	—	(10,293)	—	(10,293)	—	(10,293)	
Common stock dividend (\$0.32 per share)	—	—	(7,934)	—	—	(7,934)	—	(7,934)	
Distributions to noncontrolling interests	—	—	—	—	—	—	(320)	(320)	
Balance at September 30, 2023	\$	—	\$ 436,538	\$ 769,603	\$ (130,579)	\$ (151,312)	\$ 924,250	\$ 58,747	\$ 982,997

Nine Months Ended										
	Preferred Stock	Common Stock	Retained Earnings	Cost of Common Stock in Treasury		Accumulated Other		Total Shareholders'		
				Stock	in Treasury	Comprehensive Income (Loss), Net	Equity	Noncontrolling Interests	Total Equity	
Balance at January 1, 2022	\$	—	\$ 436,538	\$ 603,787	\$ (114,209)	\$ (9,861)	\$ 916,255	\$ 53,209	\$ 969,464	
Net income	—	—	89,441	—	—	—	89,441	35	89,476	
Other comprehensive loss	—	—	—	—	—	(152,416)	(152,416)	—	(152,416)	
Issuance of 67,485 common shares under stock based compensation awards	—	—	1,616	1,302	—	—	2,918	—	2,918	
Cost of 149,819 shares of common stock acquired for treasury	—	—	—	(6,836)	—	—	(6,836)	—	(6,836)	
Common stock dividend (\$0.94 per share)	—	—	(23,303)	—	—	—	(23,303)	—	(23,303)	
Contributions from noncontrolling interests	—	—	—	—	—	—	—	7,700	7,700	
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(643)	(643)	
Balance at September 30, 2022	\$	—	\$ 436,538	\$ 671,541	\$ (119,743)	\$ (162,277)	\$ 826,059	\$ 60,301	886,360	
Balance at January 1, 2023	\$	—	\$ 436,538	\$ 694,862	\$ (119,642)	\$ (147,690)	\$ 864,068	\$ 59,698	\$ 923,766	
Net income	—	—	96,498	—	—	—	96,498	19	96,517	
Other comprehensive loss	—	—	—	—	—	(3,622)	(3,622)	—	(3,622)	
Issuance of 77,319 common shares under stock based compensation awards	—	—	2,030	1,533	—	—	3,563	—	3,563	
Cost of 310,522 shares of common stock acquired for treasury	—	—	—	(12,470)	—	—	(12,470)	—	(12,470)	
Common stock dividend (\$0.96 per share)	—	—	(23,787)	—	—	—	(23,787)	—	(23,787)	
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(970)	(970)	
Balance at September 30, 2023	\$	—	\$ 436,538	\$ 769,603	\$ (130,579)	\$ (151,312)	\$ 924,250	\$ 58,747	\$ 982,997	

Three Months Ended										
	Preferred Stock	Common Stock	Retained Earnings	Cost of Common Stock in Treasury		Accumulated Other		Total Shareholders'		
				Stock	in Treasury	Comprehensive Income (Loss), Net	Equity	Noncontrolling Interests	Total Equity	
Balance at January 1, 2023	\$	—	\$ 436,538	\$ 694,862	\$ (119,642)	\$ (147,690)	\$ 864,068	\$ 59,698	\$ 923,766	
Net income	—	—	31,124	—	—	—	31,124	7	31,131	
Other comprehensive income	—	—	—	—	—	20,225	20,225	—	20,225	
Issuance of 49,625 common shares under stock based compensation awards	—	—	1,426	999	—	—	2,425	—	2,425	
Cost of 16,359 shares of common stock acquired for treasury	—	—	—	(766)	—	—	(766)	—	(766)	
Common stock dividend (\$0.32 per share)	—	—	(7,917)	—	—	—	(7,917)	—	(7,917)	
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(420)	(420)	
Balance at March 31, 2023	\$	—	\$ 436,538	\$ 719,495	\$ (119,409)	\$ (127,465)	\$ 909,159	\$ 59,285	968,444	
Balance at January 1, 2024	\$	—	\$ 436,538	\$ 789,842	\$ (130,489)	\$ (106,323)	\$ 989,568	\$ 78,695	\$ 1,068,263	
Net income	—	—	29,455	—	—	—	29,455	7	29,462	
Other comprehensive loss	—	—	—	—	—	(2,952)	(2,952)	—	(2,952)	
Issuance of 43,054 common shares under stock based compensation awards	—	—	1,462	699	—	—	2,161	—	2,161	
Common stock dividend (\$0.34 per share)	—	—	(8,346)	—	—	—	(8,346)	—	(8,346)	
Distributions to noncontrolling interests	—	—	—	—	—	—	—	(1,119)	(1,119)	
Liquidation of noncontrolling interests	—	—	—	—	—	—	—	(5,920)	(5,920)	
Balance at March 31, 2024	\$	—	\$ 436,538	\$ 812,413	\$ (129,790)	\$ (109,275)	\$ 1,009,886	\$ 71,663	\$ 1,081,549	

The accompanying notes are a part of the unaudited consolidated financial statements.

1st SOURCE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - Dollars in thousands)

	Nine Months Ended September 30,		Three Months Ended March 31,	
			2024	2023
	2023	2022		
Operating activities:	Operating activities:		Operating activities:	
Net income	Net income	\$ 96,517	\$ 89,476	
Adjustments to reconcile net income to net cash provided by operating activities:	Adjustments to reconcile net income to net cash provided by operating activities:		Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for credit losses	Provision for credit losses	3,955	7,903	
Depreciation of premises and equipment	Depreciation of premises and equipment	3,421	3,452	
Depreciation of equipment owned and leased to others	Depreciation of equipment owned and leased to others	5,570	7,912	
Stock-based compensation	Stock-based compensation	3,408	2,510	
Amortization of investment securities premiums and accretion of discounts, net	Amortization of investment securities premiums and accretion of discounts, net	3,116	3,098	
Amortization of mortgage servicing rights	Amortization of mortgage servicing rights	652	1,033	
Amortization of right of use assets	Amortization of right of use assets	2,319	2,369	
Amortization of right of use assets				
Amortization of right of use assets				
Deferred income taxes	Deferred income taxes	(5,613)	(5,428)	
Losses on investment securities available-for-sale	Losses on investment securities available-for-sale	44	—	

Originations of loans held for sale, net of principal collected	Originations of loans held for sale, net of principal collected	(33,843)	(73,718)
Proceeds from the sales of loans held for sale	Proceeds from the sales of loans held for sale	35,673	85,206
Net gain on sale of loans held for sale	Net gain on sale of loans held for sale	(1,034)	(1,262)
Net gain on sale of other real estate and repossessions	Net gain on sale of other real estate and repossessions	(111)	(267)
Change in interest receivable	Change in interest receivable	(3,373)	(2,866)
Change in interest receivable			
Change in interest receivable			
Change in interest payable	Change in interest payable	23,031	1,249
Change in other assets	Change in other assets	1,233	10,049
Change in other liabilities	Change in other liabilities	11,740	3,650
Other	Other	(2,919)	(2,623)
Net change in operating activities	Net change in operating activities	143,786	131,743
Investing activities: Investing activities:			
Investing activities: Investing activities:			
Proceeds from sales of investment securities available-for-sale	Proceeds from sales of investment securities available-for-sale	64,928	—
Proceeds from maturities and paydowns of investment securities available-for-sale	Proceeds from maturities and paydowns of investment securities available-for-sale	100,218	162,766
Purchases of investment securities available-for-sale	Purchases of investment securities available-for-sale	(3,000)	(304,078)
Net change in partnership investments	Net change in partnership investments	(29,908)	(16,917)
Net change in other investments	Net change in other investments	218	1,651
Loans sold or participated to others			
Loans sold or participated to others			

Loans sold or participated to others	Loans sold or participated to others	37,750	35,252
Proceeds from principal payments on direct finance leases	Proceeds from principal payments on direct finance leases	46,841	48,610
Net change in loans and leases	Net change in loans and leases	(427,933)	(500,707)
Net change in loans and leases	Net change in loans and leases		
Net change in equipment owned under operating leases	Net change in equipment owned under operating leases	2,034	7,557
Purchases of premises and equipment	Purchases of premises and equipment	(2,608)	(1,269)
Proceeds from disposal of premises and equipment	Proceeds from disposal of premises and equipment	9	18
Purchases of bank owned life insurance policies		—	(10,000)
Proceeds from sales of other real estate and repossessions			
Proceeds from sales of other real estate and repossessions			
Proceeds from sales of other real estate and repossessions	Proceeds from sales of other real estate and repossessions	1,443	2,421
Net change in investing activities	Net change in investing activities	(210,008)	(574,696)
Financing activities:			
Financing activities:			
Financing activities:	Financing activities:		
Net change in demand deposits and savings accounts	Net change in demand deposits and savings accounts	(509,380)	47,392
Net change in time deposits	Net change in time deposits	548,607	(105,226)
Net change in short-term borrowings	Net change in short-term borrowings	56,563	140,435
Payments on long-term debt	Payments on long-term debt	(3,383)	(23,740)
Stock issued under stock purchase plans		77	252
Payments on long-term debt			
Payments on long-term debt			
Acquisition of treasury stock			

Acquisition of treasury stock			
Acquisition of treasury stock	Acquisition of treasury stock	(12,470)	(6,836)
Net (distributions to) contributions from noncontrolling interests	Net (distributions to) contributions from noncontrolling interests	(970)	7,057
Cash dividends paid on common stock	Cash dividends paid on common stock	(24,484)	(23,964)
Net change in financing activities	Net change in financing activities	54,560	35,370
Net change in cash and cash equivalents			
Net change in cash and cash equivalents			
Net change in cash and cash equivalents	Net change in cash and cash equivalents	(11,662)	(407,583)
Cash and cash equivalents, beginning of year	Cash and cash equivalents, beginning of year	122,797	525,187
Cash and cash equivalents, end of period	Cash and cash equivalents, end of period	\$111,135	\$117,604
Supplemental Information:	Supplemental Information:	Supplemental Information:	
<u>Non-cash transactions:</u>	<u>Non-cash transactions:</u>	<u>Non-cash transactions:</u>	
Loans transferred to other real estate and repossessed assets	Loans transferred to other real estate and repossessed assets	\$ 1,251	\$ 1,322
Common stock matching contribution to Employee Stock Ownership and Profit Sharing Plan	Common stock matching contribution to Employee Stock Ownership and Profit Sharing Plan	1,753	683
Right of use assets obtained in exchange for lease obligations	Right of use assets obtained in exchange for lease obligations	3,774	846
Liquidation of noncontrolling interests			

The accompanying notes are a part of the unaudited consolidated financial statements.

1ST SOURCE CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Accounting Policies

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1st Source Corporation is a bank holding company headquartered in South Bend, Indiana that provides, through its subsidiaries (collectively referred to as "1st Source" or "the Company"), a broad array of financial products and services.

Basis of Presentation – The accompanying unaudited consolidated financial statements reflect all adjustments (all of which are normal and recurring in nature) which are, in the opinion of management, necessary for a fair presentation of the consolidated financial position, the results of operations, changes in comprehensive income (loss), changes in shareholders' equity, and cash flows for the periods presented. These unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been omitted.

The Notes to the Consolidated Financial Statements appearing in 1st Source Corporation's Annual Report on [Form 10-K \(2022 \(2023 Annual Report\)](#), which include descriptions of significant accounting policies, should be read in conjunction with these interim financial statements. The Consolidated Statement of Financial Condition at [December 31, 2022](#) [December 31, 2023](#) has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation.

Use of Estimates in the Preparation of Financial Statements – Financial statements prepared in accordance with GAAP require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates.

Loans and Leases – Loans are stated at the principal amount outstanding, net of unamortized deferred loan origination fees and costs and net of unearned income. Interest income is accrued as earned based on unpaid principal balances. Origination fees and direct loan and lease origination costs are deferred, and the net amount amortized to interest income over the estimated life of the related loan or lease. Loan commitment fees are deferred and amortized into other income over the commitment period.

Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, net of unamortized deferred lease origination fees and costs and unearned income. Only those costs incurred as a direct result of closing a lease transaction are capitalized and all other initial direct costs are expensed immediately. Interest income on direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment.

Accrued interest is included in Accrued Income and Other Assets on the Consolidated Statements of Financial Condition and is excluded from the calculation of the allowance for credit losses. The accrual of interest on loans and leases is discontinued when a loan or lease becomes contractually delinquent for 90 days, or when an individual analysis of a borrower's credit worthiness indicates a credit should be placed on nonperforming status, except for residential mortgage loans and consumer loans that are well secured and in the process of collection. Residential mortgage loans are placed on nonaccrual at the time the loan is placed in foreclosure. When interest accruals are discontinued, interest credited to income in the current year is reversed and interest accrued in the prior year is charged to the allowance for loan and lease losses. However, in some cases, the Company may elect to continue the accrual of interest when the net realizable value of collateral is sufficient to cover the principal and accrued interest. When a loan or lease is classified as nonaccrual and the future collectability of the recorded loan or lease balance is doubtful, collections on interest and principal are applied as a reduction to principal outstanding. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured, which is typically evidenced by a sustained repayment performance of at least six months.

Occasionally, the Company modifies loans and leases to borrowers in financial distress (typically denoted by internal credit quality graded "substandard" or worse) by providing term extensions, other-than-insignificant payment delays, or interest rate reductions. In some cases, a combination of modifications are made to the same loan or lease. These modifications typically result from the Company's loss mitigation activities. If the Company determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance for loan and lease losses estimate or a charge-off to the allowance for loan and lease losses.

Note 2 — Recent Accounting Pronouncements

Investments-Equity Method and Joint Ventures: In March 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards (ASU) No. 2023-02 "Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. This guidance is effective for public business entities for fiscal years including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted in any interim period. The Company is assessing adopted ASU 2023-02 on January 1, 2024, and its it had no impact on its accounting and disclosures.

Fair Value Measurements: In June 2022, the FASB issued ASU No. 2022-03 "Fair Value Measurements (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions." These amendments clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. This guidance is effective for public business entities for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Company has assessed adopted ASU 2022-03 on January 1, 2024, and does not expect it to have a material had no impact on its accounting and disclosures.

Reference Rate Reform: Income Taxes: In March 2020, December 2023, the FASB issued ASU No. 2020-04 "Reference Rate Reform 2023-09 "Income Taxes (Topic 848) 740): Facilitation Improvements to Income Tax Disclosures." Among other things, these amendments require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than five percent of the Effects of Reference Rate Reform on Financial Reporting.) These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. In January 2021, the FASB issued ASU 2021-01 which clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected amount computed by multiplying pretax income (loss) by the discounting transition. In

December applicable statutory income tax rate.) The amendments also require that all entities disclose on an annual basis the following information about income taxes paid: (1) the amount of 2022, income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and (2) the FASB amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than five percent of total income taxes paid (net of refunds received.) This guidance is effective for public business entities for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued ASU No. 2022-06 which extended the period of time preparers can utilize the reference rate reform relief guidance in Topic 848, or made available for issuance. The guidance ensures the relief in Topic 848 covers the period of time during which amendments should be applied on a significant number of modifications may take place and the ASU defers the sunset date of Topic 848 from December 31, 2022 to December 31, 2024. prospective basis although retrospective application is permitted. The Company implemented is continuing to assess ASU 2023-09 and its transition plan away from LIBOR as of June 30, 2023. The adoption of these ASUs did not have a material impact on its accounting and disclosures.

Segment Reporting: In November 2023, the FASB issued ASU 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." These amendments require, among other things, that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this ASU and all existing segment disclosures in Topic 208. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. A public entity should apply the amendments retrospectively to all periods presented in the financial statements. The Company is continuing to assess ASU 2023-07 and its impact on its accounting and disclosures.

Note 3 — Investment Securities Available-For-Sale

The following table shows investment securities available-for-sale.

(Dollars in thousands)	(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
			(Dollars in thousands)	Amortized Cost	
September 30, 2023					
March 31, 2024					March 31, 2024
U.S. Treasury and Federal agencies securities	U.S. Treasury and Federal agencies securities	\$1,028,272	—	\$(81,310)	\$ 946,962
U.S. States and political subdivisions securities	U.S. States and political subdivisions securities	106,089	—	(9,105)	96,984
Mortgage-backed securities — Federal agencies	Mortgage-backed securities — Federal agencies	660,447	—	(107,984)	552,463
Corporate debt securities	Corporate debt securities	8,457	—	(206)	8,251
Foreign government and other securities	Foreign government and other securities	600	—	(18)	582
Total debt securities available-for-sale	Total debt securities available-for-sale	\$1,803,865	—	\$(198,623)	\$1,605,242
December 31, 2022					
December 31, 2023					
December 31, 2023					
December 31, 2023					

U.S.	U.S.
Treasury	Treasury
and Federal	and Federal
agencies	agencies
securities	securities
U.S. States	U.S. States
and political	and political
subdivisions	subdivisions
securities	securities
Mortgage-	Mortgage-
backed	backed
securities	securities
— Federal	— Federal
agencies	agencies
Corporate	Corporate
debt	debt
securities	securities
Foreign	Foreign
government	government
and other	and other
securities	securities
Total debt	Total debt
securities	securities
available-	available-
for-sale	for-sale
	\$1,090,743
	\$
	—
	\$
	(92,145)
	\$
	998,598
	130,670
	591
	(8,499)
	122,762
	730,672
	60
	(93,674)
	637,058
	16,486
	—
	(355)
	16,131
	600
	—
	(21)
	579
	\$1,969,171
	\$
	651
	\$
	(194,694)
	\$
	1,775,128

Amortized cost excludes accrued interest receivable which is included in Accrued Income and Other Assets on the Consolidated Statements of Financial Condition. At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, accrued interest receivable on investment securities available-for-sale was **\$5.13 million** **\$4.50 million** and **\$5.98 million** **\$4.60 million**, respectively.

At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the residential mortgage-backed securities held by the Company consisted primarily of GNMA, FNMA and FHLMC pass-through certificates which are guaranteed by those respective agencies of the United States government (Government Sponsored Enterprise, GSEs).

The following table shows the contractual maturities of investments in debt securities available-for-sale at **September 30, 2023** **March 31, 2024**. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	(Dollars in thousands)	Amortized Cost	Fair Value	(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	Due in one year or less	\$ 193,901	\$ 188,714			
Due after one year through five years	Due after one year through five years	916,116	833,950			
Due after five years through ten years	Due after five years through ten years	12,827	11,068			
Due after ten years	Due after ten years	20,574	19,047			
Mortgage-backed securities	Mortgage-backed securities	660,447	552,463			

Total debt securities available-for-sale	Total debt securities available-for-sale	\$ 1,803,865	\$ 1,605,242
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The following table summarizes gross unrealized losses and fair value by investment category and age. At **September 30, 2023** **March 31, 2024**, the Company's available-for-sale securities portfolio consisted of **698,661** securities, **698,606** of which were in an unrealized loss position.

(Dollars in thousands)	Less than 12 Months		12 months or Longer		Total		(Dollars in thousands)	Less than 12 Months		12 months or Longer		Total		
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
September 30, 2023														
March 31, 2024														
U.S. Treasury and Federal agencies securities	U.S. Treasury and Federal agencies securities	\$ —	\$ —	\$ 946,962	\$ (81,310)	\$ 946,962	\$ (81,310)							
U.S. States and political subdivisions securities	U.S. States and political subdivisions securities	23,888	(1,278)	73,096	(7,827)	96,984	(9,105)							
Mortgage-backed securities - Federal agencies	Mortgage-backed securities - Federal agencies	13,010	(479)	539,453	(107,505)	552,463	(107,984)							
Corporate debt securities	Corporate debt securities	—	—	8,251	(206)	8,251	(206)							
Foreign government and other securities	Foreign government and other securities	—	—	582	(18)	582	(18)							
Total debt securities available-for-sale	Total debt securities available-for-sale	\$ 36,898	\$ (1,757)	\$ 1,568,344	\$ (196,866)	\$ 1,605,242	\$ (198,623)							
December 31, 2022														
December 31, 2023														
U.S. Treasury and Federal agencies securities	U.S. Treasury and Federal agencies securities	\$ 164,481	\$ (6,299)	\$ 834,117	\$ (85,846)	\$ 998,598	\$ (92,145)							
U.S. States and political subdivisions securities	U.S. States and political subdivisions securities	57,592	(2,126)	38,834	(6,373)	96,426	(8,499)							

Mortgage-backed securities - Federal agencies	Mortgage-backed securities - Federal agencies	198,469	(13,482)	426,989	(80,192)	625,458	(93,674)
Corporate debt securities	Corporate debt securities	16,132	(355)	—	—	16,132	(355)
Foreign government and other securities	Foreign government and other securities	484	(16)	95	(5)	579	(21)
Total debt securities available-for-sale	Total debt securities available-for-sale	\$437,158	\$ (22,278)	\$1,300,035	\$ (172,416)	\$1,737,193	\$ (194,694)

The Company does not consider available-for-sale securities with unrealized losses at **September 30, 2023** **March 31, 2024** to be experiencing credit losses and recognized no resulting allowance for credit losses. The Company does not intend to sell these investments and it is more likely than not that the Company will not be required to sell these investments before recovery of the amortized cost basis, which may be the maturity dates of the securities. The unrealized losses occurred as a result of changes in interest rates, market spreads and market conditions subsequent to purchase.

The following table shows the gross realized gains and losses from the available-for-sale debt securities portfolio. Realized gains and losses of all securities are computed using the specific identification cost basis.

		Three Months Ended September 30,		Nine Months Ended September 30,			
		Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	Three Months Ended March 31,	2024	2023
(Dollars in thousands)	(Dollars in thousands)	2023	2022	2023	2022	(Dollars in thousands)	
Gross realized gains	Gross realized gains	\$ —	\$ —	\$1,286	\$ —		
Gross realized losses	Gross realized losses	—	—	(1,330)	—		
Net realized losses	Net realized losses	\$ —	\$ —	\$ (44)	\$ —		
Net realized losses	Net realized losses						

At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, investment securities available-for-sale with carrying values of **\$418.28 million** **\$375.73 million** and **\$282.87 million** **\$411.38 million**, respectively, were pledged as collateral for security repurchase agreements and for other purposes.

Note 4 — Loan and Lease Financings

The Company evaluates loans and leases for credit quality at least annually but more frequently if certain circumstances occur (such as material new information which becomes available and indicates a potential change in credit risk). The Company uses two methods to assess credit risk: loan or lease credit quality grades and credit risk classifications. The purpose of the loan or lease credit quality grade is to document the degree of risk associated with individual credits as well as inform management of the degree of risk in the portfolio taken as a whole. Credit risk classifications are used to categorize loans by degree of risk and to designate individual or committee approval authorities for higher risk credits at the time of origination. Credit risk classifications include categories for: Acceptable, Marginal, Special Attention, Special Risk, Restricted by Policy, Regulated and Prohibited by Law.

All loans and leases, except residential real estate and loans, home equity loans, and consumer loans, are assigned credit quality grades on a scale from 1 to 12, with grade 1 representing superior credit quality. The criteria used to assign grades to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Company's safety and soundness. Loans or leases graded 7 or weaker are considered "special attention" credits and, as such, relationships in excess of \$250,000 are reviewed quarterly as part of management's evaluation of the appropriateness of the allowance for loan and lease losses. Grade 7 credits are defined as "watch" and contain greater than average credit risk and are monitored to limit the exposure to increased risk; grade 8 credits are "special mention" and, following regulatory guidelines, are defined as having potential weaknesses that deserve management's close attention. Credits that exhibit well-defined weaknesses and a distinct possibility of loss are considered "classified" and are graded 9 through 12 corresponding to the regulatory definitions of "substandard" (grades 9 and 10) and the more severe "doubtful" (grade 11) and "loss" (grade 12). For residential real estate and home equity and consumer loans, credit quality is based on the aging status of the loan and by payment activity. Nonperforming loans are those loans which are on nonaccrual status or are 90 days or more past due.

Below is a summary of the Company's loan and lease portfolio segments and a discussion of the risk characteristics relevant to each portfolio segment.

Commercial and agricultural – loans are to entities within the Company's local market communities. Loans are for business or agri-business purposes and include working capital lines of credit secured by accounts receivable and inventory that are generally renewable annually and term loans secured by equipment with amortizations based on the expected life of the underlying collateral, generally three to seven years. These loans are typically further supported by personal guarantees. Commercial exposure is to a wide range of industries and services. Risks in this sector are also varied and are most impacted by general economic conditions. Risk mitigants include appropriate underwriting and monitoring and, when appropriate, government guarantees, including SBA and FSA.

Solar Renewable energy – loans are for the purpose of financing solar related projects and may include construction draw notes, operating loans, letters of credit and may entail a tax equity structure. Collateral in a multi-state area includes tangible assets of the borrower, assignment of intangible assets including power purchase agreements, and pledges of permits and licenses. Financing is provided to qualified borrowers throughout the continental United States with an emphasis on the region east of the Rocky Mountains.

Auto and light truck – loans are secured by vehicles and borrowers are nationwide. The portfolio predominantly consists of loans to borrowers in the auto rental and commercial auto leasing industries. Borrowers in the auto rental segment are primarily independent auto rental entities with on-airport and off-airport locations, and some insurance replacement business. Loan amortizations are relatively short, generally eighteen months, but up to four years. Auto leasing customers lease to businesses and the Company takes assignment of the lease stream and places its lien on the vehicles. Terms are generally longer than the auto rental sector, three to seven years and match the underlying leases. Risks in both these segments include economic risks and collateral risks, principally used vehicle values.

Medium and heavy duty truck – loans and full-service truck leases are secured by heavy-duty trucks, commonly Class 8 trucks, and are generally personally guaranteed. In addition to economic risks, collateral risk is significant. Financing is generally at full cost, plus additional expenditures to get the vehicle operational, such as taxes, insurance and fees. It takes three to four years of debt amortization to reach an equity position in the collateral.

Aircraft – loans are to domestic and foreign borrowers with the domestic segment further divided into two pools: 1) personal and business use, and 2) dealers and operators. The Company's focus for the foreign sector is Latin America, principally Mexico and Brazil. Loans are primarily secured by new and used business jets and helicopters, with appropriate advances, amortizations of ten to fifteen years, and are generally guaranteed by individuals. The most significant risk in the Aircraft portfolio is collateral risk - volatility in underlying values and maintenance concerns. The portfolio is subject to national and global economic risks.

Construction equipment – loans are to borrowers throughout the country secured by specific equipment. The borrowers include highway and road builders, asphalt producers and pavers, suppliers of aggregate products, site developers, frac sand operations, general construction equipment dealers and operators, and crane rental entities. Generally, loans include personal guarantees. The construction equipment industry is heavily dependent on both the U.S. and global economy. Market growth is reliant on investments from public and private sectors into urbanization and infrastructure projects.

Commercial real estate – loans are generally to entities within the local market communities served by the Company with advances generally within regulatory guidelines. Historically, the Company's exposure to commercial real estate has been primarily to the less risky owner-occupied segment. The non-owner-occupied segment accounts for less than half of the commercial real estate portfolio and includes hotels, apartment complexes and warehousing facilities. There is limited exposure to construction loans. Many commercial real estate loans carry personal guarantees. Additional risks in the commercial real estate portfolio stem from geographical concentration in northern Indiana and southwest Michigan and general economic conditions.

Residential real estate and home equity – loans predominantly include one-to-four family mortgages to borrowers in the Company's local market communities and are appropriately underwritten and secured by residential real estate.

Consumer – loans are to individuals in the Company's local markets and auto loans are generally secured by personal vehicles and appropriately underwritten.

The following table shows the amortized cost of loans and leases, segregated by portfolio segment, credit quality rating and year of origination as of **September 30, 2023** **March 31, 2024** and gross charge-offs for the **nine** **three** months ended **September 30, 2023** **March 31, 2024**.

Term Loans and Leases by Origination Year																			
Term Loans and Leases by Origination Year																			
(Dollars in thousands)																			
(Dollars in thousands)																			
(Dollars in thousands)	(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans	Converted to Term	Total	2024	2023	2022	2021	2020	Prior	Revolving Loans	Converted to Term	Revolving Loans Converted to Total
Commercial and agricultural	Commercial and agricultural							Revolving Loans	Converted to Term	Total						Revolving Loans	Converted to Term	Revolving Loans Converted to Total	
Grades 1-6	Grades 1-6																		
Grades 1-6	Grades 1-6																		
Grades 1-6	Grades 1-6	\$124,559	\$127,855	\$76,034	\$43,890	\$24,025	\$18,156	\$316,644	\$	—	\$731,163								
Grades 7-12	Grades 7-12	4,203	2,304	6,341	494	1,162	677	16,707	—	—	31,888								
Total commercial and agricultural	Total commercial and agricultural	128,762	130,159	82,375	44,384	25,187	18,833	333,351	—	—	763,051								
Current period gross charge-offs	Current period gross charge-offs	455	411	—	17	4	—	1,946	—	—	2,833								
Solar																			
Renewable energy																			
Grades 1-6	Grades 1-6																		
Grades 1-6	Grades 1-6																		
Grades 1-6	Grades 1-6	129,390	24,436	89,699	30,775	57,010	26,392	—	—	—	357,702								
Grades 7-12	Grades 7-12	—	—	—	1,054	5,513	680	—	—	—	7,247								
Total solar		129,390	24,436	89,699	31,829	62,523	27,072	—	—	—	364,949								
Total renewable energy																			
Current period gross charge-offs	Current period gross charge-offs	—	—	—	—	—	—	—	—	—	—								
Auto and light truck	Auto and light truck																		
Grades 1-6	Grades 1-6																		
Grades 1-6	Grades 1-6																		
Grades 1-6	Grades 1-6	471,833	290,946	75,619	30,020	17,041	6,856	—	—	—	892,315								
Grades 7-12	Grades 7-12	1,033	2,471	789	3,116	817	943	—	—	—	9,169								
Total auto and light truck	Total auto and light truck	472,866	293,417	76,408	33,136	17,858	7,799	—	—	—	901,484								

Current period gross charge-offs	Current period gross charge-offs	—	140	75	4	19	63	—	—	301		
Medium and heavy duty truck	Medium and heavy duty truck	Grades 1-6	Grades 1-6	86,301	132,020	50,345	28,630	20,275	5,631	—	—	323,202
Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	—	—	—	—	—	—	—	—	
Grades 7-12	Grades 7-12	Grades 7-12	Grades 7-12	—	—	—	—	—	—	—	—	
Total medium and heavy duty truck	Total medium and heavy duty truck	Grades 1-6	Grades 1-6	86,301	132,020	50,345	28,630	20,275	5,631	—	—	323,202
Current period gross charge-offs	Current period gross charge-offs	—	—	—	—	—	—	—	—	—	—	
Aircraft	Aircraft	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	
Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	166,133	389,870	214,169	179,737	49,474	41,619	5,776	—	1,046,778
Grades 7-12	Grades 7-12	Grades 7-12	Grades 7-12	4,310	9,677	7,161	4,819	—	6,836	—	—	32,803
Total aircraft	Total aircraft	Total aircraft	Total aircraft	170,443	399,547	221,330	184,556	49,474	48,455	5,776	—	1,079,581
Current period gross charge-offs	Current period gross charge-offs	—	—	—	—	—	—	—	—	—	—	
Construction equipment	Construction equipment	Grades 1-6	Grades 1-6	370,642	372,029	149,279	74,922	36,373	10,066	22,795	2,418	1,038,524
Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	—	—	—	—	—	—	—	—	
Grades 7-12	Grades 7-12	Grades 7-12	Grades 7-12	4,689	16,805	1,180	568	154	41	—	136	23,573
Total construction equipment	Total construction equipment	Grades 1-6	Grades 1-6	375,331	388,834	150,459	75,490	36,527	10,107	22,795	2,554	1,062,097
Current period gross charge-offs	Current period gross charge-offs	—	—	44	1	—	—	—	—	—	—	45
Commercial real estate	Commercial real estate	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	
Grades 1-6	Grades 1-6	Grades 1-6	Grades 1-6	252,567	252,121	154,744	109,181	90,192	202,871	292	—	1,061,968
Grades 7-12	Grades 7-12	Grades 7-12	Grades 7-12	144	2,747	856	5,752	4,602	12,130	—	—	26,231
Total commercial real estate	Total commercial real estate	Grades 1-6	Grades 1-6	252,711	254,868	155,600	114,933	94,794	215,001	292	—	1,088,199
Current period gross charge-offs	Current period gross charge-offs	—	—	39	—	—	179	—	—	—	—	218
Residential real estate and home equity	Residential real estate and home equity	Performing	Performing	67,545	112,070	92,751	89,539	31,394	75,909	151,550	5,121	625,879
Performing	Performing	Performing	Performing	—	—	—	—	—	—	—	—	

Performing																			
Nonperforming	Nonperforming	—	84	74	—	414	632	356	76	1,636									
Total	Total																		
residential	residential																		
real estate	real estate																		
and home	and home																		
equity	equity	67,545	112,154	92,825	89,539	31,808	76,541	151,906	5,197	627,515									
Current	Current																		
period gross	period gross																		
charge-offs	charge-offs	—	—	—	—	—	54	1	—	55									
Consumer	Consumer																		
Performing	Performing	43,514	53,780	22,705	7,552	3,441	1,346	10,841	—	143,179									
Performing	Performing																		
Nonperforming	Nonperforming	—	173	120	49	42	7	—	—	391									
Total	Total																		
consumer	consumer	43,514	53,953	22,825	7,601	3,483	1,353	10,841	—	143,570									
Current	Current																		
period gross	period gross																		
charge-offs	charge-offs	\$	353	\$	374	\$	90	\$	26	\$	13	\$	3	\$	20	\$	—	\$	879

The following table shows the amortized cost of loans and leases, segregated by portfolio segment, credit quality rating and year of origination as of **December 31, 2022** **December 31, 2023**.

Term Loans and Leases by Origination Year																				
Term Loans and Leases by Origination Year																				
(Dollars in thousands)																				
(Dollars in thousands)																				
(Dollars in thousands)	(Dollars in thousands)	2022	2021	2020	2019	2018	Prior	Revolving Loans	Converted to Term	Total	2023	2022	2021	2020	2019	Prior	Revolving Loans	Converted to Term	Revolving Loans Converted to Total	
Commercial and agricultural	Commercial and agricultural																			
Grades 1-6	Grades 1-6	\$159,317	\$107,232	\$71,365	\$35,874	\$17,192	\$13,860	\$370,553	\$	—	\$775,393									
Grades 1-6	Grades 1-6																			
Grades 7-12	Grades 7-12	4,491	5,934	60	2,094	1,644	1,040	21,375	—	36,638										
Total commercial and agricultural	Total commercial and agricultural	163,808	113,166	71,425	37,968	18,836	14,900	391,928	—	812,031										
Solar	Solar																			
Current period gross charge-offs	Current period gross charge-offs																			
Renewable energy	Renewable energy																			
Grades 1-6	Grades 1-6																			
Grades 1-6	Grades 1-6	Grades 1-6	109,393	113,276	35,660	72,652	18,518	20,654	—	—	370,153									
Grades 7-12	Grades 7-12	Grades 7-12	—	—	1,091	5,678	701	3,540	—	—	11,010									
Total solar	Total solar	109,393	113,276	36,751	78,330	19,219	24,194	—	—	381,163										

Total renewable energy										
Current period gross charge-offs										
Auto and light truck	Auto and light truck									
Grades 1-6										
Grades 1-6										
Grades 1-6	Grades 1-6	521,399	155,508	62,063	32,975	10,946	3,476	—	—	786,367
Grades 7-12	Grades 7-12	5,972	3,366	5,836	2,836	1,792	1,948	—	—	21,750
Total auto and light truck	Total auto and light truck	527,371	158,874	67,899	35,811	12,738	5,424	—	—	808,117
Current period gross charge-offs										
Medium and heavy duty truck	Medium and heavy duty truck									
Grades 1-6										
Grades 1-6										
Grades 1-6	Grades 1-6	158,296	66,533	43,711	31,980	10,053	3,274	—	—	313,847
Grades 7-12	Grades 7-12	—	—	—	—	—	15	—	—	15
Total medium and heavy duty truck	Total medium and heavy duty truck	158,296	66,533	43,711	31,980	10,053	3,289	—	—	313,862
Current period gross charge-offs										
Aircraft	Aircraft									
Grades 1-6										
Grades 1-6										
Grades 1-6	Grades 1-6	438,481	273,726	213,661	57,379	31,085	35,012	3,687	—	1,053,031
Grades 7-12	Grades 7-12	12,962	4,253	6,190	—	—	1,286	—	—	24,691
Total aircraft	Total aircraft	451,443	277,979	219,851	57,379	31,085	36,298	3,687	—	1,077,722
Current period gross charge-offs										
Construction equipment	Construction equipment									
Grades 1-6										
Grades 1-6										
Grades 1-6	Grades 1-6	475,854	213,349	106,409	59,204	17,834	4,593	23,310	2,754	903,307
Grades 7-12	Grades 7-12	20,709	7,757	2,483	1,878	313	32	583	1,441	35,196
Total construction equipment	Total construction equipment	496,563	221,106	108,892	61,082	18,147	4,625	23,893	4,195	938,503
Current period gross charge-offs										
Commercial real estate	Commercial real estate									

Grades 1-6	Grades 1-6	271,526	164,173	121,685	97,470	102,271	168,391	251	—	925,767
Grades 7-12	Grades 7-12	1,532	1,716	7,824	5,789	47	1,070	—	—	17,978
Total commercial real estate	Total commercial real estate	273,058	165,889	129,509	103,259	102,318	169,461	251	—	943,745
Current period gross charge-offs										
Residential real estate and home equity	Residential real estate and home equity									
Performing	Performing									
Performing	Performing	115,154	100,690	97,205	34,498	6,864	81,653	142,724	4,115	582,903
Nonperforming	Nonperforming	—	131	693	—	—	725	180	105	1,834
Total residential real estate and home equity	Total residential real estate and home equity	115,154	100,821	97,898	34,498	6,864	82,378	142,904	4,220	584,737
Current period gross charge-offs										
Consumer	Consumer									
Performing	Performing									
Performing	Performing	74,258	34,619	12,924	7,375	2,977	692	18,098	—	150,943
Nonperforming	Nonperforming	148	65	49	53	12	12	—	—	339
Total consumer	Total consumer	\$ 74,406	\$ 34,684	\$ 12,973	\$ 7,428	\$ 2,989	\$ 704	\$ 18,098	\$ —	\$ 151,282
Current period gross charge-offs										

The following table shows the amortized cost of loans and leases, segregated by portfolio segment, with delinquency aging and nonaccrual status.

(Dollars in thousands)	(Dollars in thousands)	90 Days or						Total Financing (Dollars in thousands)	90 Days or More						Total Financing
		30-59 Days	60-89 Days	More Past Due	Total Accruing	Loans	Nonaccrual Receivables		30-59 Days	60-89 Days	More Past Due and Accruing	Total Accruing	Loans	Nonaccrual Receivables	
September 30, 2023															
March 31, 2024								March 31, 2024							
Commercial and agricultural	Commercial and agricultural	\$ 756,225	\$ 572	\$ —	\$ —	\$ 756,797	\$ 6,254	\$ 763,051							
Solar		364,949	—	—	—	364,949	—	364,949							
Renewable energy															
Auto and light truck	Auto and light truck	895,298	1,115	12	—	896,425	5,059	901,484							

Medium and heavy duty truck	Medium and heavy duty truck	323,202	—	—	—	323,202	—	323,202
Aircraft	Aircraft	1,079,135	—	446	—	1,079,581	—	1,079,581
Construction equipment	Construction equipment	1,059,212	2,270	—	—	1,061,482	615	1,062,097
Commercial real estate	Commercial real estate	1,085,383	—	—	—	1,085,383	2,816	1,088,199
Residential real estate and home equity	Residential real estate and home equity	624,675	811	393	111	625,990	1,525	627,515
Consumer	Consumer	142,550	562	67	43	143,222	348	143,570
Total	Total	\$ 6,330,629	\$ 5,330	\$ 918	\$ 154	\$ 6,337,031	\$ 16,617	\$ 6,353,648

December 31, 2022

December 31, 2023

December 31, 2023

December 31, 2023

Commercial and agricultural	Commercial agricultural	\$ 810,223	\$ 944	\$ —	\$ —	\$ 811,167	\$ 864	\$ 812,031
Solar		381,163	—	—	—	381,163	—	381,163
Renewable energy								
Auto and light truck								
Medium and heavy duty truck	Medium and heavy duty truck	793,610	353	1	—	793,964	14,153	808,117
Aircraft	Aircraft	1,075,865	223	1,063	—	1,077,151	571	1,077,722
Construction equipment	Construction equipment	932,603	431	—	—	933,034	5,469	938,503
Commercial real estate	Commercial real estate	940,516	—	—	—	940,516	3,229	943,745
Residential real estate and home equity	Residential real estate and home equity	582,053	562	288	49	582,952	1,785	584,737
Consumer	Consumer	150,328	416	199	5	150,948	334	151,282
Total	Total	\$ 5,980,206	\$ 2,929	\$ 1,553	\$ 54	\$ 5,984,742	\$ 26,420	\$ 6,011,162

Accrued interest receivable on loans and leases at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023 was \$22.81 million \$26.01 million and \$18.75 million \$25.35 million, respectively.

Loan Modification Disclosures Pursuant to ASU 2022-02

The following table shows the amortized cost of loans and leases at September 30, 2023 that were both experiencing financial difficulty and modified during the three months ended September 30, 2023 March 31, 2024 and March 31, 2023, respectively, segregated by portfolio segment and type of modification. The percentage of the amortized cost of loans and leases that were modified to borrowers in financial distress as compared to the amortized cost of each segment of financial receivable is also presented below.

(Dollars in thousands)	Payment Delay			Term Extension		Interest Rate Reduction	Combination	% of Total Segment Financing Receivables
	Payment Delay		Term Extension	Interest Rate Reduction	Payment Delay and Term Extension		Payment Delay and Term Extension	
	Interest Rate Reduction	Payment Delay and Term Extension	Interest Rate Reduction	Payment Delay and Term Extension	Interest Rate Reduction		Interest Rate Reduction	
Commercial and agricultural	\$ 196	\$ —	\$ —	\$ —	\$ 500			0.09 %
Total	\$ 196	\$ —	\$ —	\$ —	\$ 500			0.01 %

The following table shows the amortized cost of loans and leases at September 30, 2023 that were both experiencing financial difficulty and modified during the nine months ended September 30, 2023, segregated by portfolio segment and type of modification. The percentage of the amortized cost of loans and leases that were modified to borrowers in financial distress as compared to the amortized cost of each segment of financial receivable is also presented below.

(Dollars in thousands)	(Dollars in thousands)	Combination						(Dollars in thousands)	Receivables (Dollars in thousands)	Combination						(Dollars in thousands)	Receivables				
		Payment			% of Total					Payment			% of Total								
		Interest	Delay	Segment	Interest	Delay	Segment			Interest	Delay	Segment	Interest	Delay	Segment						
(Dollars in thousands)	(Dollars in thousands)	Payment	Term	Rate	and Term	Financing	Receivables	(Dollars in thousands)	Receivables	Payment	Term	Rate	and Term	Financing	Receivables	(Dollars in thousands)	Receivables				
thousands)	thousands)	Delay	Extension	Reduction	Extension	Receivables	(Dollars in thousands)	thousands)	thousands)	Delay	Extension	Reduction	Extension	Receivables	(Dollars in thousands)	thousands)	thousands)				
Three Months Ended March 31, 2024																					
Commercial and agricultural																					
Commercial and agricultural																					
Commercial and agricultural	Commercial and agricultural	\$ 3,360	\$ 125	\$ —	\$ 1,312	0.63	% \$	—	\$ 108	\$ —	\$ —	\$ —	0.01	0.01	%	—	\$ 25,583	0.39 %			
Auto and light truck																					
Auto and light truck																					
Auto and light truck																					
Total																					
Total																					
Total																					
Three Months Ended March 31, 2023																					
Three Months Ended March 31, 2023																					
Commercial and agricultural																					
Commercial and agricultural																					
Commercial and agricultural	Commercial and agricultural	\$ —	\$ 752	\$ —	\$ —	\$ —	\$ —	—	\$ —	\$ —	\$ —	\$ —	0.09	0.09	%	—	\$ —				
Construction equipment																					
Construction equipment																					
Construction equipment	Construction equipment	—	1,809	—	—	0.17															
Commercial real estate	Commercial real estate	296	—	451	—	0.07															
Total	Total	\$ 3,656	\$ 1,934	\$ 451	\$ 1,312	0.12	%														
Total																					
Total																					

There were \$0.19 million \$2.63 million and \$0.00 million in commitments to lend additional amounts to the borrowers included in the previous tables table at September 30, 2023, March 31, 2024 and March 31, 2023, respectively.

The Company closely monitors the performance of loans and leases that have been modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table shows the performance of such loans and leases that have been modified during the twelve months ended March 31, 2024 and the three months ended September 30, 2023 March 31, 2023.

(Dollars in thousands)	Current	30-59	60-89	90 Days or	Total
		Days	Days	More Past Due	Past Due
		Past Due	Past Due		
\$	— \$	— \$	— \$		
\$	—	—	—		
		30-59	60-89		
		Days	Days	90 Days or	Total
(Dollars in thousands)	Current	Past Due	Past Due	More Past Due	Past Due
Twelve months ended March 31, 2024					
Commercial and agricultural	\$ 1,798	\$ 1,798	— \$	— \$	\$ 1,869
Auto and light truck	25,583	—	—	—	—
Medium and heavy duty truck	10,699	—	—	—	—
Construction equipment	1,372	—	—	—	—
Commercial real estate	269	—	—	—	—
Total	\$ 39,721	\$ 39,721	— \$	— \$	\$ 1,869
Three months ended March 31, 2023					
Commercial and agricultural	\$ 752	\$ 752	— \$	— \$	— \$
Construction equipment	3,912	—	—	—	—
Commercial real estate	511	—	—	—	—
Total	\$ 5,175	\$ 5,175	— \$	— \$	— \$

The following table shows the performance of such loans and leases that have been modified during the nine months ended September 30, 2023.

(Dollars in thousands)	30-59		60-89		90 Days or More Past Due		Total Past Due	
	Days		Days		90 Days or More Past Due			
	Current	Past Due	Past Due	More Past Due				
Commercial and agricultural	\$ 1,633	\$ —	\$ —	\$ 3,164	\$ 3,164	\$ —	\$ 3,164	
Construction equipment	1,809	—	—	—	—	—	—	
Commercial real estate	747	—	—	—	—	—	—	
Total	\$ 4,189	\$ —	\$ —	\$ 3,164	\$ 3,164	\$ —	\$ 3,164	

The following table shows the financial effect of loan and lease modifications during the periods presented above in the previous table to borrowers experiencing financial difficulty for the three months ended September 30, 2023.

	Weighted-Average Payment Delay (in months)	Combination Weighted-Average Payment Delay and Term Extension (in months)
Commercial and agricultural	6	13
Total	6	13

The following table shows the financial effect of loan and lease modifications presented above to borrowers experiencing financial difficulty for the nine months ended September 30, 2023.

	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (in months)	Weighted-Average Payment Delay (in months)	Combination Weighted-Average Payment Delay and Term Extension (in months)
Commercial and agricultural	— %	3	6	44
Construction equipment	— %	5	0	0
Commercial real estate	3.00 %	0	3	0
Total	3.00 %	4	6	44

	Weighted-Average Interest Rate Reduction	Weighted-Average Term Extension (in months)	Weighted-Average Payment Delay (in months)	Combination Weighted-Average Payment Delay and Term Extension (in months)
Twelve months ended March 31, 2024				
Commercial and agricultural	— %	9	6	35
Auto and light truck	—	0	0	3
Medium and heavy duty truck	—	0	0	6
Construction equipment	—	4	0	0
Commercial real estate	—	0	3	0
Total	— %	4	6	5
Three months ended March 31, 2023				
Commercial and agricultural	— %	3	0	0
Construction equipment	—	5	0	0
Commercial real estate	3.00	0	0	0
Total	3.00 %	4	0	0

There was one were no modified loan loans that had a payment default during the nine three months ended September 30, 2023 March 31, 2024 and was March 31, 2023, respectively, and were modified in the twelve months prior to that default to a borrower experiencing financial difficulty.

Upon the Company's determination that a modified loan or lease has subsequently been deemed uncollectible, the loan or lease is written off. Therefore, the amortized cost of the loan is reduced by the uncollectible amount and the allowance for loan and lease losses is adjusted by the same amount.

Troubled Debt Restructuring (TDR) Disclosures Prior to the Adoption of ASU 2022-02

There were no loan and lease modifications classified as a TDR during the three and nine months ended September 30, 2022. The classification between nonperforming and performing is determined at the time of modification. Modification programs focus on extending maturity dates or modifying payment patterns with most TDRs experiencing a combination of concessions. Modifications do not result in the contractual forgiveness of principal or interest. There were no modifications during the three and nine months ended September 30, 2022 that resulted in an interest rate below market rate.

There were no TDR which had a payment default within the twelve months following modification during the three months ended September 30, 2022 and one TDR which had a payment default within the twelve months following modification during the nine months ended September 30, 2022. Default occurs when a loan or lease is 90 days or more past due under the modified terms or transferred to nonaccrual.

The following table shows the recorded investment of loans and leases classified as troubled debt restructurings as of December 31, 2022.

	December 31, 2022	
(Dollars in thousands)		
Performing TDRs	\$	—
Nonperforming TDRs		3,640
Total TDRs	\$	3,640

Note 5 — Allowance for Credit Losses

Allowance for Loan and Lease Losses

The allowance for credit losses is established for current expected credit losses on the Company's loan and lease portfolios utilizing guidance in Accounting Standards Codification (ASC) Topic 326. The determination of the allowance requires significant judgment to estimate credit losses measured on a collective pool basis when similar risk characteristics exist, and for loans evaluated individually. In determining the allowance, the Company estimates expected future losses for the loan's entire contractual term adjusted for expected payments when appropriate. The allowance estimate considers relevant available information, from internal and external sources relating to the historical loss experience, current conditions, and reasonable and supportable forecasts for the Company's outstanding loan and lease balances. The allowance is an estimation that reflects management's evaluation of expected losses related to the Company's financial assets measured at amortized cost. To ensure that the allowance is maintained at an adequate level, a detailed analysis is performed on a quarterly basis and an appropriate provision is made to adjust the allowance.

The Company categorizes its loan portfolios into nine segments based on similar risk characteristics. Loans within each segment are collectively evaluated using either: 1) a cohort cumulative loss rate methodology ("cohort") or, 2) the probability of default ("PD")/loss given default ("LGD") methodology (PD/LGD).

The following table shows the changes in the allowance for loan and lease losses, segregated by portfolio segment, for the three months ended **September 30, 2023** **March 31, 2024** and **2022** **2023**.

(Dollars in thousands)	Medium and						Residential real estate				
	Commercial and agricultural		Solar	Auto and light truck	heavy duty truck	Aircraft	Construction equipment	Commercial real estate	and home equity	Consumer	Total
September 30, 2023											
Balance, beginning of period	\$ 16,637	\$ 6,308	\$ 17,173	\$ 7,556	\$ 40,571	\$ 26,105	\$ 20,356	\$ 6,767	\$ 2,069	\$ 143,542	
Charge-offs	2,261	—	189	—	—	—	—	—	45	283	2,778
Recoveries	20	—	1,825	—	243	284	—	1	78	2,451	
Net charge-offs (recoveries)	2,241	—	(1,636)	—	(243)	(284)	—	44	205	327	
Provision (recovery of provision)	573	(203)	(2,471)	155	(354)	506	2,288	168	197	859	
Balance, end of period	\$ 14,969	\$ 6,105	\$ 16,338	\$ 7,711	\$ 40,460	\$ 26,895	\$ 22,644	\$ 6,891	\$ 2,061	\$ 144,074	
September 30, 2022											
Balance, beginning of period	\$ 16,110	\$ 6,652	\$ 19,057	\$ 6,709	\$ 36,987	\$ 21,171	\$ 18,416	\$ 5,779	\$ 1,984	\$ 132,865	
Charge-offs	414	—	66	—	—	—	—	17	223	720	
Recoveries	39	—	91	—	176	11	17	1	89	424	
Net charge-offs (recoveries)	375	—	(25)	—	(176)	(11)	(17)	16	134	296	
Provision (recovery of provision)	412	142	(85)	304	132	1,667	57	306	232	3,167	
Balance, end of period	\$ 16,147	\$ 6,794	\$ 18,997	\$ 7,013	\$ 37,295	\$ 22,849	\$ 18,490	\$ 6,069	\$ 2,082	\$ 135,736	

The following table shows the changes in the allowance for loan and lease losses, segregated by portfolio segment, for the nine months ended **September 30, 2023** and **2022**.

(Dollars in thousands)	Medium and						Residential real estate					(Dollars in thousands)	Medium and						Residential real estate				
	Commercial and agricultural		Solar	Auto and light truck	heavy duty truck	Aircraft	Construction equipment	Commercial real estate	and home equity	Consumer	Total		Commercial and agricultural		Renewable energy	Auto and light truck	heavy duty truck	Aircraft	Construction equipment	Commercial real estate	and home equity	Consumer	
September 30, 2023																							
March 31, 2024	Balance, beginning of period	\$ 14,635	\$ 7,217	\$ 18,634	\$ 7,566	\$ 41,093	\$ 24,039	\$ 17,431	\$ 6,478	\$ 2,175	\$ 139,268	March 31, 2024	Balance, beginning of period	\$ 14,969	\$ 6,105	\$ 16,338	\$ 7,711	\$ 40,460	\$ 26,895	\$ 22,644	\$ 6,891	\$ 2,061	\$ 144,074
Charge-offs	Charge-offs	2,833	—	301	—	—	45	218	55	879	4,331												
Recoveries	Recoveries	209	—	3,414	—	746	291	6	327	189	5,182												
Net charge-offs (recoveries)	Net charge-offs (recoveries)	2,624	—	(3,113)	—	(746)	(246)	212	(272)	690	(851)												
Provision (recovery of provision)	Provision (recovery of provision)	2,958	(1,112)	(5,409)	145	(1,379)	2,610	5,425	141	576	3,955												
Balance, end of period	Balance, end of period	\$ 14,969	\$ 6,105	\$ 16,338	\$ 7,711	\$ 40,460	\$ 26,895	\$ 22,644	\$ 6,891	\$ 2,061	\$ 144,074												
September 30, 2022																							
March 31, 2023	Balance, beginning of period	\$ 15,409	\$ 6,585	\$ 19,624	\$ 6,015	\$ 33,628	\$ 19,673	\$ 19,691	\$ 5,084	\$ 1,783	\$ 127,492	March 31, 2023	Balance, beginning of period	\$ 14,969	\$ 6,105	\$ 16,338	\$ 7,711	\$ 40,460	\$ 26,895	\$ 22,644	\$ 6,891	\$ 2,061	\$ 144,074
Charge-offs	Charge-offs	453	—	98	—	—	48	—	27	545	1,171												

Recoveries	Recoveries	46	—	212	—	653	11	43	129	418	1,512
Net charge-offs	Net charge-offs										
(recoveries)	(recoveries)	407	—	(114)	—	(653)	37	(43)	(102)	127	(341)
Provision (recovery of provision)	Provision (recovery of provision)	1,145	209	(741)	998	3,014	3,213	(1,244)	883	426	7,903
Balance, end of period	Balance, end of period	\$ 16,147	\$ 6,794	\$ 18,997	\$ 7,013	\$ 37,295	\$ 22,849	\$ 18,490	\$ 6,069	\$ 2,082	\$ 135,736

The allowance for credit losses increased during the quarter in response to loan growth, growth and increased special attention outstandings which are reserved at higher rates. The previous quarter's forecast adjustment was maintained as it continues to be applicable to economic conditions expected during the forecast period. The Company remains cautious on the forward outlook and our forecast adjustment represents expectations for fragile growth during the forecast period. Ongoing risks include a sluggish domestic GDP outlook, tightening credit conditions, broader market liquidity concerns, persistent elevated inflation, higher interest rates, and heightened geopolitical uncertainty. Credit quality metrics remain stable with reflect higher special attention credit outstandings showing minimal change during the quarter, continued modest non-performing levels, and continued low delinquency rates. Charge-off activity during the quarter increased, as compared predominantly due to charge-offs on two accounts in the previous quarter but was largely commercial and agricultural portfolio, offset by ongoing recoveries resulting in a modest net charge-off position for the period, our auto and light truck and aircraft portfolios.

Commercial and agricultural – the decrease in the allowance in the current quarter was principally due to a decrease in loan balances and the elimination of a specific impairment on one account because of a charge-off during the period. The allowance is period, partially offset by higher year-to-date due primarily to an upward adjustment to qualitative factors historical loss rates in the portfolio in the prior period to recognize higher risks in the manufacturing sector, portfolio.

Solar Renewable energy – the allowance declined increased due to a decrease in higher loan balances. Credit quality remains stable.

Auto and light truck – the allowance was lower increased during the quarter and year-to-date as a decline in loan outstandings in higher risk segments of the portfolio was only partially offset by continued due to loan growth and an increase in the auto rental and leasing sectors, special attention outstandings which are reserved at higher rates.

Medium and heavy duty truck – the allowance increased decreased due to modest a decline in loan growth. Credit quality metrics continue balances. The near-term industry outlook remains weak due to be strong for this portfolio. Energy price volatility overcapacity concerns and driver availability remain a challenge, lower freight rates.

Aircraft – the allowance decreased during the quarter as loan growth in the domestic portfolio was offset by a decline in loan balances in the higher reserved foreign segment of the portfolio. The allowance decreased year-to-date due to coupled with lower historical loss rates in the portfolio due to recovery activity with minimal change in loan outstandings. The portfolio has been bolstered by higher collateral values somewhat offset by continuing economic concerns related primarily to Latin American-based foreign loans, activity. The Company has historically carried a higher allowance in this portfolio due to historical risk volatility.

Construction equipment – the allowance increased primarily due to continued loan growth in the portfolio.

Commercial real estate – the allowance increased due to loan growth. Higher interest rates and shifting demand dynamics have impacted commercial real estate. The majority of the Company's real estate exposure is owner-occupied, and exposure to non-owner occupied non-owner-occupied office property is minimal.

Residential real estate and home equity – the allowance increased due to loan growth.

Consumer – the allowance decreased slightly due to lower loan outstandings.

Economic Outlook

As of September 30, 2023 March 31, 2024, the most significant economic factors impacting the Company's loan portfolios are a sluggish fragile domestic growth outlook, exacerbated impacted by persistent elevated inflation, higher and high interest rates, and global along with ongoing foreign conflicts and resultant elevated geopolitical uncertainty. Questions surrounding the timing and velocity of future interest rate cuts persist. The Company remains concerned about the impact of tighter credit conditions on the economy and the effect that may have on future economic growth. Consumer stressors are building, and the Company remains concerned about small businesses and their ability to control expenses and compete for labor while absorbing the impact of higher interest rates and higher cost of capital. Tightened lending conditions and the current high-rate environment are impacting commercial real estate activity. The forecast considers global and domestic economic impacts from these factors as well as other key economic factors such as change in gross domestic product and unemployment which may impact the Company's clients. The Company's assumption was is that economic growth will slow be below trend during the forecast period and with inflation will remain above slowly moving back towards the 2% Federal Reserve target rate resulting in an adverse impact on the loan and lease portfolio over the next two years.

As a result of geopolitical risks and economic uncertainty, the Company's future loss estimates may vary considerably from the September 30, 2023 March 31, 2024 assumptions.

Liability for Credit Losses on Unfunded Loan Commitments

The liability for credit losses inherent in unfunded loan commitments is included in Accrued Expenses and Other Liabilities on the Consolidated Statements of Financial Condition. The following table shows the changes in the liability for credit losses on unfunded loan commitments.

	Three Months Ended September 30,	Nine Months Ended September 30,				
(Dollars in thousands)	(Dollars in thousands)	2023	2022	2023	2022	(Dollars in thousands)
Balance, beginning of period	Balance, beginning of period	\$7,370	\$5,497	\$5,616	\$4,196	
Provision (recovery of provision)		649	(281)	2,403	1,020	
Provision						
Provision						
Balance, end of period	Balance, end of period	\$8,019	\$5,216	\$8,019	\$5,216	

Note 6 — Lease Investments

As a lessor, the Company's loan and lease portfolio includes direct finance leases, which are included in Commercial and Agricultural, Solar, Renewable Energy, Auto and Light Truck, Medium and Heavy Duty Truck, Aircraft, and Construction Equipment on the Consolidated Statements of Financial Condition. The Company also finances various types of construction equipment, medium and heavy duty trucks, automobiles and other equipment under leases classified as operating leases, which are included in Equipment Owned Under Operating Leases, net, on the Consolidated Statements of Financial Condition.

The following table shows interest income recognized from direct finance lease payments and operating lease equipment rental income and related depreciation expense.

	Three Months Ended September 30,	Nine Months Ended September 30,				
(Dollars in thousands)	(Dollars in thousands)	2023	2022	2023	2022	(Dollars in thousands)
Direct finance leases:	Direct finance leases:					
Interest income on lease receivable	Interest income on lease receivable	\$3,584	\$2,402	\$9,939	\$6,112	
Interest income on lease receivable						

Interest income on lease receivable	
Operating leases:	Operating leases:
Operating leases:	
Operating leases:	
Income related to lease payments	
Income related to lease payments	
Income related to lease payments	Income related to lease payments
Depreciation expense	Depreciation expense
	\$2,101 \$2,761 \$6,930 \$9,718
	1,672 2,233 5,570 7,912

Income related to reimbursements from lessees for personal property tax on operating leased equipment for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was \$0.00 million \$0.12 million and \$0.08 million, respectively and for the nine months ended September 30, 2023 and 2022 was \$0.23 million and \$0.31 million, respectively. Expense related to personal property tax payments on operating leased equipment for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 was \$0.00 million \$0.12 million and \$0.08 million \$0.22 million, respectively and for the nine months ended September 30, 2023 and 2022 was \$0.23 million and \$0.31 million, respectively.

Note 7 — Mortgage Servicing Rights

The Company recognizes the rights to service residential mortgage loans for others as separate assets, whether the servicing rights are acquired through a separate purchase or through the sale of originated loans with servicing rights retained. The Company allocates a portion of the total proceeds of a mortgage loan to servicing rights based on the relative fair value. The unpaid principal balance of residential mortgage loans serviced for third parties was \$815.27 million \$795.99 million and \$848.96 million \$806.05 million at September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, respectively.

Mortgage servicing rights (MSRs) are evaluated for impairment at each reporting date. For purposes of impairment measurement, MSRs are stratified based on the predominant risk characteristics of the underlying servicing, principally by loan type. If temporary impairment exists within a tranche, a valuation allowance is established through a charge to income equal to the amount by which the carrying value exceeds the fair value. If it is later determined all or a portion of the temporary impairment no longer exists for a particular tranche, the valuation allowance is reduced through a recovery of income.

The following table shows changes in the carrying value of MSRs and the associated valuation allowance.

Mortgage servicing rights:	Mortgage servicing rights:	
Balance at beginning of period	Balance at beginning of period	\$3,874 \$4,443 \$4,137 \$4,671
Additions	Additions	119 152 291 660
Amortization	Amortization	(217) (297) (652) (1,033)
Carrying value before valuation allowance at end of period	Carrying value before valuation allowance at end of period	3,776 4,298 3,776 4,298
Carrying value before valuation allowance at end of period	Carrying value before valuation allowance at end of period	
Valuation allowance:	Valuation allowance:	Valuation allowance:
Balance at beginning of period	Balance at beginning of period	— — — —
Impairment recoveries	Impairment recoveries	— — — —
Balance at end of period	Balance at end of period	\$ — \$ — \$ — \$ —
Net carrying value of mortgage servicing rights at end of period	Net carrying value of mortgage servicing rights at end of period	\$3,776 \$4,298 \$3,776 \$4,298
Fair value of mortgage servicing rights at end of period	Fair value of mortgage servicing rights at end of period	\$8,029 \$7,493 \$8,029 \$7,493

At September 30, 2023 March 31, 2024 and 2022, 2023, the fair value of MSRs exceeded the carrying value reported in the Consolidated Statements of Financial Condition by \$4.25 million \$4.78 million and \$3.20 million \$4.05 million, respectively. This difference represents increases in the fair value of certain MSRs that could not be recorded above cost basis.

Mortgage loan contractual servicing fees, including late fees and ancillary income, were \$0.63 million \$0.61 million and \$0.69 million \$0.66 million for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively. Mortgage loan contractual servicing fees, including late fees and ancillary income, were \$1.92 million and \$2.13 million for the nine months ended September 30, 2023 and 2022, 2023, respectively. Mortgage loan contractual servicing fees are included in Mortgage Banking on the Consolidated Statements of Income.

Note 8 — Commitments and Financial Instruments with Off-Balance-Sheet Risk

Financial Instruments with Off-Balance-Sheet Risk — 1st Source and its subsidiaries are parties to financial instruments with off-balance-sheet risk in the normal course of business. These off-balance-sheet financial instruments include commitments to originate and sell loans and standby letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statements of Financial Condition.

The following table shows financial instruments whose contract amounts represent credit risk.

	September (Dollars in thousands)	December (Dollars in thousands)	March 31, 2024	December 31, 2023
	30, 2023	31, 2022		

Amounts of commitments:	Amounts of commitments:
Loan commitments to extend credit	Loan commitments to extend credit
	\$ 1,450,666 \$ 1,234,866
Loan commitments to extend credit	
Loan commitments to extend credit	
Standby letters of credit	Standby letters of credit
	\$ 18,111 \$ 18,055
Commercial and similar letters of credit	Commercial and similar letters of credit
	\$ 2,724 \$ 2,368

The exposure to credit loss in the event of nonperformance by the other party to the financial instruments for loan commitments and standby letters of credit is represented by the dollar amount of those instruments. The Company uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Company grants mortgage loan commitments to borrowers, subject to normal loan underwriting standards. The interest rate risk associated with these loan commitments is managed by entering into contracts for future deliveries of loans. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments that guarantee the performance of a client to a third party. The credit risk involved in and collateral obtained when issuing standby letters of credit is essentially the same as that involved in extending loan commitments to clients. Standby letters of credit generally have terms ranging from two months to one year.

Commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn on when the underlying transaction is consummated between the customer and the third party. Commercial letters of credit generally have terms ranging from two months to six months.

Note 9 — Derivative Financial Instruments

Commitments to originate residential mortgage loans held for sale and forward commitments to sell residential mortgage loans are considered derivative instruments. See Note 8 for further information.

The Company has certain interest rate derivative positions that are not designated as hedging instruments. Derivative assets and liabilities are recorded at fair value on the Consolidated Statements of Financial Condition and do not take into account the effects of master netting agreements. Master netting agreements allow the Company to settle all derivative contracts held with a single counterparty on a net basis, and to offset net derivative positions with related collateral, where applicable. These derivative positions relate to transactions in which the Company enters into an interest rate swap with a client while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each transaction, the Company agrees to pay interest to the client on a notional amount at a variable interest rate and receive interest from the client on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows the client to effectively convert a variable rate loan to a fixed rate. Because the terms of the swaps with the customers and the other financial institutions offset each other, with the only difference being counterparty credit risk, changes in the fair value of the underlying derivative contracts are not materially different and do not significantly impact the Company's results of operations.

The following table shows the amounts of non-hedging derivative financial instruments.

(Dollars in thousands)	Asset derivatives				Liability derivatives				(Dollars in thousands)	Asset derivatives				Liability derivatives				
	Statement of Financial Condition		Statement of Financial Condition		Statement of Financial Condition		Statement of Financial Condition			Statement of Financial Condition		Statement of Financial Condition		Statement of Financial Condition		Statement of Financial Condition		
	Notional or contractual amount	Classification	Fair value	Notional or contractual amount	Classification	Fair value	Notional or contractual amount	Classification		Notional or contractual amount	Classification	Fair value	Notional or contractual amount	Classification	Fair value	Notional or contractual amount	Classification	Fair value
September 30, 2023																		
March 31, 2024															March 31, 2024			
Interest rate swap contracts	Interest rate swap contracts				Other													
	\$ 950,362	Other assets	\$ 27,021	liabilities		\$ 27,531												

Loan commitments	Loan commitments	Mortgages		
		4,388	held for sale	143 N/A
Forward contracts - mortgage loan	Forward contracts - mortgage loan	Mortgages		
		6,250	held for sale	36 N/A
Total	Total	\$ 961,000	\$27,200	\$27,531

December 31, 2022

December 31, 2023

December 31, 2023

December 31, 2023

Interest rate swap contracts	Interest rate swap contracts	Other		
		\$ 881,600	Other assets	\$24,838 liabilities
Loan commitments	Loan commitments	Mortgages		
		2,638	held for sale	67 N/A
Forward contracts - mortgage loan	Forward contracts - mortgage loan	Mortgages		
		3,750	held for sale	24 N/A
Total	Total	\$ 887,988	\$24,929	\$25,307

The following table shows the amounts included in the Consolidated Statements of Income for non-hedging derivative financial instruments.

(Dollars in thousands)	(Dollars in thousands)	Statement of Income classification	Gain (loss)			Statement of Income classification	2024	2023			
			Three Months Ended								
			Months Ended	Nine Months Ended							
			September	September							
			30,	30,							
Interest rate swap contracts	Interest rate swap contracts	Other expense	\$ (42)	\$ (252)	\$ (41)	\$ (69)					
Interest rate swap contracts	Interest rate swap contracts	Other income	475	83	766	83					
Loan commitments	Loan commitments	Mortgage banking	(14)	(197)	76	(424)					
Forward contracts - mortgage loan	Forward contracts - mortgage loan	Mortgage banking	8	83	12	93					
Total	Total		\$427	\$ (283)	\$813	\$ (317)					

The following table shows the offsetting of financial assets and derivative assets.

Gross Amounts Not Offset in the Statement of Financial Condition	
Gross Amounts Not Offset in the Statement of Financial Condition	
Gross Amounts	
Not Offset in the	
Statement of	
Financial	
Condition	

		Net Amounts of Assets Presented					
		Gross Amounts	Offset in the Statement of Financial Condition	in the Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
(Dollars in thousands)	(Dollars in thousands)	Recognized Assets	Financial Condition	Financial Condition	Instruments	Received	Net Amount
September 30, 2023							
(Dollars in thousands)							
		Net Amounts of Assets Presented					
		Gross Amounts	Offset in the Statement of Financial Condition	in the Statement of Financial Condition	Financial Instruments	Cash Collateral Received	Net Amount
(Dollars in thousands)	(Dollars in thousands)	Recognized Assets	Financial Condition	Financial Condition	Instruments	Received	Net Amount
March 31, 2024							
(Dollars in thousands)							
Interest swaps	Interest swaps	\$ 27,021	\$ —	\$ 27,021	\$ —	\$ 28,555	\$ (1,534)
December 31, 2022							
December 31, 2023							
December 31, 2023							
Interest swaps	Interest swaps	\$ 24,838	\$ —	\$ 24,838	\$ —	\$ 25,295	\$ (457)

The following table shows the offsetting of financial liabilities and derivative liabilities.

		Gross Amounts Not Offset in the Statement of Financial Condition								
		Gross Amounts Not Offset in the Statement of Financial Condition								
(Dollars in thousands)	(Dollars in thousands)	Liabilities	Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount	Liabilities	Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged
September 30, 2023										
(Dollars in thousands)										
		Net Amounts of Liabilities Presented in the Statement of Financial Condition								
		Gross Amounts	Offset in the Statement of Financial Condition	Presented in the Statement of Financial Condition	Financial Instruments	Cash Collateral Pledged	Net Amount	Gross Amounts	Offset in the Statement of Financial Condition	Cash Collateral Pledged
(Dollars in thousands)	(Dollars in thousands)	Recognized Liabilities	Financial Condition	Financial Condition	Instruments	Pledged	Net Amount	Recognized Liabilities	Financial Condition	Pledged
March 31, 2024										
(Dollars in thousands)										
Interest swaps	Interest swaps	\$ 27,531	\$ —	\$ 27,531	\$ —	\$ —	\$ 27,531	Interest swaps	Interest swaps	\$ 27,531
Repurchase agreements	Repurchase agreements	\$ 48,335	\$ —	\$ 48,335	\$ 48,335	\$ —	\$ —	Repurchase agreements	Repurchase agreements	\$ —
Total	Total	\$ 75,866	\$ —	\$ 75,866	\$ 48,335	\$ —	\$ 27,531	Total	Total	\$ 27,531
December 31, 2022										
December 31, 2023										
December 31, 2023										

December 31, 2023									
Interest rate	Interest rate								
swaps	swaps	\$ 25,307	\$ —	\$ 25,307	\$ —	\$ —	\$ —	\$ 25,307	
Repurchase agreements	Repurchase agreements	141,432	—	141,432	141,432	—	—	—	
Total	Total	\$ 166,739	\$ —	\$ 166,739	\$ 141,432	\$ —	\$ —	\$ 25,307	

If a default in performance of any obligation of a repurchase agreement occurs, each party will set-off property held in respect of transactions against obligations owing in respect of any other transactions. At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, repurchase agreements had a remaining contractual maturity of **\$46.99 million** **\$61.54 million** and **\$138.08 million** **\$54.46 million** in overnight and **\$1.35 million** **\$1.05 million** and **\$3.35 million** **\$1.35 million** in up to 30 days, respectively and were collateralized by U.S. Treasury and Federal agencies securities.

Note 10 — Variable Interest Entities

A variable interest entity (VIE) is a partnership, limited liability company, trust or other legal entity that meets any one of the following criteria:

- The entity does not have sufficient equity to conduct its activities without additional subordinated financial support from another party.
- The entity's investors lack the power to direct the activities that most significantly affect the entity's economic performance.
- The entity's at-risk holders do not have the obligation to absorb the losses or the right to receive residual returns.
- The voting rights of some investors are not proportional to their economic interests in the entity, and substantially all of the entity's activities involve, or are conducted on behalf of, investors with disproportionately few voting rights.

The Company is involved in various entities that are considered to be VIEs. The Company's investments in VIEs are primarily related to investments promoting affordable housing, community development and renewable energy sources. Some of these tax-advantaged investments support the Company's regulatory compliance with the Community Reinvestment Act. The Company's investments in these entities generate a return primarily through the realization of federal and state income tax credits and other tax benefits, such as tax deductions from operating losses of the investments, over specified time periods. **Tax** **These tax credits from affordable housing investments and community development investments** are recognized as a reduction of tax **expense**. Investments in renewable energy sources **qualify** **expense or, for investments qualifying as investment tax credits, which are recognized** as a reduction to the related investment asset. The Company recognized federal and state income tax credits related to its affordable housing and community development tax-advantaged investments in tax expense of **\$0.66 million** **\$0.80 million** and **\$0.52 million** **\$0.66 million** for the three months ended **September 30, 2023** **March 31, 2024** and **2022**, respectively, and **\$1.99 million** and **\$1.55 million** for the nine months ended **September 30, 2023** and **2022, 2023**, respectively. The Company also recognized **\$0.57 million** **\$5.07 million** and **\$0.00 million** **\$17.49 million** of investment tax credits for the three months ended **September 30, 2023** **March 31, 2024** and **2022**, respectively, and **\$25.02 million** and **\$9.48 million** for the nine months ended **September 30, 2023** and **2022, 2023**, respectively.

The Company is not required to consolidate VIEs in which it has concluded it does not have a controlling financial interest, and thus is not the primary beneficiary. In such cases, the Company does not have both the power to direct the entities' most significant activities and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIEs. As a limited partner in these operating partnerships, the Company is allocated credits and deductions associated with the underlying properties. The Company has determined that it is not the primary beneficiary of these investments because the general partners have the power to direct activities that most significantly influence the economic performance of their respective partnerships.

The Company's investments in these unconsolidated VIEs are carried in Other Assets on the Consolidated Statements of Financial Condition. The Company's unfunded capital and other commitments related to these unconsolidated VIEs are generally carried in Other Liabilities on the Consolidated Statements of Financial Condition. The Company's maximum exposure to loss from these unconsolidated VIEs includes the investment recorded on the **Company's** Consolidated Statements of Financial Condition, net of unfunded capital commitments, and previously recorded tax credits which remain subject to recapture by taxing authorities based on compliance features required to be met at the project level. While the Company believes potential losses from these investments are remote, the maximum exposure was determined by assuming a scenario where the community-based business projects, housing projects, and renewable energy projects completely fail and do not meet certain taxing authority compliance requirements, resulting in recapture of the related tax credits.

The following table provides a summary of investments in affordable housing, community development, and renewable energy VIEs that the Company has not consolidated.

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023	December 31, 2022	(Dollars in thousands)	March 31, 2024	December 31, 2023
Investment carrying amount	Investment carrying amount	\$ 84,818	\$ 70,887			
Unfunded capital and other commitments	Unfunded capital and other commitments	76,505	64,520			
Maximum exposure to loss	Maximum exposure to loss	65,643	45,020			

The Company is required to consolidate VIEs in which it has concluded it has significant involvement in and the ability to direct the activities that impact the entity's economic performance. The Company is the managing general partner of entities to which it shares interest in tax-advantaged investments with a third party. At **September 30, 2023**, **March 31, 2024** and **December 31, 2022**, **December 31, 2023**, approximately **\$65.18 million**, **\$79.54 million** and **\$66.26 million**, **\$87.37 million**, respectively, of the Company's assets and \$0.00 million and \$0.00 million, respectively, of its liabilities included on the Consolidated Statements of Financial Condition were related to tax-advantaged investment VIEs which the Company has consolidated, respectively. The assets of the consolidated VIEs are reported in Other Assets, the liabilities are reported in Other Liabilities, and the non-controlling interest is reported in Equity on the Consolidated Statements of Financial Condition. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIE do not have recourse to the general credit of the Company. The Company's exposure to the consolidated VIE is generally limited to the carrying value of its variable interest plus any related tax credits previously recognized.

Additionally, the Company sponsors one trust, 1st Source Master Trust (Capital Trust), of which 100% of the common equity is owned by the Company. The Capital Trust was formed in 2007 for the purpose of issuing corporation-obligated mandatorily redeemable capital securities (the capital securities) to third-party investors and investing the proceeds from the sale of the capital securities solely in junior subordinated debenture securities of the Company (the subordinated notes). The subordinated notes held by the Capital Trust are the sole assets of the Capital Trust. The Capital Trust qualifies as a variable interest entity for which the Company is not the primary beneficiary and is therefore reported in the financial statements as an unconsolidated subsidiary. The junior subordinated debentures are reflected as subordinated notes on the Consolidated Statements of Financial Condition with the corresponding interest distributions reflected as Interest Expense on the Consolidated Statements of Income. The common shares issued by the Capital Trust are included in Other Assets on the Consolidated Statements of Financial Condition.

Distributions on the capital securities issued by the Capital Trust are payable quarterly at a rate per annum equal to the interest rate being earned by the Capital Trust on the subordinated notes held by the Capital Trust. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the subordinated notes. The Company has entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of each of the guarantees. The capital securities held by the Capital Trust qualify as Tier 1 capital under Federal Reserve Board guidelines.

The following table shows subordinated notes at **September 30, 2023**, **March 31, 2024**.

	Amount of				Amount of Subordinated Notes	Interest Rate	Maturity Date
	(Dollars in thousands)	(Dollars in thousands)	Subordinated Notes	Interest Rate			
June 2007 issuance	June 2007 issuance						
(1)	(1)	\$ 41,238	7.22 %	6/15/2037	June 2007 issuance (1)	\$ 41,238	7.22 %
August 2007 issuance	August 2007 issuance						
(2)	(2)	17,526	7.15 %	9/15/2037	August 2007 issuance (2)	17,526	7.07 %
Total	Total	\$ 58,764			\$ 58,764		

(1) Fixed rate through life of debt.

(2) 3-Month Term SOFR + the 3-Month tenor spread adjustment + 1.48% through remaining life of debt.

Note 11 — Earnings Per Share

Earnings per common share is computed using the two-class method. Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Participating securities include non-vested restricted stock awards. Non-vested restricted stock awards are considered participating securities to the extent the holders of these securities receive non-forfeitable dividends at the same rate as holders of common stock. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method.

Stock options, where the exercise price was greater than the average market price of the common shares, were excluded from the computation of diluted earnings per common share because the result would have been antidilutive. There were no stock options outstanding as of **September 30, 2023**, **March 31, 2024** and **2022**, **2023**. The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share.

Three Months Ended	Nine Months Ended
September 30,	September 30,
Three Months Ended	
September 30,	
Months Ended	
March 31,	

		Three Months Ended March 31,					
		Three Months Ended March 31,					
(Dollars in thousands - except per share amounts)	(Dollars in thousands - except per share amounts)	2023	2022	2023	2022	(Dollars in thousands - except per share amounts)	
Distributed earnings allocated to common stock	Distributed earnings allocated to common stock	\$ 7,900	\$ 7,890	\$ 23,694	\$ 23,230		
Undistributed earnings allocated to common stock	Undistributed earnings allocated to common stock	24,707	24,571	71,894	65,489		
Net earnings allocated to common stock	Net earnings allocated to common stock	32,607	32,461	95,588	88,719		
Net earnings allocated to participating securities	Net earnings allocated to participating securities	332	276	910	722		
Net income allocated to common stock and participating securities	Net income allocated to common stock and participating securities	\$ 32,939	\$ 32,737	\$ 96,498	\$ 89,441		
Weighted average shares outstanding for basic earnings per common share	Weighted average shares outstanding for basic earnings per common share	24,660,508	24,656,736	24,677,914	24,697,106		
Weighted average shares outstanding for basic earnings per common share	Weighted average shares outstanding for basic earnings per common share						
Dilutive effect of stock compensation	Dilutive effect of stock compensation	—	—	—	—		

Weighted average shares outstanding for diluted earnings per common share	Weighted average shares outstanding for diluted earnings per common share	24,660,508	24,656,736	24,677,914	24,697,106
Basic earnings per common share	Basic earnings per common share	\$ 1.32	\$ 1.32	\$ 3.87	\$ 3.59
Basic earnings per common share					
Basic earnings per common share					
Diluted earnings per common share	Diluted earnings per common share	\$ 1.32	\$ 1.32	\$ 3.87	\$ 3.59

Note 12 — Stock Based Compensation

As of **September 30, 2023** **March 31, 2024**, the Company had four active stock-based employee compensation plans, which are more fully described in Note 16 of the Consolidated Financial Statements in 1st Source's Annual Report on [Form 10-K](#) for the year ended **December 31, 2022** **December 31, 2023**. These plans include three executive stock award plans, the Executive Incentive Plan (EIP), the Restricted Stock Award Plan (RSAP), the Strategic Deployment Incentive Plan (SDP); and the Employee Stock Purchase Plan (ESPP). The 2011 Stock Option Plan was approved by the shareholders on April 21, 2011 but the Company had not made any grants through **September 30, 2023** **March 31, 2024**.

Stock-based compensation expense for all stock-based compensation awards granted is based on the grant-date fair value. For all awards except stock option awards, the grant date fair value is either the fair market value per share or book value per share (corresponding to the type of stock awarded) as of the grant date. For stock option awards, the grant date fair value is estimated using the Black-Scholes option pricing model. For all awards, the Company recognizes these compensation costs on a straight-line basis over the requisite service period of the award, for which the Company uses the related vesting term.

Total fair value of options vested and expensed was zero for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022** **2023**. As of **September 30, 2023** **March 31, 2024** and **2022** **2023** there were no outstanding stock options. There were no stock options exercised during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022** **2023**. All shares issued in connection with stock option exercises are issued from available treasury stock.

As of **September 30, 2023** **March 31, 2024**, there was **\$11.02 million** **\$13.66 million** of total unrecognized compensation cost related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of **3.45** **3.61** years.

Note 13 — Accumulated Other Comprehensive Loss

The following table presents reclassifications out of accumulated other comprehensive income (loss) related to unrealized gains and losses on available-for-sale securities.

(Dollars in thousands)	Three Months Ended September 30, 2023				Three Months Ended March 31, 2024	Affected Line Item in the Consolidated Statements of Income		
	Nine Months Ended September 30, 2023		Affected Line Item in the Consolidated Statements of Income					
	Ended September 30, 2023	Affected Line Item in the Consolidated Statements of Income						
(Dollars in thousands)	2023	2022	2023	2022	of Income			
Realized losses included in net income	Realized losses included in net income	\$ —	\$ —	\$ (44)	\$ —	Losses on investment securities available-for-sale		

Realized losses included in net income							
Realized losses included in net income						Losses on investment securities (44) available-for-sale	
		\$ —	\$				
	Income before income taxes						
— — (44) — taxes		— (44)				(44) Income before income taxes	Income before income taxes
Tax effect	Tax effect	— — 10 — expense	Tax effect	— 10		10 Income tax expense	Income tax expense
Net of tax	Net of tax	\$ — \$ — \$(34) \$ — Net income	Net of tax	\$ — \$	\$	(34) Net income	Net income

Note 14 — Income Taxes

The total amount of unrecognized tax benefits that would affect the effective tax rate if recognized was zero at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**. Interest and penalties are recognized through the income tax provision. For the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, the Company recognized no interest or penalties. There were no accrued interest and penalties at **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

Tax years that remain open and subject to audit include the federal **2019-2022** **2020-2023** years and the Indiana **2019-2022** **2020-2023** years. The Company does not anticipate a significant change in the amount of uncertain tax positions within the next 12 months.

Note 15 — Fair Value Measurements

The Company records certain assets and liabilities at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are also utilized to determine the initial value of certain assets and liabilities, to perform impairment assessments, and for disclosure purposes. The Company uses quoted market prices and observable inputs to the maximum extent possible when measuring fair value. In the absence of quoted market prices, various valuation techniques are utilized to measure fair value. When possible, observable market data for identical or similar financial instruments is used in the valuation. When market data is not available, fair value is determined using valuation models that incorporate management's estimates of the assumptions a market participant would use in pricing the asset or liability.

Fair value measurements are classified within one of three levels based on the observability of the inputs used to determine fair value, as follows:

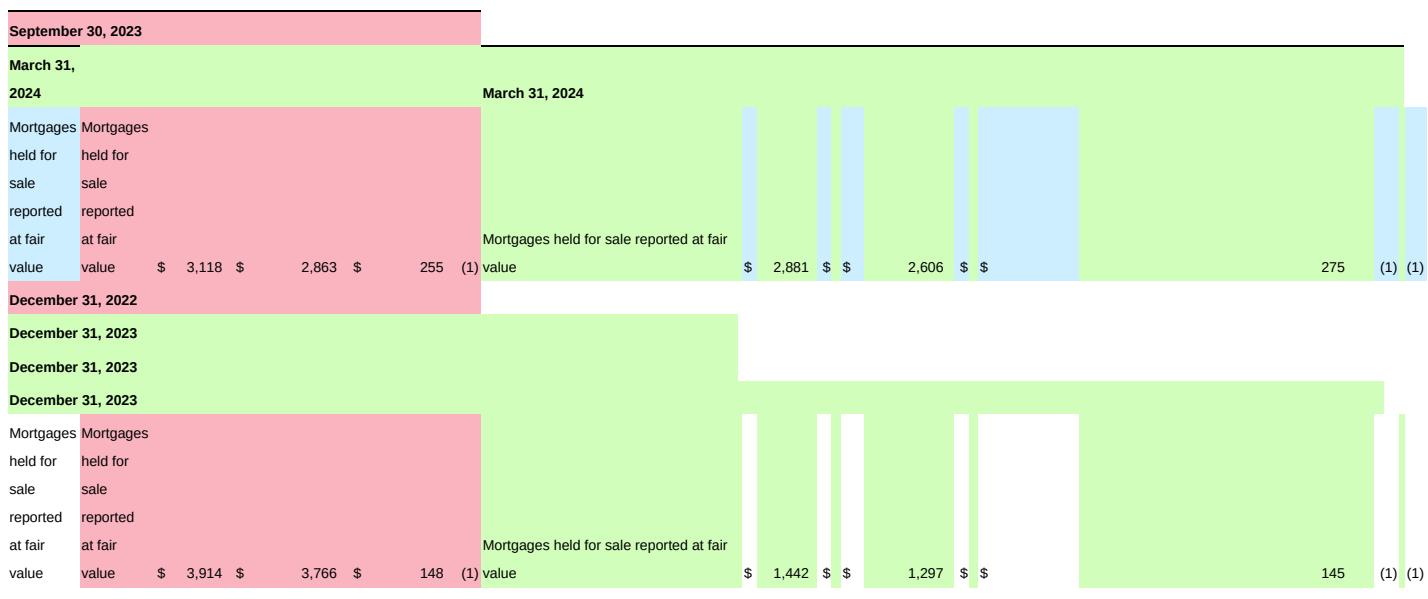
- Level 1 — The valuation is based on quoted prices in active markets for identical instruments.
- Level 2 — The valuation is based on observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 — The valuation is based on unobservable inputs that are supported by minimal or no market activity and that are significant to the fair value of the instrument. Level 3 valuations are typically performed using pricing models, discounted cash flow methodologies, or similar techniques that incorporate management's own estimates of assumptions that market participants would use in pricing the instrument, or valuations that require significant management judgment or estimation.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Company elected fair value accounting for mortgages held for sale and for its best-efforts forward sales commitments. The Company economically hedges its mortgages held for sale at the time the interest rate locks are issued to the customers. The Company believes the election for mortgages held for sale will reduce certain timing differences and better match changes in the value of these assets with changes in the value of derivatives or best-best efforts forward sales commitments. At **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, all mortgages held for sale were carried at fair value.

The following table shows the differences between the fair value carrying amount of mortgages held for sale measured at fair value and the aggregate unpaid principal amount the Company is contractually entitled to receive at maturity.

	Fair value (Dollars in thousands)	carrying amount	Aggregate unpaid principal	Excess of fair value carrying amount over (under) unpaid principal (Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	Excess of fair value carrying amount over (under) unpaid principal



(1) The excess of fair value carrying amount over (under) unpaid principal is included in mortgage banking income and includes changes in fair value at and subsequent to funding and gains and losses on the related loan commitment prior to funding.

Financial Instruments on Recurring Basis:

The following is a description of the valuation methodologies used for financial instruments measured at fair value on a recurring basis:

Investment securities available-for-sale are valued primarily by a third-party pricing agent. Prices supplied by the independent pricing agent, as well as their pricing methodologies and assumptions, are reviewed by the Company for reasonableness and to ensure such prices are aligned with market levels. In general, the Company's investment securities do not possess a complex structure that could introduce greater valuation risk. The portfolio mainly consists of traditional investments including U.S. Treasury and Federal agencies securities, Federal agency mortgage pass-through securities, and general obligation and revenue municipal bonds. Pricing for such instruments is fairly generic and is easily obtained. On a quarterly basis, prices supplied by the pricing agent are validated by comparison to prices obtained from other third-party sources for a material portion of the portfolio.

The valuation policy and procedures for Level 3 fair value measurements of available-for-sale debt securities are decided through collaboration between management of the Corporate Accounting and Funds Management departments. The changes in fair value measurement for Level 3 securities are analyzed on a periodic basis under a collaborative framework with the aforementioned departments. The methodology and variables used for input are derived from the combination of observable and unobservable inputs. The unobservable inputs are determined through internal assumptions that may vary from period to period due to external factors, such as market movement and credit rating adjustments.

Both the market and income valuation approaches are implemented using the following types of inputs:

- U.S. treasuries are priced using the market approach and utilizing live data feeds from active market exchanges for identical securities.
- Government-sponsored agency debt securities and corporate bonds are primarily priced using available market information through processes such as benchmark curves, market valuations of like securities, sector groupings and matrix pricing.
- Other government-sponsored agency securities, mortgage-backed securities and some of the actively traded REMICs and CMOs, are primarily priced using available market information including benchmark yields, prepayment speeds, spreads and volatility of similar securities.
- State and political subdivisions are largely grouped by characteristics, i.e., geographical data and source of revenue in trade dissemination systems. Since some securities are not traded daily and due to other grouping limitations, active market quotes are often obtained using benchmarking for like securities. Local direct placement municipal securities, with very little market activity, are priced using an appropriate market yield curve, which includes a credit spread assumption.

Mortgages held for sale and the related loan commitments and forward contracts (hedges) are valued by a third-party pricing agent. Prices supplied by the independent pricing agent, as well as their pricing methodologies, are reviewed by the Company for reasonableness and to ensure such prices are aligned with market values. On a quarterly basis, prices supplied by the pricing agent are validated by comparison to the prices obtained from other third-party sources.

Interest rate swap positions, both assets and liabilities, are valued by a third-party pricing agent using an income approach and utilizing models that use as their basis readily observable market parameters. This valuation process considers various factors including interest rate yield curves, time value and volatility factors. Validation of third-party agent

valuations is accomplished by comparing those values to the Company's swap counterparty valuations. Management believes an adjustment is required to "mid-market" valuations for derivatives tied to its performing loan portfolio to recognize the imprecision and related exposure inherent in the process of estimating expected credit losses as well as velocity of deterioration evident with systemic risks embedded in these portfolios. Any change in the mid-market derivative valuation adjustment will be recognized immediately through the Consolidated Statements of Income.

The following table shows the balance of assets and liabilities measured at fair value on a recurring basis.

(Dollars in thousands)	(Dollars in thousands)	Level 1	Level 2	Level 3	Total	(Dollars in thousands)	Level 1	Level 2	Level 3	Total
September 30, 2023										
March 31, 2024										
Assets:										
Investment securities available-for-sale:	Investment securities available-for-sale:					Assets:				
U.S. Treasury and Federal agencies securities	U.S. Treasury and Federal agencies securities	\$539,836	\$ 407,126	\$ —	\$ 946,962	Investment securities available-for-sale:				
U.S. States and political subdivisions securities	U.S. States and political subdivisions securities	—	92,846	4,138	96,984					
Mortgage-backed securities — Federal agencies	Mortgage-backed securities — Federal agencies	—	552,463	—	552,463					
Corporate debt securities	Corporate debt securities	—	8,251	—	8,251					
Foreign government and other securities	Foreign government and other securities	—	582	—	582					
Total debt securities available-for-sale	Total debt securities available-for-sale	539,836	1,061,268	4,138	1,605,242					
Mortgages held for sale	Mortgages held for sale	—	3,118	—	3,118					
Mortgages held for sale	Mortgages held for sale									
Accrued income and other assets (interest rate swap agreements)	Accrued income and other assets (interest rate swap agreements)	—	27,021	—	27,021					
Total	Total	\$539,836	\$1,091,407	\$4,138	\$1,635,381					
Liabilities:										
Liabilities:										
Liabilities:										

<u>Liabilities:</u>						
Accrued expenses and other liabilities	Accrued expenses and other liabilities					
(interest rate swap agreements)	(interest rate swap agreements)	\$ —	\$ 27,531	\$ —	\$ 27,531	
Total	Total	\$ —	\$ 27,531	\$ —	\$ 27,531	

December 31, 2022

December 31, 2023

December 31, 2023

December 31, 2023

Assets:	Assets:	Assets:
Investment securities available-for-sale:	Investment securities available-for-sale:	Investment securities available-for-sale:
U.S. Treasury and Federal agencies securities	U.S. Treasury and Federal agencies securities	\$573,679 \$ 424,919 \$ — \$ 998,598
U.S. States and political subdivisions securities	U.S. States and political subdivisions securities	— 121,298 1,464 122,762
Mortgage-backed securities —	Mortgage-backed securities —	
Federal agencies	Federal agencies	— 637,058 — 637,058
Corporate debt securities	Corporate debt securities	— 16,131 — 16,131
Foreign government and other securities	Foreign government and other securities	— 579 — 579
Total debt securities available-for-sale	Total debt securities available-for-sale	573,679 1,199,985 1,464 1,775,128
Mortgages held for sale	Mortgages held for sale	— 3,914 — 3,914

Mortgages held for sale

Mortgages held for sale

Accrued income and other assets	Accrued income and other assets	
(interest rate swap agreements)	(interest rate swap agreements)	— 24,838 — 24,838
Total	Total	\$573,679 \$1,228,737 \$1,464 \$1,803,880
<u>Liabilities:</u>	<u>Liabilities:</u>	

Liabilities:

Liabilities:

Accrued expenses and other liabilities (interest rate swap agreements)	Accrued expenses and other liabilities (interest rate swap agreements)	\$ —	\$ 25,307	\$ —	\$ 25,307
Total	Total	\$ —	\$ 25,307	\$ —	\$ 25,307

The following table shows changes in Level 3 assets measured at fair value on a recurring basis for the quarter ended **September 30, 2023** **March 31, 2024** and **2022**.

		U.S. States and political subdivisions securities
<i>(Dollars in thousands)</i>		
Beginning balance July 1, 2023 January 1, 2024		\$ 4,249
Total gains or losses (realized/unrealized):		
Included in earnings		—
Included in other comprehensive income (loss)		(26) 63
Purchases		—
Issuances		—
Sales		—
Settlements		—
Maturities		(85) (180)
Transfers into Level 3		—
Transfers out of Level 3		—
Ending balance September 30, 2023 March 31, 2024		\$ 4,138
Beginning balance July 1, 2022 January 1, 2023		\$ 4,515
Total gains or losses (realized/unrealized):		
Included in earnings		—
Included in other comprehensive income (loss)		(32) 32
Purchases		3,000
Issuances		—
Sales		—
Settlements		—
Maturities		(85) (175)
Transfers into Level 3		—
Transfers out of Level 3		—
Ending balance September 30, 2022 March 31, 2023		\$ 4,398

There were no gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at **September 30, 2023** **March 31, 2024** or **2022**.

The following table shows the valuation methodology and unobservable inputs for Level 3 assets measured at fair value on a recurring basis.

<i>(Dollars in thousands)</i>	<i>(Dollars in thousands)</i>	Valuation			<i>Weighted</i> <i>(Dollars in thousands)</i>	<i>Fair Value</i>	<i>Valuation</i>	<i>Weighted</i>		
		Fair Value	Methodology	Unobservable Inputs	Range of Inputs	Average	Methodology	Unobservable Inputs	Range of Inputs	Average
September 30, 2023										
March 31, 2024										
Debt securities available-for-sale	Debt securities available-for-sale									

Debt securities available-for sale	Direct placement municipal securities	Direct placement municipal securities	Discounted cash flows	Credit spread assumption	4.87% - 6.82% 6.37 %	\$1,044	Discounted cash flows	Discounted cash flows	Credit spread assumption	3.75% - 4.48% 3.93 %
December 31, 2022										
December 31, 2023										
December 31, 2023										
December 31, 2023										
Debt securities available-for sale	Debt securities available-for sale	Debt securities available-for sale	Discounted cash flows	Credit spread assumption	0.22% - 4.09% 3.49 %	\$1,161	Discounted cash flows	Discounted cash flows	Credit spread assumption	0.31% - 5.28% 4.28 %

Financial Instruments on Non-recurring Basis:

The Company may be required, from time to time, to measure certain other financial assets at fair value on a non-recurring basis in accordance with GAAP. These adjustments to fair value usually result from application of lower of cost or market accounting or impairment charges of individual assets.

The Credit Policy Committee (CPC), a management committee, is responsible for overseeing the valuation processes and procedures for Level 3 measurements of impaired loans, other real estate and repossessions. The CPC reviews these assets on a quarterly basis to determine the accuracy of the observable inputs, generally third-party appraisals, auction values, values derived from trade publications and data submitted by the borrower, and the appropriateness of the unobservable inputs, generally discounts due to current market conditions and collection issues. The CPC establishes discounts based on asset type and valuation source; deviations from the standard are documented. The discounts are reviewed periodically, annually at a minimum, to determine they remain appropriate. Consideration is given to current trends in market values for the asset categories and gains and losses on sales of similar assets. The Loan and Funds Management Committee of the Board of Directors is responsible for overseeing the CPC.

Discounts vary depending on the nature of the assets and the source of value. Aircraft are generally valued using quarterly trade publications adjusted for engine time, condition, maintenance programs, discounted by 10%. Likewise, autos are valued using current auction values, discounted by 10%; medium and heavy duty trucks are valued using trade publications and auction values, discounted by 15%. Construction equipment is generally valued using trade publications and auction values, discounted by 20%. Real estate is valued based on appraisals or evaluations, discounted by 20% with higher discounts for property in poor condition or property with characteristics which may make it more difficult to market. Commercial loans subject to borrowing base certificates are generally discounted by 20% for receivables and 40% - 75% for inventory with higher discounts when monthly borrowing base certificates are not required or received.

Collateral-dependent impaired loans and related write-downs are based on the fair value of the underlying collateral if repayment is expected solely from the collateral. Collateral values are reviewed quarterly and estimated using customized discounting criteria, appraisals and dealer and trade magazine quotes which are used in a market valuation approach. In accordance with fair value measurements, only impaired loans for which an allowance for loan loss has been established based on the fair value of collateral require classification in the fair value hierarchy. As a result, only a portion of the Company's impaired loans are classified in the fair value hierarchy.

The Company has established MSRs valuation policies and procedures based on industry standards and to ensure valuation methodologies are consistent and verifiable. MSRs and related adjustments to fair value result from application of lower of cost or fair value accounting. For purposes of impairment, MSRs are stratified based on the predominant risk characteristics of the underlying servicing, principally by loan type. The fair value of each tranche of the servicing portfolio is estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors. Prepayment rates and discount rates are derived through a third-party pricing agent. Changes in the most significant inputs, including prepayment rates and discount rates, are compared to the changes in the fair value measurements and appropriate resolution is made. A fair value analysis is also obtained from an independent third-party agent and compared to the internal valuation for reasonableness. MSRs do not trade in an active, open market with readily observable prices and though sales of MSRs do occur, precise terms and conditions typically are not readily available, and the characteristics of the Company's servicing portfolio may differ from those of any servicing portfolios that do trade.

Other real estate is based on the fair value of the underlying collateral less expected selling costs. Collateral values are estimated primarily using appraisals and reflect a market value approach. Fair values are reviewed quarterly, and new appraisals are obtained annually. Repossessions are similarly valued.

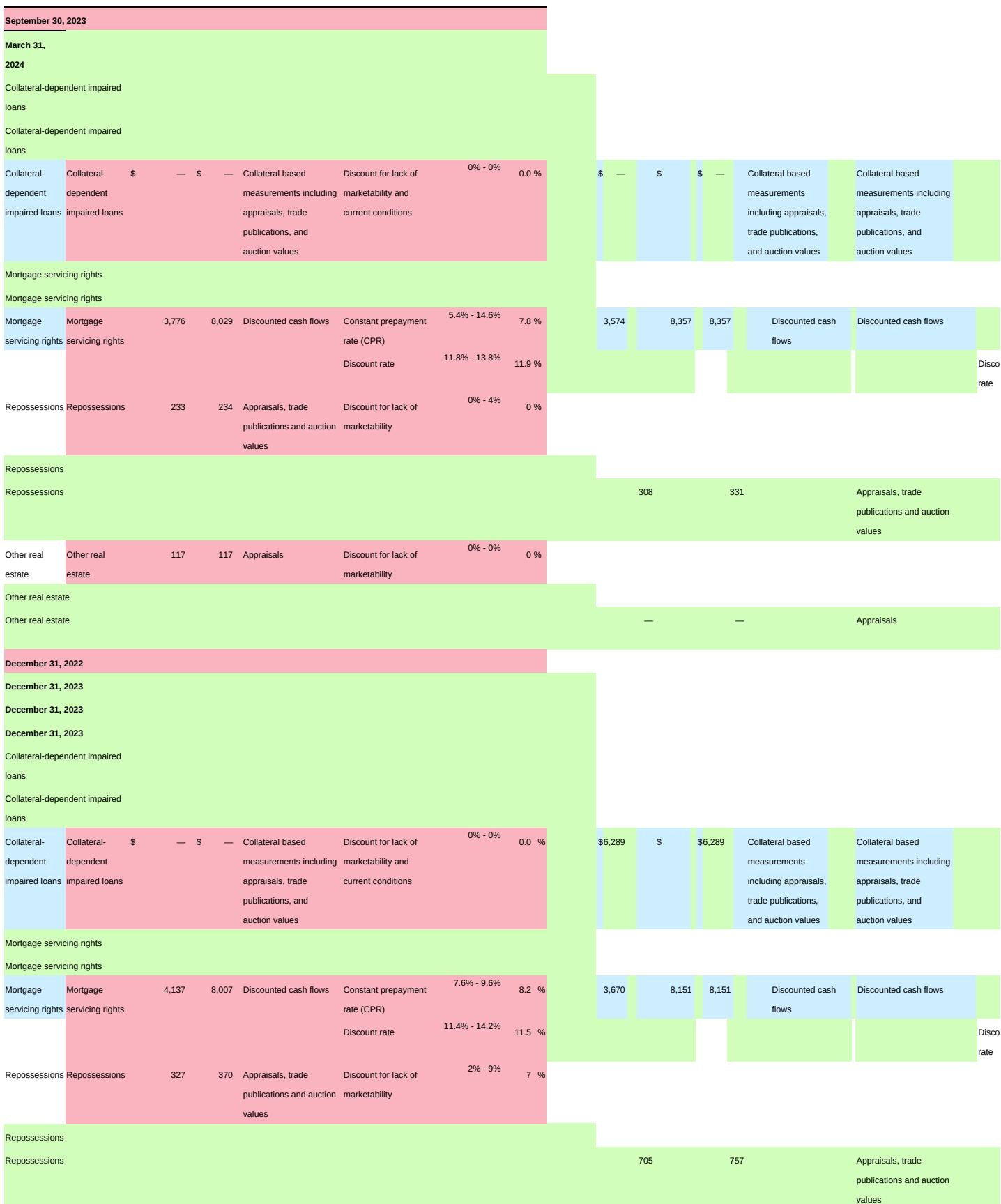
For assets measured at fair value on a nonrecurring basis, the following represents impairment charges (recoveries) recognized on these assets during the quarter ended **September 30, 2023** **March 31, 2024**: collateral-dependent impaired loans - **\$2.25 million** **\$6.96 million**; mortgage servicing rights - \$0.00 million; repossessions - \$0.00 million; and other real estate - \$0.00 million.

The following table shows the carrying value of assets measured at fair value on a non-recurring basis.

(Dollars in thousands)	(Dollars in thousands)	Level 1	Level 2	Level 3	Total
		Level 1	Level 2	Level 3	
September 30, 2023					
March 31, 2024					
Collateral-dependent impaired loans	Collateral-dependent impaired loans	\$ —	\$ —	\$ —	\$ —
Accrued income and other assets (mortgage servicing rights)	Accrued income and other assets (mortgage servicing rights)	—	—	3,776	3,776
Accrued income and other assets (repossession)	Accrued income and other assets (repossession)	—	—	233	233
Accrued income and other assets (other real estate)	Accrued income and other assets (other real estate)	—	—	117	117
Total	Total	\$ —	\$ —	\$4,126	\$4,126
December 31, 2022					
December 31, 2023					
Collateral-dependent impaired loans	Collateral-dependent impaired loans	\$ —	\$ —	\$ —	\$ —
Accrued income and other assets (mortgage servicing rights)	Accrued income and other assets (mortgage servicing rights)	—	—	4,137	4,137
Accrued income and other assets (repossession)	Accrued income and other assets (repossession)	—	—	327	327
Accrued income and other assets (other real estate)	Accrued income and other assets (other real estate)	—	—	104	104
Total	Total	\$ —	\$ —	\$4,568	\$4,568

The following table below shows the valuation methodology and unobservable inputs for Level 3 assets and liabilities measured at fair value on a non-recurring basis.

(Dollars in thousands)	(Dollars in thousands)	Carrying Value	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs	Weighted Average (Dollars in thousands)	Carrying Value	Fair Value	Valuation Methodology
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Other real estate	Other real estate	104	104	Appraisals	Discount for lack of marketability	0% - 0%	0 %	
Other real estate								
Other real estate								Appraisals

GAAP requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring or non-recurring basis.

The following table shows the fair values of the Company's financial instruments.

(Dollars in thousands)	(Dollars in thousands)	Carrying or Contract Value	Fair Value	Level 1	Level 2	Level 3	(Dollars in thousands)	Carrying or Contract Value	Fair Value	Level 1	Level 2	Level 3
September 30, 2023												
March 31, 2024												
Assets:												
Cash and due from banks	Cash and due from banks	\$ 75,729	\$ 75,729	\$ 75,729	—	—						
Federal funds sold and interest bearing deposits with other banks	Federal funds sold and interest bearing deposits with other banks	35,406	35,406	35,406	—	—						
Investment securities, available-for-sale	Investment securities, available-for-sale	1,605,242	1,605,242	539,836	1,061,268	4,138						
Other investments	Other investments	25,075	25,075	25,075	—	—						
Mortgages held for sale	Mortgages held for sale	3,118	3,118	—	3,118	—						
Loans and leases, net of allowance for loan and lease losses	Loans and leases, net of allowance for loan and lease losses	6,209,574	5,980,435	—	—	5,980,435						
Mortgage servicing rights	Mortgage servicing rights	3,776	8,029	—	—	8,029						
Accrued interest receivable	Accrued interest receivable	28,120	28,120	—	28,120	—						
Interest rate swaps	Interest rate swaps	27,021	27,021	—	27,021	—						
Liabilities:												
Deposits	Deposits	\$ 6,967,492	\$ 6,954,179	\$ 5,278,426	\$ 1,675,753	\$ —						
Short-term borrowings	Short-term borrowings	272,092	272,092	48,505	223,587	—						
Long-term debt and mandatorily redeemable securities	Long-term debt and mandatorily redeemable securities	46,533	45,386	—	45,386	—						

Subordinated notes	Subordinated notes	58,764	50,889	—	50,889	—
Accrued interest payable	Accrued interest payable	29,030	29,030	—	29,030	—
Interest rate swaps	Interest rate swaps	27,531	27,531	—	27,531	—
Off-balance-sheet instruments *	Off-balance-sheet instruments *	—	144	—	144	—
December 31, 2022						
December 31, 2023						
December 31, 2023						
December 31, 2023						
Assets:	Assets:				Assets:	
Cash and due from banks	Cash and due from banks	\$ 84,703	\$ 84,703	\$ 84,703	—	\$ —
Federal funds sold and interest bearing deposits with other banks	Federal funds sold and interest bearing deposits with other banks	38,094	38,094	38,094	—	—
Investment securities, available-for-sale	Investment securities, available-for-sale	1,775,128	1,775,128	573,679	1,199,985	1,464
Other investments	Other investments	25,293	25,293	25,293	—	—
Mortgages held for sale	Mortgages held for sale	3,914	3,914	—	3,914	—
Loans and leases, net of allowance for loan and lease losses	Loans and leases, net of allowance for loan and lease losses	5,871,894	5,712,972	—	—	5,712,972
Mortgage servicing rights	Mortgage servicing rights	4,137	8,007	—	—	8,007
Accrued interest receivable	Accrued interest receivable	24,747	24,747	—	24,747	—
Interest rate swaps	Interest rate swaps	24,838	24,838	—	24,838	—
Liabilities:	Liabilities:				Liabilities:	
Deposits	Deposits	\$ 6,928,265	\$ 6,909,392	\$ 5,787,806	\$ 1,121,586	\$ —
Short-term borrowings	Short-term borrowings	215,529	215,529	139,079	76,450	—
Long-term debt and mandatorily redeemable securities	Long-term debt and mandatorily redeemable securities	46,555	45,111	—	45,111	—
Subordinated notes	Subordinated notes	58,764	51,398	—	51,398	—

Accrued interest payable	Accrued interest payable	5,999	5,999	—	5,999	—
Interest rate swaps	Interest rate swaps	25,307	25,307	—	25,307	—
Off-balance-sheet instruments *	Off-balance-sheet instruments *	—	108	—	108	—

* Represents estimated cash outflows required to currently settle the obligations at current market rates.

These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. These estimates are subjective in nature and require considerable judgment to interpret market data. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Company could realize in a current market exchange, nor are they intended to represent the fair value of the Company as a whole. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. The fair value estimates presented herein are based on pertinent information available to management as of the respective balance sheet date. Although the Company is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued since the presentation dates, and therefore, estimates of fair value after the balance sheet date may differ significantly from the amounts presented herein.

Other significant assets, such as premises and equipment, other assets, and liabilities not defined as financial instruments, are not included in the above disclosures. Also, the fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis is presented to provide information concerning 1st Source Corporation and its subsidiaries' (collectively referred to as "the Company", "we", and "our") financial condition as of **September 30, 2023** **March 31, 2024**, as compared to **December 31, 2022** **December 31, 2023**, and the results of operations for the three and nine months ended **September 30, 2023** **March 31, 2024** and **2022** **2023**. This discussion and analysis should be read in conjunction with our consolidated financial statements and the financial and statistical data appearing elsewhere in this report and our **2022** **2023 Annual Report**.

Except for historical information contained herein, the matters discussed in this document express "forward-looking statements." Generally, the words "believe," "contemplate," "seek," "plan," "possible," "assume," "hope," "expect," "intend," "targeted," "continue," "remain," "estimate," "anticipate," "project," "will," "should," "indicate," "would," "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Those statements, including statements, projections, estimates or assumptions concerning future events or performance, and other statements that are other than statements of historical fact, are subject to material risks and uncertainties. We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. We may make other written or oral forward-looking statements from time to time. Readers are advised that various important factors could cause our actual results or circumstances for future periods to differ materially from those anticipated or projected in such forward-looking statements. Such factors include, but are not limited to, changes in law, regulations or GAAP; our competitive position within the markets we serve; increasing consolidation within the banking industry; unforeseen changes in interest rates; unforeseen changes in loan prepayment assumptions; unforeseen downturns in or major events affecting the local, regional or national economies or the industries in which we have credit concentrations; potential impacts of the COVID-19 pandemic; and other matters discussed in our filings with the SEC, including our Annual Report on **Form 10-K** for **2022**, **2023**, which filings are available from the SEC. We undertake no obligation to publicly update or revise any forward-looking statements.

FINANCIAL CONDITION

Our total assets at **September 30, 2023** **March 31, 2024** were **\$8.53 billion** **\$8.67 billion**, an increase a decrease of **\$185.64 million** **\$60.12 million** or **2.23%** **0.69%** from **December 31, 2022** **December 31, 2023**. Total investment securities available-for-sale were **\$1.61 billion** **\$1.58 billion**, a decrease of **\$169.89 million** **\$39.36 million** or **9.57%** **2.43%** from **December 31, 2022** **December 31, 2023**. The largest contributor to the decrease in investment securities available-for-sale was **securities sales and maturities** **expected redemptions** which were used to support liquidity and fund loan growth, growth and pay down borrowings. Federal funds sold and interest bearing deposits with other banks were **\$35.41 million** **\$39.38 million**, a decrease of **\$2.69 million** **\$12.81 million** or **7.06%** **24.55%** from **December 31, 2022** **December 31, 2023**. The decrease in federal funds sold and interest bearing deposits with other banks was due to lower interest bearing deposits at other banks which were used to purchase securities, fund loan growth, growth, and pay down borrowings.

Total loans and leases were **\$6.35 billion** **\$6.56 billion**, an increase of **\$342.49 million** **\$44.27 million** or **5.70%** **0.68%** from **December 31, 2022** **December 31, 2023**. The largest contributors to the increase in loans and leases was growth in the **construction equipment** **auto** and **light truck, aircraft and renewable energy portfolios**, offset by a decrease in the **commercial real estate portfolios** and **agricultural loan portfolio**. Our foreign loan and lease balances, all denominated in U.S. dollars were **\$309.17** **\$291.10** million and **\$297.46** **\$302.41** million as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, respectively. Foreign loans and leases are in aircraft financing. Loan and lease balances to borrowers in Brazil and Mexico were **\$121.99** **\$118.53** million and **\$156.46** **\$142.10** million as of **September 30, 2023** **March 31, 2024**, respectively, compared to **\$129.98 million** **\$119.38 million** and **\$136.68 million** **\$147.61 million** as of **December 31, 2022** **December 31, 2023**, respectively. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** there was not a significant concentration in any other country.

Equipment owned under operating leases was **\$24.10 million** **\$16.69 million**, a decrease of **\$7.60 million** **\$3.68 million**, or **23.99%** **18.04%** compared to **December 31, 2022** **December 31, 2023**. The largest contributor to the decrease in equipment owned under operating leases was reduced leasing volume primarily due to a change in customer

preferences and continued competitive pricing pressure for new business.

Total deposits were \$6.97 billion \$7.06 billion, an increase of \$39.23 million \$16.73 million or 0.57% 0.24% from the end of 2022, 2023. The largest contributors to the increase in total deposits was a rise in public fund deposits, time deposits and brokered savings deposits offset by a decrease in noninterest-bearing non-maturity deposits. Rate competition for deposits persisted during the third first quarter across our footprint from various sources, including traditional bank and credit union competitors, money market funds, bond markets, and other non-bank alternatives.

Short-term borrowings were \$272.09 million \$249.58 million, an increase a decrease of \$56.56 million \$62.78 million or 26.24% 20.10% from December 31, 2022 December 31, 2023 due primarily to an increase in pay downs of short-term FHLB borrowings offset by a decrease an increase in repurchase agreements, federal funds purchased. Long-term debt and mandatorily redeemable securities were \$46.53 million and relatively flat \$39.41 million, a decrease of \$8.51 million from December 31, 2022, December 31, 2023 due primarily to pay downs of long-term FHLB borrowings. Accrued expenses and other liabilities were \$197.18 million \$183.23 million, an increase a decrease of \$30.64 million \$18.85 million or 18.40% 9.33% from December 31, 2022 December 31, 2023, mainly due to annual incentive-related payments to employees and decreased unfunded partnership commitments offset by increased accrued interest payable, a rise in unfunded partnership commitments, payables and a higher liability for credit losses on unfunded loan commitments, accrued salaries and wages.

The following table shows accrued income and other assets.

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023		December 31, 2022		(Dollars in thousands)	March 31, 2024	December 31, 2023
		30, 2023	31, 2022	30, 2023	31, 2022			
Accrued income and other assets:								
Bank owned life insurance	Bank owned life insurance							
cash surrender value	cash surrender value	\$ 83,748	\$ 83,046					
Operating lease right of use assets	Operating lease right of use assets	22,369	20,916					
Accrued interest receivable	Accrued interest receivable	28,120	24,747					
Mortgage servicing rights	Mortgage servicing rights	3,776	4,137					
Other real estate		117	104					
Repossessions								
Repossessions	Repossessions	233	327					
Partnership investments carrying amount	Partnership investments carrying amount	150,003	137,149					
All other assets	All other assets	130,580	109,584					
Total accrued income and other assets	Total accrued income and other assets	\$ 418,946	\$ 380,010					

The largest contributor to the increase decrease in accrued income and other assets from December 31, 2022 December 31, 2023 was a decrease in partnership investments and accounts receivable offset by an increase to partnership investments, accounts receivable and operating lease right of use in deferred tax assets offset by lower mortgage servicing rights and fewer repossession during the period.

CAPITAL

As of September 30, 2023 March 31, 2024, total shareholders' equity was \$924.25 million \$1.01 billion, up \$60.18 million \$20.32 million, or 6.96% 2.05% from the \$864.07 million \$989.57 million at December 31, 2022 December 31, 2023. In addition to net income of \$96.50 million \$29.46 million, other significant changes in shareholders' equity during the first nine three months of 2023 2024 included \$23.79 8.35 million of dividends paid and \$12.47 million in common stock repurchased paid. The accumulated other comprehensive loss component of shareholders' equity decreased increased to \$151.31 million \$109.28 million at September 30, 2023 March 31, 2024, compared to \$147.69 million \$106.32 million at December 31, 2022 December 31, 2023 due to changes in market conditions on our available-for-sale investment portfolio. Our shareholders' equity-to-

assets ratio was 10.84% 11.65% as of September 30, 2023 March 31, 2024, compared to 10.36% 11.34% at December 31, 2022 December 31, 2023. Book value per common share increased to \$37.83 \$41.26 at September 30, 2023 March 31, 2024, from \$35.04 \$40.50 at December 31, 2022 December 31, 2023 primarily due to increased retained earnings.

We declared and paid cash dividends per common share of \$0.32 \$0.34 during the third first quarter of 2023 2024. The trailing four quarters dividend payout ratio, representing cash dividends per common share divided by diluted earnings per common share, was 25.00% 26.61%. The dividend payout is continually reviewed by management and the Board of Directors subject to the Company's capital and dividend policy.

The banking regulators have established guidelines for leverage capital requirements, expressed in terms of Tier 1 or core capital as a percentage of average assets, to measure the soundness of a financial institution. In addition, banking regulators have established risk-based capital guidelines for U.S. banking organizations.

The actual capital amounts and ratios of 1st Source Corporation and 1st Source Bank as of September 30, 2023 March 31, 2024 remained at their historically strong and conservative levels and are presented in the table below.

(Dollars in thousands)	(Dollars in thousands)	To Be Well								Minimum Capital Adequacy with Capital Buffer		Minimum Capital Adequacy		To Be Well Capitalized					
		Minimum Capital Adequacy with Capital Buffer				Capital Under Prompt Corrective Action Provisions				Actual	Amount	Ratio	Actual	Amount	Ratio				
		Actual	Adequacy	Capital Buffer	Action Provisions														
(Dollars in thousands)	(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio			
Total Capital	Total Capital									Total Capital									
(to Risk-Weighted Assets):	(to Risk-Weighted Assets):									(to Risk-Weighted Assets):									
1st Source Corporation	1st Source Corporation	\$1,206,065	16.12 %	\$598,617	8.00 %	\$785,685	10.50 %	\$748,271	10.00 %	1st Source Corporation	\$1,265,505	16.41	16.41 %	\$617,080	8.00	8.00 %	\$809,918	10.50	10.50 %
1st Source Bank	1st Source Bank	1,128,349	15.09	598,370	8.00	785,361	10.50	747,963	10.00										
Tier 1 Capital	Tier 1 Capital									Tier 1 Capital									
(to Risk-Weighted Assets):	(to Risk-Weighted Assets):									(to Risk-Weighted Assets):									
1st Source Corporation	1st Source Corporation	1,111,808	14.86	448,963	6.00	636,031	8.50	598,617	8.00										
1st Source Bank	1st Source Bank	1,034,130	13.83	448,778	6.00	635,769	8.50	598,370	8.00										
Common Equity Tier 1 Capital	Common Equity Tier 1 Capital									Common Equity Tier 1 Capital									
(to Risk-Weighted Assets):	(to Risk-Weighted Assets):									(to Risk-Weighted Assets):									
1st Source Corporation	1st Source Corporation	996,061	13.31	336,722	4.50	523,790	7.00	486,376	6.50										
1st Source Corporation	1st Source Corporation																		
1st Source Bank	1st Source Bank	975,383	13.04	336,583	4.50	523,574	7.00	486,176	6.50										
Tier 1 Capital	Tier 1 Capital									Tier 1 Capital									
(to Average Assets):	(to Average Assets):									(to Average Assets):									
1st Source Corporation	1st Source Corporation	1,111,808	13.02	341,657	4.00	N/A	N/A	427,071	5.00										
1st Source Bank	1st Source Bank	1,034,130	12.11	341,541	4.00	N/A	N/A	426,927	5.00										

LIQUIDITY AND INTEREST RATE SENSITIVITY

Effective liquidity management ensures that the cash flow requirements of depositors and borrowers, as well as our operating cash needs are met. Funds are available from a number of sources, including the securities portfolio, the core deposit base, access to the national brokered certificates of deposit market, national listing service certificates of deposit, Federal Home Loan Bank (FHLB) borrowings, Federal Reserve Bank (FRB) borrowings, and the capability to package loans for sale.

We maintain prudent strategies to support a strong liquidity position. The following table represents our sources of liquidity as of **September 30, 2023** **March 31, 2024**.

(Dollars in thousands)	Available
Internal Sources	
Unencumbered securities	\$ 1,186,958 1,207,512
External Sources	
FHLB advances ⁽¹⁾	401,403 557,896
FRB borrowings ⁽²⁾	593,275 484,956
Fed funds purchased ⁽³⁾	220,000 390,000
Brokered deposits ⁽⁴⁾	249,535 222,936
Listing services deposits ⁽⁴⁾	408,423 427,522
Total liquidity	\$ 3,059,594 3,290,822
% of Total deposits net brokered and listing services certificates of deposit	
	48.20 51.37 %

(1) Availability is shown net of required stock purchases under the FHLB activity-based stock ownership requirement, which is currently 4.50%, and may vary

(2) Includes access to discount window and Bank Term Funding Program

(3) Availability contingent on correspondent bank approvals at time of borrowing

(4) Availability contingent on internal borrowing guidelines

External sources as listed in the table above are managed to approved guidelines by our Board of Directors. Total net available liquidity was **\$3.06 billion** **\$3.29 billion** at **September 30, 2023** **March 31, 2024**, which accounted for approximately **48%** **51%** of total deposits net of brokered and listing services certificates of deposit.

Our loan to asset ratio was **74.53%** **75.71%** at **September 30, 2023** **March 31, 2024** compared to **72.08%** **74.69%** at **December 31, 2022** **December 31, 2023** and **71.16%** **73.43%** at **September 30, 2022** **March 31, 2023**. Cash and cash equivalents totaled **\$111.14 million** **\$80.91 million** at **September 30, 2023** **March 31, 2024** compared to **\$122.80 million** **\$129.67 million** at **December 31, 2022** **December 31, 2023** and **\$117.60 million** **\$94.04 million** at **September 30, 2022** **March 31, 2023**. The decrease in cash and cash equivalents was primarily due to funding loan growth, growth and paying down borrowings. At **September 30, 2023** **March 31, 2024**, the Consolidated Statements of Financial Condition was rate sensitive by **\$454.51 million** **\$328.21 million** more liabilities than assets scheduled to reprice within one year, or approximately **0.88%** **0.92%**. Management believes that the present funding sources provide adequate liquidity to meet our cash flow needs.

Under Indiana law governing the collateralization of public fund deposits, the Indiana Board of Depositories determines which financial institutions are required to pledge collateral based on the strength of their financial ratings. We have been informed that no collateral is required for our public fund deposits. However, the Board of Depositories could alter this requirement in the future and adversely impact our liquidity. Our potential liquidity exposure if we must pledge collateral is approximately **\$1.18 billion** **\$1.14 billion**.

RESULTS OF OPERATIONS

Net income available to common shareholders for the three and nine month periods period ended **September 30, 2023** **March 31, 2024** was **\$32.94 million** and **\$96.50 million** **\$29.46 million** compared to **\$32.74 million** and **\$89.44 million** **\$31.12 million** for the same periods period in **2022**, **2023**. Diluted net income per common share was **\$1.32** and **\$3.87** **\$1.19** for the three and nine month periods period ended **September 30, 2023** **March 31, 2024**, compared to **\$1.32** and **\$3.59** **\$1.25** earned for the same periods period in **2022**, **2023**. Return on average common shareholders' equity was **14.04%** **11.77%** for the **nine** three months ended **September 30, 2023** **March 31, 2024**, compared to **13.56%** **14.18%** in **2022**, **2023**. The return on total average assets was **1.54%** **1.37%** for the **nine** three months ended **September 30, 2023** **March 31, 2024**, compared to **1.49%** **1.52%** in **2022**, **2023**.

Net income increased/decreased for the **nine** three months ended **September 30, 2023** **March 31, 2024** compared to the first **nine** three months of **2022**, **2023**. Net interest income and noninterest income increased and offset by increases to the provision for credit losses, decreased offset by an increase to noninterest expense, and a decrease in noninterest income. Details of the changes in the various components of net income are discussed further below.

NET INTEREST INCOME

The following tables provide an analysis of net interest income and illustrates the interest income earned and interest expense charged for each major component of interest earning assets and interest bearing liabilities. Yields/rates are computed on a tax-equivalent basis, using a 21% rate. Nonaccrual loans and leases are included in the average loan and lease balance outstanding.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY

INTEREST RATES AND INTEREST DIFFERENTIAL

Three Months Ended

		September 30, 2023			June 30, 2023			September 30, 2022					
		Three Months Ended											
		March 31, 2024			March 31, 2024			March 31, 2024					
(Dollars in thousands)	(Dollars in thousands)	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate	(Dollars in thousands)	Average Balance	Interest Income/Expense
ASSETS		ASSETS											
Investment securities available-for-sale:		Investment securities available-for-sale:											
Investment securities available-for-sale:		Investment securities available-for-sale:											
Taxable		Taxable											
Tax exempt ⁽¹⁾		Tax exempt ⁽¹⁾											
Mortgages held for sale	Mortgages held for sale	3,169	54	6.76 %	1,879	28	5.98 %	4,272	58	5.39 %	held for sale	1,830	34
Loans and leases, net of unearned discount ⁽¹⁾		Loans and leases, net of unearned discount ⁽¹⁾											
Loans and leases, net of unearned discount ⁽¹⁾		Loans and leases, net of unearned discount ⁽¹⁾											
Loans and leases, net of unearned discount ⁽¹⁾		Loans and leases, net of unearned discount ⁽¹⁾											
Other investments		Other investments											
Total earning assets ⁽¹⁾		7,963,537	107,496	5.36 %	7,921,528	100,733	5.10 %	7,615,593	76,660	3.99 %	assets ⁽¹⁾	8,182,165	116,616
Cash and due from banks	Cash and due from banks	68,640			72,880			74,329			Cash and due from banks	61,889	
Allowance for loan and lease losses	Allowance for loan and lease losses	(145,197)			(144,337)			(133,989)			Allowance for loan and lease losses	(148,982)	
Other assets	Other assets	530,411			512,237			463,171			Other assets	557,072	
Total assets	Total assets	\$8,417,391			\$8,362,308			\$8,019,104			Total assets	\$8,652,144	
LIABILITIES AND SHAREHOLDERS' EQUITY		LIABILITIES AND SHAREHOLDERS' EQUITY											
LIABILITIES AND SHAREHOLDERS' EQUITY		LIABILITIES AND SHAREHOLDERS' EQUITY											
Interest-bearing deposits		Interest-bearing deposits											
Short-term borrowings:	Short-term borrowings:												
Securities sold under agreements to repurchase		Securities sold under agreements to repurchase											

Securities sold under agreements to repurchase	Securities sold under agreements to repurchase	60,736	35	0.23 %	69,301	32	0.19 %	159,345	21	0.05 %	47,973	47	47	0.39
Securities sold under agreements to repurchase	Other short-term borrowings	153,523	2,101	5.43 %	129,230	1,593	4.94 %	57,609	359	2.47 %	234,672	3,055	3,055	5.24
Subordinated notes	Subordinated notes	58,764	1,060	7.16 %	58,764	1,028	7.02 %	58,764	904	6.10 %	58,764	1,061	1,061	7.26
Long-term debt and mandatorily redeemable securities	Long-term debt and mandatorily redeemable securities	46,519	489	4.17 %	46,611	515	4.43 %	48,399	(296)	(2.43)%	47,217	646	646	5.50
Total interest-bearing liabilities	Total interest-bearing liabilities	5,566,874	38,090	2.71 %	5,496,112	32,038	2.34 %	4,958,209	7,544	0.60 %	5,783,480	44,553	44,553	3.10
Noninterest-bearing deposits	Noninterest-bearing deposits	1,702,773			1,746,876			2,039,147			1,616,251			
Other liabilities	Other liabilities	148,192			133,914			90,336			167,759			
Shareholders' equity	Shareholders' equity	940,544			926,157			873,209			1,006,286			
Noncontrolling interests	Noncontrolling interests	59,008			59,249			58,203						
Total liabilities and equity	Total liabilities and equity	\$8,417,391			\$8,362,308			\$8,019,104						
Total liabilities and equity														\$8,652,144
	Less: Fully tax-equivalent adjustments		(170)			(179)			(182)					
	Net interest income/margin (GAAP-derived) ⁽¹⁾													
	Net interest income/margin (GAAP-derived) ⁽¹⁾													
Net interest income/margin (GAAP-derived) ⁽¹⁾	Net interest income/margin (GAAP-derived) ⁽¹⁾	\$ 69,236	3.45 %		\$ 68,516	3.47 %		\$ 68,934	3.59 %			\$ 71,915		3.54
Fully tax-equivalent adjustments	Fully tax-equivalent adjustments		170			179			182					
Net interest income/margin - FTE ⁽¹⁾	Net interest income/margin - FTE ⁽¹⁾	\$ 69,406	3.46 %		\$ 68,695	3.48 %		\$ 69,116	3.60 %					
Net interest income/margin - FTE ⁽¹⁾														\$ 72,063

(1) See "Reconciliation of Non-GAAP Financial Measures" at the end of this section for add

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Quarter Ended September 30, 2023 March 31, 2024 compared to the Quarter Ended September 30, 2022 March 31, 2023

The taxable-equivalent net interest income for the three months ended September 30, 2023 March 31, 2024 was \$69.41 million \$72.06 million, an increase of 0.42% 3.26% over the same period in 2022, 2023. The net interest margin on a fully taxable-equivalent basis was 3.46% 3.54% for the three months ended September 30, 2023 March 31, 2024, compared to 3.60% for the three months ended September 30, 2022 March 31, 2023.

During the three month period ended September 30, 2023 March 31, 2024, average earning assets increased \$347.94 million \$317.57 million, up 4.57% 4.04% over the comparable period in 2022, 2023. Average interest-bearing liabilities increased \$608.67 million \$437.98 million or 12.28% 8.19%. The yield on average earning assets increased 137.85 basis points to 5.36% 5.73% from 3.99% 4.88% primarily due to higher rates on loans and leases mortgages held for sale and other investments, which include federal funds sold, time

deposits with other banks, Federal Reserve Bank excess balances, Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock and commercial paper. Total cost of average interest-bearing liabilities increased **211** **121** basis points to **2.71%** **3.10%** from **0.60%** **1.89%** as a result of higher rates on interest-bearing deposits and short-term borrowings and mandatorily redeemable securities, borrowings. The result to the net interest margin, or the ratio of net interest income to average earning assets, was a decrease of **14** **six** basis points.

The largest contributors to the improved yield on average earning assets for the three months ended **September 30, 2023** **March 31, 2024** compared to the three months ended **September 30, 2022** **March 31, 2023** was an increase in yields on net loans and leases and other investments, primarily excess reserves held at the Federal Reserve Bank. The yield on net loans and leases grew **150** **93** basis points primarily from rising interest rates. Average net loans and leases increased **\$618.17 million** **\$467.87 million** or **10.98%** **7.75%** primarily in the auto and light truck, construction equipment, and commercial real estate portfolios. Net interest recoveries positively contributed seven basis points to the yield on average loans and leases during the quarter and three basis points to the average loans and leases yield during the prior year first quarter. Average investment securities decreased **\$218.07 million** **\$160.53 million** or **11.70%** **9.08%** primarily due from utilizing expected redemptions to leveraging matured securities to support liquidity and fund loan growth, growth and pay down borrowings. Average other investments, primarily held at the Federal Reserve Bank, decreased **\$51.05 million** increased **\$10.81 million** or **42.67%** largely to fund loan growth, **18.85%**.

Average interest-bearing deposits increased **\$613.24 million** **\$406.76 million** or **13.23%** **8.15%** for the **third** **first** quarter of **2023** **2024** over the same period in **2022** **2023** primarily due to public fund deposits, time deposits, and brokered deposits. The effective rate paid on average interest-bearing deposits increased **204** **123** basis points to **2.60%** **2.96%** from **0.56%** **1.73%** in line with the competitive, rising rate environment. Average noninterest-bearing deposits declined **\$336.37 million** **\$264.66 million** or **16.50%** **14.07%** for the **third** **first** quarter of **2023** **2024** over the same period in **2022** **2023** primarily due to greater utilization of excess funds by our business customers, and a heightened rate sensitivity in our customer base given the overall level of market yields.

Average short-term borrowings decreased **\$2.70 million** increased **\$29.38 million** or **1.24%** **11.60%** for the **third** **first** quarter of **2023** **2024** compared to the same period in **2022**, **2023**. Interest paid on short-term borrowings increased **326** **218** basis points due to higher short-term borrowing rates. Interest paid on subordinated notes increased **106** **22** basis points during the **third** **first** quarter of **2023** **2024** from the same period a year ago due to a variable rate increase on one tranche. Average long-term debt and mandatorily redeemable securities balances decreased **\$1.88 million** increased **\$1.84 million** or **3.88%** **4.05%**. Interest paid on long-term debt and mandatorily redeemable securities increased **660** decreased **536** basis points during the **third** **first** quarter of **2023** **2024** from the same period in **2022** **2023** primarily due to higher/lower imputed interest on mandatorily redeemable securities from an smaller increase in book value per share during the quarter compared to the previous year's first quarter. Mandatorily redeemable shares are issued under the terms of one of our executive incentive compensation plans and are settled based on book value per share with changes from the previous reporting date recorded as interest expense.

(Dollars in thousands)	Nine Months Ended					
	September 30, 2023			September 30, 2022		
	Average Balance	Interest Income/Expense	Yield/ Rate	Average Balance	Interest Income/Expense	Yield/ Rate
ASSETS						
Investment securities available-for-sale:						
Taxable	\$ 1,657,241	\$ 18,512	1.49 %	\$ 1,826,095	\$ 19,324	1.41 %
Tax exempt ⁽¹⁾	46,385	1,413	4.07 %	36,157	786	2.91 %
Mortgages held for sale	2,489	114	6.12 %	5,967	177	3.97 %
Loans and leases, net of unearned discount ⁽¹⁾	6,141,849	280,374	6.10 %	5,474,401	184,730	4.51 %
Other investments	69,799	2,498	4.78 %	302,844	1,952	0.86 %
Total earning assets⁽¹⁾	7,917,763	302,911	5.11 %	7,645,464	206,969	3.62 %
Cash and due from banks	70,288			75,497		
Allowance for loan and lease losses	(143,545)			(131,572)		
Other assets	523,548			450,701		
Total assets	\$ 8,368,054			\$ 8,040,090		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing deposits	\$ 5,143,493	\$ 84,538	2.20 %	\$ 4,658,394	\$ 12,485	0.36 %
Short-term borrowings:						
Securities sold under agreements to repurchase	87,909	107	0.16 %	176,029	67	0.05 %
Other short-term borrowings	133,965	5,047	5.04 %	22,983	360	2.09 %
Subordinated notes	58,764	3,108	7.07 %	58,764	2,578	5.87 %
Long-term debt and mandatorily redeemable securities	46,174	2,219	6.43 %	57,597	(948)	(2.20)%
Total interest-bearing liabilities	5,470,305	95,019	2.32 %	4,973,767	14,542	0.39 %
Noninterest-bearing deposits	1,776,202			2,037,113		
Other liabilities	143,086			92,236		
Shareholders' equity	919,182			881,574		

Noncontrolling interests	59,279	55,400
Total liabilities and equity	\$ 8,368,054	\$ 8,040,090
Less: Fully tax-equivalent adjustments	(575)	(413)
Net interest income/margin (GAAP-derived) ⁽¹⁾	\$ 207,317	3.50 %
Fully tax-equivalent adjustments	575	413
Net interest income/margin - FTE ⁽¹⁾	\$ 207,892	3.51 %
	\$ 192,014	3.36 %
	\$ 192,427	3.37 %

(1) See "Reconciliation of Non-GAAP Financial Measures" at the end of this section for additional information on this performance measure/ratio.

Nine Months Ended September 30, 2023 compared to the Nine Months Ended September 30, 2022

The taxable-equivalent net interest income for the nine months ended September 30, 2023 was \$207.89 million, an increase of 8.04% over the same period in 2022. The net interest margin on a fully taxable-equivalent basis was 3.51% for the nine months ended September 30, 2023, compared to 3.37% for the same period in 2022.

During the nine month period ended September 30, 2023, average earning assets increased \$272.30 million, up 3.56% over the comparable period in 2022. Average interest-bearing liabilities increased \$496.54 million or 9.98%. The yield on average earning assets increased 149 basis points to 5.11% from 3.62% primarily due to higher rates on loans and leases, tax exempt investment securities and other investments, which include federal funds sold, time deposits with other banks, Federal Reserve Bank excess balances, Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock and commercial paper. Total cost of average interest-bearing liabilities increased 193 basis points to 2.32% from 0.39% as a result of repricing of interest-bearing deposits and higher interest expense on other short-term borrowings which is predominately short-term FHLB borrowings and mandatorily redeemable securities. The result to the net interest margin, or the ratio of net interest income to average earning assets, was a net 14 basis point improvement.

The largest contributor to the improved yield on average earning assets for the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022, was an increase in yields on net loans and leases of 159 basis points primarily due to market conditions as a result of Federal Reserve interest rate increases. Average loans and leases increased \$667.45 million, up 12.19%. Average mortgages held for sale decreased \$3.48 million or 58.29%. Average investment securities decreased \$158.63 million or 8.52% which represents both the sale and maturity of securities used to support liquidity and fund loan growth. Average other investments, primarily held at the Federal Reserve Bank, decreased \$233.05 million or 76.95% largely to fund loan growth.

Average interest-bearing deposits increased \$485.10 million or 10.41% for the first nine months of 2023 over the same period in 2022 primarily due to the increased public fund deposits, time deposits and brokered deposit balances. The effective rate paid on average interest-bearing deposits increased 184 basis points to 2.20% from 0.36% mainly from rate competition in the market. Average noninterest-bearing deposits declined \$260.91 million or 12.81% for the first nine months of 2023 over the same period in 2022 primarily due to persistent rate competition for deposits and greater utilization of excess funds by our business customers.

Average short-term borrowings increased \$22.86 million or 11.49% for the first nine months of 2023 compared to the same period in 2022. Interest paid on short-term borrowings increased 282 basis points due to higher borrowing rates. Interest paid on subordinated notes increased 120 basis points due to a variable rate on one tranche. Average long-term debt and mandatorily redeemable securities balances decreased \$11.42 million or 19.83%. Interest paid on long-term debt and mandatorily redeemable securities increased 863 basis points due to higher imputed interest on mandatorily redeemable securities from an increase in book value per share during 2023. Mandatorily redeemable shares are issued under the terms of one of our executive incentive compensation plans and are settled based on book value per share with changes from the previous reporting date recorded as interest expense.

Reconciliation of 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. These include taxable-equivalent net interest income (including its individual components) and net interest margin (including its individual components). 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.

Management reviews yields on certain asset categories and the net interest margin of the Company and its banking subsidiaries on a fully taxable-equivalent ("FTE") basis. In this non-GAAP presentation, net interest income is adjusted to reflect tax-exempt interest income on an equivalent before-tax basis. This measure ensures comparability of net interest income arising from both taxable and tax-exempt sources.

(Dollars in thousands)	Three Months Ended		
	March 31,	December 31,	March 31,
	2024	2023	2023
Calculation of Net Interest Margin			
(A) Interest income (GAAP)	\$ 116,468	\$ 114,571	\$ 94,456
Fully tax-equivalent adjustments:			
(B) - Loans and leases	81	88	103
(C) - Tax-exempt investment securities	67	78	123
(D) Interest income - FTE (A+B+C)	116,616	114,737	94,682

(E)	Interest expense (GAAP)		44,553	43,241	24,891
(F)	Net interest income (GAAP) (A–E)		71,915	71,330	69,565
(G)	Net interest income - FTE (D–E)		72,063	71,496	69,791
(H)	Annualization factor		4.022	3.967	4.056
(I)	Total earning assets	\$ 8,182,165	\$ 8,071,861	\$ 7,864,595	
	Net interest margin (GAAP-derived) (F*H)/I	3.54 %	3.51 %	3.59 %	
	Net interest margin - FTE (G*H)/I	3.54 %	3.51 %	3.60 %	

(Dollars in thousands)	Three Months Ended			Nine Months Ended	
	September 30,	June 30,	September 30,	September 30,	September 30,
		2023	2023	2022	2023
Calculation of Net Interest Margin					
(A) Interest income (GAAP)	\$ 107,326	\$ 100,554	\$ 76,478	\$ 302,336	\$ 206,556
Fully tax-equivalent adjustments:					
(B) - Loans and leases	92	98	95	293	257
(C) - Tax-exempt investment securities	78	81	87	282	156
(D) Interest income - FTE (A+B+C)	107,496	100,733	76,660	302,911	206,969
(E) Interest expense (GAAP)	38,090	32,038	7,544	95,019	14,542
(F) Net interest income (GAAP) (A–E)	69,236	68,516	68,934	207,317	192,014
(G) Net interest income - FTE (D–E)	69,406	68,695	69,116	207,892	192,427
(H) Annualization factor	3.967	4.011	3.967	1.337	1.337
(I) Total earning assets	\$ 7,963,537	\$ 7,921,528	\$ 7,615,593	\$ 7,917,763	\$ 7,645,464
Net interest margin (GAAP-derived) (F*H)/I	3.45 %	3.47 %	3.59 %	3.50 %	3.36 %
Net interest margin - FTE (G*H)/I	3.46 %	3.48 %	3.60 %	3.51 %	3.37 %

PROVISION AND ALLOWANCE FOR CREDIT LOSSES

The provision for credit losses for the three and nine months ended September 30, 2023 March 31, 2024, was \$0.86 million and \$3.96 million \$6.60 million compared to \$3.17 million and \$7.90 million \$3.05 million during the three and nine months ended September 30, 2022 March 31, 2023. Net charge-offs of \$0.33 million \$6.12 million or 0.02% 0.38% of average loans and leases were recorded for the third first quarter 2023, 2024, compared to net charge-offs recoveries of \$0.30 million \$0.19 million or 0.02% 0.01% of average loans and leases for the same quarter a year ago. Year-to-date net recoveries of \$0.85 million or 0.02% of average loans and leases have been recorded in 2023, compared to net recoveries of \$0.34 million or 0.01% of average loans and leases through September 30, 2022. Net recoveries in 2023 charge-offs recognized during the quarter were principally concentrated in the auto commercial and light truck, and aircraft portfolios, agricultural portfolio.

The increase of the provision for credit losses for the three months ended September 30, 2023 March 31, 2024, was principally driven by overall modest loan growth during the quarter, offset by a modest decline in higher loss rates due to ongoing recoveries in multiple portfolios, our commercial and a decrease agricultural portfolio, and overall higher special attention outstandings, most notably in loan balances in a higher risk segment of the auto and light truck portfolio. Risks include a sluggish fragile domestic GDP outlook, tightening credit conditions, persistent elevated inflation, higher high interest rates, and geopolitical uncertainty. We remain concerned about the potential risks in our small business portfolio, as liquidity provided by government programs afforded to our lending clients dissipates dissipates. Consumers remain under stress and economic growth slows, imbalances are prevalent. Impairment reserves for assets individually evaluated were zero this quarter with the recognition of a charge-off due to charge-offs recognized during the period.

We continue to continually evaluate risks which may impact our loan portfolios. Most notably, Such risks include a sluggish cautious economic outlook and increased uncertainty characterized fueled by persistent inflation, ongoing conflicts around the world, and the Federal Reserve's challenge of taming elevated inflation while maintaining overall economic stability and liquidity in the financial sector. Labor strife is occurring on multiple fronts, stability. The possibility for economic disruption remains a concern, as geopolitical events and persistently high elevated inflation along with weak below-trend growth prospects raise the potential for adverse impacts in the domestic and global economies. Increasing Higher interest rates could impact valuations of assets which collateralize our loans, and the persistently inverted yield curve may lead to tighter credit market conditions. The generally weak growth outlook in the U.S. and abroad along with the potential for prolonged trade is susceptible to disruption caused by global conflicts increase overall uncertainty, and an environment of heightened instability. Congressional spending initiatives face multiple challenges and uncompromising partisanship. The threat of a U.S. government shutdown remains despite a recent short-term spending agreement. Political discord is an ever-present threat in our Latin American markets. Corruption scandals persist, fueling U.S. border concerns. Globally, concerns continue to be heightened due to the ongoing there is an ever-present threat of terrorism.

Another area of concern continues to be our Our aircraft portfolio where we have exhibits collateral concentration and \$309 million contains \$291 million of foreign exposure, the majority of which is in Mexico and Brazil. We We review political and economic data for these countries on a regular basis to assess the impact the environment may have on our customers. Historically, we have experienced volatile and unanticipated losses in both the foreign and domestic segments of our aircraft portfolios. Losses have been primarily attributable to unexpected declines in the value of specific aircraft collateral at a time when the borrower is experiencing financial difficulties. We review and assess aircraft values

on an ongoing basis and use a tiered approach to establish advance rates and amortization schedules to limit collateral exposure. We **continue to continually** monitor individual customer performance and assess risks in the overall portfolio.

On **September 30, 2023** **March 31, 2024**, 30 day and over loan and lease delinquency as a percentage of loan and lease balances was **0.10%** **0.08%**, compared to **0.09%** **0.06%** on **September 30, 2022** **March 31, 2023**. The allowance for loan and lease losses as a percentage of loans and leases outstanding at the end of the period was **2.27%** **2.26%** compared to **2.36%** **2.33%** one year ago. A summary of loan and lease loss experience during the three **and nine** months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** is located in Note 5 of the Consolidated Financial Statements.

NONPERFORMING ASSETS

The following table shows nonperforming assets.

(Dollars in thousands)	(Dollars in thousands)	September 30, 2023	December 31, 2022	September 30, 2022	(Dollars in thousands)	March 31, 2024	December 31, 2023	March 31, 2023
Loans and leases past due 90 days or more	Loans and leases past due 90 days or more	\$ 154	\$ 54	\$ 165				
Nonaccrual loans and leases	Nonaccrual loans and leases	16,617	26,420	27,813				
Other real estate	Other real estate	117	104	—				
Repossessions	Repossessions	233	327	26				
Equipment owned under operating leases		—	22	1				
Total nonperforming assets		\$ 17,121	\$ 26,927	\$ 28,005				
Total nonperforming assets								
Total nonperforming assets								

Nonperforming assets as a percentage of loans and leases were **0.27%** **0.34%** at **September 30, 2023** **March 31, 2024**, **0.45%** **0.37%** at **December 31, 2022** **December 31, 2023**, and **0.48%** **0.30%** at **September 30, 2022** **March 31, 2023**. Nonperforming assets totaled **\$17.12 million** **\$22.43 million** at **September 30, 2023** **March 31, 2024**, a decrease of **36.42%** **7.44%** from the **\$26.93 million** **\$24.24 million** reported at **December 31, 2022** **December 31, 2023**, and a **38.86%** decrease **20.29%** increase from the **\$28.01 million** **\$18.65 million** reported at **September 30, 2022** **March 31, 2023**. The decrease in nonperforming assets during the first **nine** **three** months of **2023** was **2024** was related to lower nonaccrual loans and leases and repossession. The **decrease** **increase** in nonperforming assets at **September 30, 2023** **March 31, 2024** from **September 30, 2022** **March 31, 2023** was related to **a decrease** **an increase** in nonaccrual loans and leases. There were no properties held in other real estate at March 31, 2024.

The decrease in nonaccrual loans and leases at **September 30, 2023** **March 31, 2024** from **December 31, 2022** and **September 30, 2022** occurred primarily due **December 31, 2023** was predominantly related to **balance reductions from fleet sales and scheduled payments** **charge-off activity** in the **auto** **commercial** and **light truck** **agricultural** portfolio and **pay-downs** **in** **during the construction equipment portfolio**, **quarter**, offset partially by an increase in nonaccrual loans in **our** **the aircraft portfolio**. The increase in nonaccrual loans and leases at March 31, 2024 compared to March 31, 2023 was primarily due to increases in nonaccrual loans and leases in the **commercial** and **agricultural** portfolio. A summary of nonaccrual loans and leases and past due aging for the period ended **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023** is located in Note 4 of the Consolidated Financial Statements.

Other real estate is the result of foreclosing on real estate in the local market for which we have a current appraisal and are well secured. We currently have one property held in other real estate assets.

Repossessions consisted of a few loans in the consumer, **construction equipment**, and **the** **auto** and **light truck** portfolios at **September 30, 2023** **March 31, 2024**. At the time of repossession, the recorded amount of the loan or lease is written down to the fair value of the equipment or vehicle by a charge to the allowance for loan and lease losses or other income, if a positive adjustment, unless the equipment is in the process of immediate sale. Any subsequent fair value write-downs or write-ups, to the extent of previous write-downs, are included in noninterest expense.

The following table shows a summary of **other real estate and** repossession.

(Dollars in thousands)	September 30, 2023			December 31, 2022			September 30, 2022			(Dollars in thousands)	March 31, 2024	December 31, 2023	March 31, 2023
	(Dollars in thousands)	2023	2022	2022	(Dollars in thousands)	2024	2023	(Dollars in thousands)	2023				
Commercial and agricultural	Commercial and agricultural	\$ —	\$ —	\$ —									
Solar	Solar	—	—	—									
Renewable energy	Renewable energy												
Auto and light truck	Auto and light truck	213	311	26									
Medium and heavy duty truck	Medium and heavy duty truck	—	—	—									
Aircraft	Aircraft	—	—	—									
Construction equipment	Construction equipment	—	—	—									
Commercial real estate	Commercial real estate	—	—	—									
Residential real estate and home equity	Residential real estate and home equity	117	104	—									
Consumer	Consumer	20	16	—									
Total	Total	\$ 350	\$ 431	\$ 26									

For financial statement purposes, nonaccrual loans and leases are included in loan and lease outstandings, whereas repossessions and other real estate are included in other assets.

NONINTEREST INCOME

The following table shows the details of noninterest income.

(Dollars in thousands)	Three Months Ended September 30,			Nine Months Ended September 30,			(Dollars in thousands)	2024	2023	\$ Change	% Change					
	Three Months Ended March 31,			Three Months Ended March 31,												
	Three Months Ended March 31,															
(Dollars in thousands)	(Dollars in thousands)	\$	%	\$	%	\$	%	(Dollars in thousands)	2024	2023	\$ Change	% Change				
2023	2022	Change	Change	2023	2022	Change	Change	2023	2024	2023	\$ Change	% Change				
Noninterest income:	Noninterest income:															
Trust and wealth advisory	Trust and wealth advisory															
Trust and wealth advisory	Trust and wealth advisory															
Trust and wealth advisory	Trust and wealth advisory	\$ 5,648	\$ 5,498	150	2.73 %	\$ 17,794	\$ 17,499	295	1.69 %	\$ 6,287	\$ 5,679	608	10.71 %			
Service charges on deposit	Service charges on deposit															
accounts	accounts	3,297	3,240	57	1.76 %	9,418	8,974	444	4.95 %	accounts	3,070	3,003	3,003			
Debit card	Debit card	4,377	4,628	(251)	(5.42 %)	13,585	13,383	202	1.51 %	Debit card	4,201	4,507	4,507			

Mortgage banking	Mortgage banking	971	864	107	12.38 %	2,699	3,303	(604)	(18.29)%	Mortgage banking	950	802	802	148	148	18.45	18.45
Insurance commissions	Insurance commissions	1,714	1,695	19	1.12 %	5,384	5,168	216	4.18 %	Insurance commissions	1,776	2,029	2,029	(253)	(253)	(12.47)	(12.47)
Equipment rental	Equipment rental	2,101	2,761	(660)	(23.90)%	6,930	9,718	(2,788)	(28.69)%	Equipment rental	1,671	2,503	2,503	(832)	(832)	(33.24)	(33.24)
Losses on investment securities available-for-sale	Losses on investment securities available-for-sale	—	—	—	—	(44)	—	(44)	NM	Losses on investment securities available-for-sale	—	(44)	(44)	44	44	NM	NM
Other	Other	6,347	3,321	3,026	91.12 %	14,781	9,937	4,844	48.75 %	Other	4,201	4,844	4,844	(643)	(643)	(13.27)	(13.27)
Total noninterest income	Total noninterest income	\$24,455	\$22,007	2,448	11.12 %	\$70,547	\$67,982	2,565	3.77 %	Total noninterest income	\$22,156	\$	\$23,323	(1,167)	(1,167)	(5.00)	(5.00)

NM = Not Meaningful

Trust and wealth advisory fees (which include investment management fees, estate administration fees, mutual fund fees, annuity fees, and fiduciary fees) increased during the three and nine months ended September 30, 2023 March 31, 2024 compared with the same periods period a year ago. Trust and wealth advisory fees are largely based on the number and size of client relationships and the market value of assets under management. The market value of trust assets under management at September 30, 2023 March 31, 2024, December 31, 2022 December 31, 2023, and September 30, 2022 March 31, 2023, was \$4.96 billion \$5.71 billion, \$4.845.46 billion, and \$4.58 billion \$4.91 billion, respectively. The stock Positive equity market returns and bond markets made steady trends upward growth in the number of client relationships during the first six months quarter of 2023, but declined in the third quarter. The stock and bond markets are still positive year-to-date and 2024 resulted in an increase in the market value of trust assets under management compared to December 31, 2022 December 31, 2023.

Service charges on deposit accounts increased for the three and nine months ended September 30, 2023 March 31, 2024, over the comparable periods period in 2022, 2023. The increase primarily reflects a higher volume of consumer nonsufficient business deposit account and non-sufficient fund transactions and overdraft fees.

Debit card income decreased during the third first quarter of 2023 2024 compared to the same period a year ago and was relatively flat for ago. While the first nine months of 2023 compared to the same period in 2022. The decrease during the third quarter was mainly due to a combination of decreased volume of debit card transactions and a shift by consumers overall spend are on par with prior year, shifts in both client transaction behavior to credit card utilization for larger purchases less lucrative merchant categories, and the networks over which those merchants are routing transactions, were the primary drivers of the income decrease during the first quarter.

Mortgage banking income increased in the three months ended September 30, 2023 March 31, 2024, compared to the same period in 2022. For the nine months ended September 30, 2023, mortgage banking income declined compared to the same period a year ago 2023. The increase for the three months ended September 30, 2023 was primarily a result of higher margins on loans originated for the secondary market market.

Insurance commissions declined during the three months ended March 31, 2024, compared to the same period a year ago. The reduction for the nine months ended was mainly from lower mortgage origination volumes resulting in lower income from loans sold in the secondary market. Demand for mortgages has continued to decline as higher rates have adversely impacted refinancing volumes, affordability and market activity.

Insurance commissions grew decrease during the three and nine months ended September 30, 2023 compared to the same periods period a year ago. The increase during 2023 2024 was mainly due to increased decreased contingent commissions received and new business received.

Equipment rental income decreased for the three and nine months ended September 30, 2023 March 31, 2024, over the comparable periods period in 2022, 2023. The decline was the result of a reduction in the average equipment rental portfolio decreasing by 29.9% 34.95% over the same periods period a year ago due to changing customer preferences and competitive pricing pressures for new business.

Losses There were no losses on available-for-sale investment securities sold during the nine three months ended September 30, 2023 were immaterial. The sales proceeds were used to support liquidity and fund loan growth during the first quarter of 2023, March 31, 2024.

Other income increased decreased for the three and nine months ended September 30, 2023 March 31, 2024, compared to the comparable periods period in 2022, 2023. The increase decrease is primarily due to lower partnership investment gains on sale of renewable energy tax equity investments, of \$2.32 million during the third quarter 2023 and \$3.43 million during the first nine months of 2023 as well as, increased customer interest rate swap fees, and higher lower bank owned life insurance policy claims.

NONINTEREST EXPENSE

The following table shows the details of noninterest expense.

	Three Months Ended September 30,	Nine Months Ended September 30,
	Three Months Ended March 31,	

Three Months Ended March 31,												Three Months Ended March 31,											
(Dollars in thousands)	(Dollars in thousands)	\$			%			\$			%			(Dollars in thousands)	2024		2023		\$ Change	% Change			
Noninterest expense:	Noninterest expense:	2023	2022	Change	Change	2023	2022	Change	Change	2023	2022	Change	2023	2024		2023		\$ Change	% Change				
Salaries and employee benefits	Salaries and employee benefits	\$28,866	\$26,386	2,480	9.40 %	\$ 85,699	\$ 77,415	8,284	10.70 %	\$ 29,572	\$ 28,597	975	975	3.41		3.41	9						
Net occupancy	Net occupancy	2,867	2,582	285	11.04 %	8,165	7,917	248	3.13 %	Net occupancy	2,996	2,622	2,622	374	374	14.26							
Furniture and equipment	Furniture and equipment	1,217	1,372	(155)	(11.30)%	3,938	4,051	(113)	(2.79)%	Furniture and equipment	1,149	1,307	1,307	(158)	(158)	(12.09)							
Data processing	Data processing	6,289	5,802	487	8.39 %	18,714	16,412	2,302	14.03 %	Data processing	6,500	6,157	6,157	343	343	5.57							
Depreciation – leased equipment	Depreciation – leased equipment	1,672	2,233	(561)	(25.12)%	5,570	7,912	(2,342)	(29.60)%	Depreciation – leased equipment	1,288	2,022	2,022	(734)	(734)	(36.30)							
Professional fees	Professional fees	1,763	1,539	224	14.55 %	4,149	5,241	(1,092)	(20.84)%	Professional fees	1,345	682	682	663	663	97.21							
FDIC and other insurance	FDIC and other insurance	1,598	939	659	70.18 %	4,302	2,682	1,620	60.40 %	FDIC and other insurance	1,657	1,360	1,360	297	297	21.84							
Business development and marketing	Business development and marketing	1,201	1,415	(214)	(15.12)%	4,822	4,352	470	10.80 %	Business development and marketing	1,744	1,972	1,972	(228)	(228)	(11.56)							
Other	Other	4,693	3,063	1,630	53.22 %	13,393	10,340	3,053	29.53 %														
Other	Other																						
Total noninterest expense	Total noninterest expense	\$50,166	\$45,331	4,835	10.67 %	\$148,752	\$136,322	12,430	9.12 %	Total noninterest expense	\$49,586	\$	\$49,421	165	165	0.33	0.3						

Salaries and employee benefits increased during the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period in 2022, 2023. Higher base salaries were a result of normal merit increases, wage inflation as well as a higher headcount due to fewer open positions compared to the previous year. Additionally, increases in contract salaries and incentive compensation was offset by a reduction in group insurance claims increased during the three and nine months ended September 30, 2023, claims.

Net occupancy expense increased during the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period in 2022, 2023. The increase for both periods the period was primarily due to premises repairs increased snow removal costs due to seasonal weather conditions and higher rent.

Furniture and equipment expense, including depreciation, decreased during the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period a year ago. The decline is primarily due to lower equipment depreciation and furniture purchases and reduced a reduction in equipment rent expense, repairs.

Data processing expense grew during the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period a year ago due primarily to higher computer processing charges and software maintenance expense on technology projects.

Depreciation on leased equipment decreased for the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period in 2022, 2023. Depreciation on leased equipment correlates with the decrease in equipment rental income.

Professional fees were higher during the third first quarter and lower during the first nine months of 2023 2024 compared to the same periods period a year ago. The increase in the third quarter was primarily due to increased legal expenses offset by a reduction in professional consulting fees. The decline for the first nine months was mostly due to reduced legal fees primarily from a \$1.08 million reversal of accrued legal fees during in the first quarter and fewer consulting fees offset by increased board of directors fees, 2023.

FDIC and other insurance was higher during the three and nine months ended September 30, 2023 March 31, 2024 compared to the same periods period in 2022, 2023. The increase was mainly due to higher FDIC general insurance premiums due to a two basis-point increase in assessment rates premiums during the first quarter of 2023, 2024 as

compared to the prior year.

Business development and marketing expense was lower during the **third** first quarter and higher during the first nine months of 2023 2024 compared to the same periods period a year ago in 2022 2023. The decrease during the quarter was related to a decline in marketing promotions. The nine

Other expenses were lower during the three months ended **increase** was due to higher marketing promotions during the first quarter of 2023 as well as increased business meals, entertainment, and travel opportunities March 31, 2024 compared to the same period a year ago as COVID-19 restrictions were being lifted.

Other expenses were higher during the three and nine months ended September 30, 2023 compared to the same periods in 2022 2023. The **increase** decrease was primarily the result of gains related to the sale of off-lease equipment, a **rise** recovery of check fraud losses which occurred in the previous year, and a reduction in the provision for unfunded loan commitments of \$0.93 million for third quarter and \$1.38 million year-to-date as customers pay down lines or lines are not yet drawn. In addition, higher collection and repossession expenses, increased postage costs, elevated employment and relocation costs, and check fraud losses during the third quarter.

commitments.

INCOME TAXES

The provision for income taxes for the three and nine month periods ended September 30, 2023 March 31, 2024 was \$9.73 million and \$28.64 million \$8.43 million compared to \$9.70 million and \$26.30 million \$9.29 million for the same periods period in 2022 2023. The effective tax rate was 22.80% 22.24% and 22.85% 22.98% for the quarter ended September 30, 2023 March 31, 2024 and 2022, respectively 2023, respectively. The decrease in the quarterly effective tax rate was due to lower permanent book and 22.88% and 22.71% for the nine months ended September 30, 2023 and 2022, respectively. tax differences in relationship to pretax income in 2024 compared to 2023.

ITEM 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in market risks faced by 1st Source since December 31, 2022 December 31, 2023. For information regarding our market risk, refer to 1st Source's Annual Report on [Form 10-K](#) for the year ended December 31, 2022 December 31, 2023.

ITEM 4.

CONTROLS AND PROCEDURES

As of the end of the period covered by this report an evaluation was carried out, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, at September 30, 2023 March 31, 2024, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by 1st Source in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure.

In addition, there were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the **third** first fiscal quarter of 2023 2024 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

1st Source and its subsidiaries are involved in various legal proceedings that are inherent risks of, or incidental to, the conduct of our businesses. Management does not expect the outcome of any such proceedings will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 1A. Risk Factors.

The Company is attentive to various risks and continuously evaluates the potential impact of such risks. Except as set forth below, where already disclosed risk factors have been updated for the current period, there There have been no material updates or changes in risks faced by 1st Source since December 31, 2022 December 31, 2023. For information regarding our risk factors, refer to 1st Source's Annual Report on [Form 10-K](#) for the year ended December 31, 2022 December 31, 2023.

We could experience an unexpected inability to obtain needed liquidity which could adversely affect our business, profitability, and viability as a going concern— Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities and is essential to a financial institution's business. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets, and its access to alternative sources of funds. The bank failures in 2023 exemplify the potential serious results of the unexpected inability of insured depository institutions to obtain needed liquidity to satisfy deposit withdrawal requests, including how quickly such requests can accelerate once uninsured depositors lose confidence in an institutions ability to satisfy its obligations to depositors. We seek to ensure our funding needs are met by maintaining a level of liquidity through asset and liability management. If we become unable to obtain funds when needed, it could have a material adverse effect on our business, financial condition, and results of operations. Additionally, under Indiana law governing the collateralization of public fund deposits, the Indiana Board for Depositories determines which financial institutions are required to pledge collateral based on the strength of their financial ratings. We have been informed that no collateral is

required for our public fund deposits. However, the Board of Depositories could alter this requirement in the future, which could adversely affect our liquidity depending on the amount of collateral we may be required to pledge.

Technology security breaches — Information security risks have increased due to the sophistication and activities of organized crime, hackers, terrorists and other external parties and the use of online, telephone, and mobile banking channels by clients. Any compromise of our security could impair our reputation and deter our clients from using our banking services. Information security breaches can also disrupt the operation of information systems on which we depend, adversely affecting our business operations. Such events can result in costly remediation measures and litigation or governmental investigation and responding to security breaches can place unanticipated demands on the time and attention of management. We rely on security systems to provide the protection and authentication necessary to secure transmission of data against damage by theft, fire, power loss, telecommunications failure or similar catastrophic event, as well as from security breaches, ransomware, denial of service attacks, viruses, worms, and other disruptive problems caused by hackers. Computer break-ins, phishing and other disruptions of customer or vendor systems could also jeopardize the security of information stored in and transmitted through our computer systems and network infrastructure. We maintain a cyber insurance policy that is designed to cover a majority of loss resulting from cyber security breaches, but there is no assurance such coverage or other protective measures we employ will be adequate to address all potential material adverse impacts.

We also confront the risk of being compromised by emails sent by perpetrators posing as company executives or vendors in order to dupe company personnel into sending large sums of money to accounts controlled by the perpetrators. We require all our employees to complete annual information security awareness training to increase their awareness of these risks and to engage them in our mitigation efforts. If these precautions are not sufficient to protect our systems from data breaches or compromises, our reputation and business could be adversely affected.

We depend on the services of a variety of third-party vendors to meet data processing and communication needs and we have contracted with third parties to run their proprietary software on our behalf. While we perform reviews of security controls instituted by the vendor in accordance with industry standards and institute our own internal security controls, we rely on continued maintenance of the controls by the outside party to safeguard our customer data.

Additionally, we issue debit cards which are susceptible to compromise at the point of sale via the physical terminal through which transactions are processed and by other means of hacking. The security and integrity of these transactions are dependent upon the retailers' vigilance and willingness to invest in technology and upgrades. Issuing debit cards to our clients exposes us to potential losses which, in the event of a data breach at one or more major retailers may adversely affect our business, financial condition, and results of operations.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

<u>ISSUER PURCHASES OF EQUITY SECURITIES</u>				
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs
July 01 - 31, 2023	—	\$ —	—	526,630
August 01 - 31, 2023	—	—	—	526,630
September 01 - 30, 2023	260,887	39.45	260,887	265,743

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs
January 01 - 31, 2024	—	\$ —	—	1,000,000
February 01 - 29, 2024	—	—	—	1,000,000
March 01 - 31, 2024	—	—	—	1,000,000

*1st Source maintains a stock repurchase plan that was previously authorized by the Board of Directors on July 22, 2021 October 19, 2023. Under the terms of the plan, 1st Source may repurchase up to 1,000,000 shares (corrected from previously disclosed amount of 2,000,000 shares) of its common stock from time to time to mitigate the potential dilutive effects of stock-based incentive plans and other potential uses of common stock for corporate purposes. Since the inception of the previous plan, 1st Source has not yet repurchased a total of 734,257 shares. On October 19, 2023, the Board of Directors terminated the prior plan and authorized a new repurchase plan, any shares under the terms of which 1st Source may repurchase up to 1,000,000 shares of its common stock for the same purposes. this Plan.

ITEM 3. Defaults Upon Senior Securities.

None

ITEM 4. Mine Safety Disclosures.

None

ITEM 5. Other Information.

During the three months ended September 30, 2023 March 31, 2024, there were no "Rule 10b5-1 trading plans" or "non-Rule 10b5-1 trading arrangements" adopted, modified or terminated by any director or officer of the Company (as each term is defined in Item 408(a) of Regulation S-K).

ITEM 6. Exhibits.

The following exhibits are filed with this report:

<u>3(b)</u>	<u>By-Laws of Registrant, as amended October 19, 2023 filed herewith.</u>
<u>31.1</u>	<u>Certification of Chief Executive Officer required by Rule 13a-14(a).</u>
<u>31.2</u>	<u>Certification of Chief Financial Officer required by Rule 13a-14(a).</u>
<u>32.1</u>	<u>Certification pursuant to 18 U.S.C. Section 1350 of Chief Executive Officer.</u>
<u>32.2</u>	<u>Certification pursuant to 18 U.S.C. Section 1350 of Chief Financial Officer.</u>
101.INS	XBRL Instance Document — The instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

1st Source Corporation

DATE October 19, 2023 April 25, 2024

/s/ CHRISTOPHER J. MURPHY III
Christopher J. Murphy III
Chairman of the Board, President and CEO

DATE October 19, 2023 April 25, 2024

/s/ BRETT A. BAUER
Brett A. Bauer
Treasurer and Chief Financial Officer
Principal Accounting Officer

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BYLAWS OF 1ST SOURCE CORPORATION

AMENDED BY DIRECTORS

October 19, 2023.

ARTICLE 1
NAME AND REGISTERED OFFICE

Section 1.1 Name. The name of the corporation is 1st Source Corporation ("Corporation").

Section 1.2 Registered Office. The address of the registered office of the Corporation in Indiana is 100 N. Michigan Street, South Bend, Indiana 46601. The Corporation may have other offices, both within and without the State of Indiana, as the board of directors of the Corporation ("Board") from time to time shall determine or the business of the Corporation may require.

ARTICLE 2

SHARES

Section 2.1 Shares Certificates and Their Transfer. The shares of stock of the Corporation shall be represented by certificates, provided that the Board may provide by resolution that some or all of any class or series shall be uncertificated shares that may be evidenced by a book-entry system maintained by the registrar of such shares. If shares are represented by certificates, such certificates shall be in the form, other than bearer form, approved by the Board. The certificates representing shares of each class shall be signed by, or in the name of, the Corporation by the Chairman of the Board, Chief Executive Officer, or the President and by the Secretary or Assistant Secretary. Such signatures may be manual or facsimiles. Although any officer, transfer agent or registrar whose signature is affixed to such a certificate ceases to be such officer, transfer agent or registrar before such certificate has been issued, it may nevertheless be issued by the Corporation with the same effect as if such officer, transfer agent or registrar were still such at the date of its issue.

Section 2.2 Transfer of Shares. Shares of stock of the Corporation shall be transferable as prescribed by law and these bylaws. Transfers of shares shall be made on the books of the Corporation, and for certificated shares upon surrender of the certificate or certificates representing the same. The certificate or certificates (or an instrument of transfer or assignment satisfactory to the Corporation and delivered to the Corporation) must be properly endorsed by the registered holder or by such person's duly authorized attorney-in-fact, with the endorsement witnessed by one witness or guaranteed by a bank or registered securities broker or dealer. The requirement for a witness or guarantee may be waived in writing upon the form of endorsement by the Chief Executive Officer or President of the Corporation. No transfer of shares shall be valid as against the Corporation for any purpose until it shall have been entered in the share records of the Corporation. The Board may appoint, or authorize any officer or officers to appoint, one or more transfer agents and one or more registrars.

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BYLAWS OF 1ST SOURCE CORPORATION

Section 2.3 Lost, Stolen, or Destroyed Certificates. The Corporation may issue a new certificate or uncertificated shares in place of any certificate alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the owner of the lost, stolen or destroyed certificate, or such person's legal representative. The Board, the Chairman of the Board, the Executive Committee, the President, the Chief Executive Officer or the Chief Executive Officer's delegate in writing may, in the exercise of discretion, require the owner or such person's legal representative to give a bond sufficient to indemnify the Corporation against any claim that may be made against the Corporation on account of the certificate alleged to be lost, stolen or destroyed or the issuance of such new certificate or uncertificated shares.

ARTICLE 3

SHAREHOLDERS

Section 3.1 Place of Meetings. All meetings of Shareholders shall be held at such place as may be specified in the notices of the meeting.

Section 3.2 Annual Meeting. Unless otherwise determined by the Board, the annual meeting of Shareholders for the election of Directors and for the transaction of other business as may properly come before the meeting shall be held in April each year, the exact date and time to be determined by the Board and stated in the notice of meeting. Failure to hold the annual meeting at the designated time does not affect the validity of any corporate action.

Section 3.3 Special Meetings. Special meetings of Shareholders may be called by the Chief Executive Officer, the President, the Chairman of the Board of Directors, or, if applicable, the Lead Director, and must be called by the Chief Executive Officer, the President, the Chairman of the Board, the Lead Director, or the Secretary at the request in writing of a majority of the Board of Directors, or at the request in writing of shareholders holding of record no less than a majority of all shares outstanding and entitled by the Articles of Incorporation to vote on the business for which the meeting is being called. Any notice of a special meeting shall specify by whom such meeting was called.

Section 3.4 Record Date. The Board may fix a record date not exceeding seventy (70) days prior to the date of any meeting of Shareholders for the purpose of determining the Shareholders entitled to notice of and to vote at the meeting. If the Board does not fix a record date, the record date shall be the tenth (10th) day prior to the date of the meeting.

Section 3.5 Notice of Meetings. A notice stating the date, time and place of the meeting, and, in the case of a special meeting or when otherwise required by any provision of the Indiana Business Corporation Law (the "Act"), the Articles or the Bylaws, the purpose or purposes for which the meeting is called, shall be delivered or mailed to each Shareholder entitled to vote or otherwise entitled to notice under the Act, at the address which appears on the records of the Corporation, or shall be given orally in

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BYLAWS OF 1ST SOURCE CORPORATION

person or by telephone, at least ten (10) days but not more than sixty (60) days before the date of the meeting.

Section 3.6 Waiver of Notice. Notice of any meeting may be waived before or after the date and time stated in the notice in a writing signed by any Shareholder if the waiver is delivered to the Corporation for inclusion in the minutes or filing with the corporate records. Attendance at any meeting waives objection to lack of notice or defective notice of the meeting unless the Shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting. Attendance at any meeting also waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the Shareholder objects to considering the matter when it is presented.

Section 3.7 Proxies. A Shareholder entitled to vote at any meeting of Shareholders or to express consent to corporate action in writing without a meeting may vote in person or by proxy appointed in a writing signed by the Shareholder or a duly authorized attorney-in-fact of such Shareholder. An appointment of a proxy is effective when received by the Secretary or other officer or agent authorized to tabulate votes. No appointment of a proxy shall be valid after eleven (11) months from the date of its execution unless it expressly provides a longer time. The general proxy of a fiduciary shall be given the same effect as the general proxy of any other Shareholder.

Section 3.8 Quorum and Voting. At any meeting of Shareholders, the holders of a majority of the outstanding shares which may be voted on the business to be transacted at the meeting shall constitute a quorum. Action on a matter is approved if votes cast favoring the action exceed the votes cast opposing the action, unless a greater number is required by law, the Articles or the Bylaws; provided that, with respect to election of directors, (i) if the number of nominees exceeds the number of directors to be elected, then nominees shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present; and (ii) otherwise, nominees shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present, subject to Section 3.14. If a quorum is not present at any meeting, the presiding officer may adjourn the meeting from time to time, without notice, other than announcement at the meeting, until a quorum shall be present or represented, unless the Board fixes a new record date, which it must do if the meeting is adjourned to a date more than one hundred twenty (120) days after the date fixed for the original meeting. At any adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally scheduled.

Section 3.9 Voting List. The Secretary of the Corporation shall make a complete list of the Shareholders entitled to notice of each meeting, arranged in alphabetical order by voting group (and within each voting group by class or series of shares), with the address and number of shares held by each, which list shall be on file at the principal office of the Corporation, or at a place identified in the meeting notice in the city where the meeting will be held, and subject to inspection by any Shareholder or the Shareholder's duly

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BYLAWS OF 1ST SOURCE CORPORATION

authorized attorney-in-fact on written demand at any time during regular business hours for a period of five (5) business days before the meeting. The list shall be produced at the meeting and subject to inspection by any Shareholder or the Shareholder's duly authorized attorney-in-fact during the meeting or any adjournment. The original stock register or transfer book, or a duplicate kept in the State of Indiana, shall be the only evidence as to who are the Shareholders entitled to examine the list, or to notice of or to vote at any meeting of Shareholders.

Section 3.10 Action Without Meeting. Any action required or permitted to be taken at any meeting of the Shareholders may be taken without a meeting and without prior notice, if consents in writing setting forth the action taken are signed by the holders of outstanding shares having at least the minimum number of votes that would be required to authorize or take the action at a meeting at which all shares entitled to vote on the action were present and voted. The written consent must bear the date of signature of the shareholder who signs the consent and be delivered to the corporation for inclusion in the minutes or filing with the corporate records. Action taken under this section is effective when the last Shareholder signs the consent unless the consent specifies a different prior or subsequent effective date.

Section 3.11 Meeting by Telephone, Etc. Any and all Shareholders may participate in any meeting of Shareholders by, or through the use of, any means of communication by which all Shareholders participating have, among other things, an opportunity to read or hear the proceedings of the meeting and communicate with the other persons present at the meeting substantially concurrently with the proceedings. A shareholder so participating is deemed to be present in person.

Section 3.12 Resignation of Directors Receiving Less than Majority Vote. In an election of directors in which there are not more nominees than the number of directors to be elected, if a nominee for re-election receives fewer than a majority of the votes cast by holders of shares entitled to vote in the election, such director shall promptly tender his or her resignation for consideration by the Board of designated Committee of the Board. The Board shall consider whether to accept, reject, or take other action with respect to such resignation. It shall disclose its decision within ninety (90) days from the date of certification of the election results. It shall also disclose its rationale in the event its decision is to reject the resignation or otherwise authorize the incumbent director to continue in office. The incumbent director shall not participate in the Board's decision on his or her resignation.

3.13. Notice of Shareholder Business. At any meeting of the shareholders, only such business may be conducted as shall have been properly brought before the meeting, and as shall have been determined to be lawful and appropriate for consideration by shareholders at the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting given in accordance with Section 3.5 of these Bylaws, (ii) otherwise properly brought before the meeting by or at the direction of the Board or the Chairman of the Board or President, or (iii) otherwise properly brought before an annual meeting by a shareholder who is a shareholder of record of the Corporation at the time such notice of meeting is delivered, who is entitled to vote at the meeting, and who complies with the notice procedures set forth in this Section 3.13. In addition, any proposal of business must be a proper matter for shareholder action.

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For business (other than nominations of candidates for, and the election of, Directors) to be properly brought before an annual meeting by a shareholder pursuant to clause (iii) of the preceding paragraph, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation at the principal executive office of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal office of the Corporation, not later than the close of business on the 90th day nor earlier than the 120th day prior to the first anniversary date of the annual meeting for the preceding year; provided, however, if and only if the annual meeting is not scheduled to be held within a period that commences 30 days before such anniversary date and ends 30 days after such anniversary date, such shareholder notice shall be given in the manner provided herein by the close of business on the later of: (1) the close of business on the 90th day prior to such anniversary date, or (2) the close of business on the 10th day following the date such annual meeting date is first publicly announced or disclosed.

Such shareholder's notice shall set forth as to each matter the shareholder proposes to bring before the annual meeting: (x) a brief description of the business desired to be brought before the meeting, including the text of any proposal to be presented, and the reasons for conducting such business at the meeting and any material interest in such business of such shareholder; (y) as to the shareholder giving the notice: (i) the name and address of such shareholder, as they appear on the Corporation's books, (ii) the class and number of shares of the Corporation which are owned beneficially or of record by such shareholder as of the date such notice is given, (iii) a description of any agreement, arrangement, or understanding with respect to such proposal between or among such shareholder and any of its affiliates or associates, and any others (including their names) acting in concert with any of the foregoing together with a representation that such shareholder will notify the Corporation in writing of any such agreement, arrangement, or understanding in effect as of the record date for the meeting promptly following the later of the record date or the date notice of the record date is first publicly disclosed, (iv) any derivative positions held or beneficially held by the shareholder and whether and the extent to which any hedging or other

transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares) has been made, the effect or intent of which is to mitigate loss to or manage risk or benefit of share price changes for, or to increase or decrease the voting power of, such shareholder with respect to the Corporation's securities, (v) a representation that such shareholder is a holder of record of shares of the Corporation entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to present the proposal contained in the notice, and (vi) any other information relating to such shareholder and beneficial owner, if any, on whose behalf the proposal is being made, required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for the proposal and pursuant to and in accordance with Section 14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules and regulations promulgated thereunder; and (z) if the shareholder intends to solicit proxies in support of such shareholder's proposal, a representation to that effect.

Notwithstanding anything in these Bylaws to the contrary (and not including nominations of candidates for and the election of Directors, which are governed by Section 3.14 of these Bylaws), no business shall be conducted at any annual meeting except in accordance with this Section 3.13, and the Chairman of the Board or other person presiding at the meeting shall, if the

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facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with these Bylaws, or that business was not lawful or appropriate for consideration by shareholders at the meeting, and if he or she should so determine, he or she shall so declare to the meeting and any such business shall not be transacted. If a shareholder does not appear or send a qualified and duly authorized representative to present his or her proposal at such annual meeting, the Corporation need not present such proposal for a vote at such meeting, notwithstanding that proxies in respect of such vote may have been received by the Corporation.

Only such business shall be brought before a special meeting of shareholders as shall have been specified in the notice of meeting given in accordance with Section 3.5 of these Bylaws. In no event shall the adjournment of a meeting commence a new time period for the giving of a shareholder's notice as described above.

3.14. Notice of Shareholder Nominations. Nominations of persons for election as Directors may be made by the Board of Directors or by any shareholder who is a shareholder of record at the time of giving the notice of nomination provided for in this Section 3.14 and who is entitled to vote in the election of Directors. Any shareholder of record entitled to vote in the election of Directors at a meeting may nominate a person or persons for election as Directors only if timely written notice of such shareholder's intent to make such nomination is given to the Secretary of the Corporation at the principal executive office of the Corporation in accordance with this Section 3.14. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal office of the Corporation not later than the close of business on the 90th day nor earlier than the 120th day prior to the first anniversary date of the annual meeting for the preceding year; provided, however, if and only if the annual meeting is not scheduled to be held within a period that commences 30 days before such anniversary date and ends 30 days after such anniversary date, such shareholder notice shall be given in the manner provided herein by the close of business on the later of: (1) the close of business on the 90th day prior to such anniversary date, or (2) the close of business on the 10th day following the date such annual meeting date is first publicly announced or disclosed.

Such shareholder's notice shall contain the following information: (a) the name and address of the shareholder who intends to make the nomination as they appear on the Corporation's books and the person or persons to be nominated; (b) a representation that the shareholder is a holder of record of shares of the Corporation entitled to vote at such meeting in such election and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice; (c) the class and number of shares of the Corporation which are owned beneficially or of record by such shareholder as of the date such notice is given; (d) the consent of each nominee to serve as a Director if so elected; (e) if the shareholder intends to solicit proxies in support of such shareholder's nominee(s) in accordance with Rule 14a-19 under the Exchange Act, a representation to that effect; and (f) such other information regarding each nominee proposed by such shareholder that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required pursuant to Regulation 14A under the Exchange Act, and the rules thereunder. The Corporation may require any person or persons to be nominated to complete and submit a questionnaire provided by the Company to elicit information for inclusion in a proxy statement from director nominees and to furnish such other information as it may reasonably require to determine the eligibility of such person or persons to serve as a Director of the Corporation.

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The chairman of any meeting of shareholders to elect Directors and the Board of Directors may refuse to acknowledge the nomination of any person not made in compliance with the foregoing procedures and the requirements of the federal securities laws, regulations, and rules, including Rule 14a-19 under the Exchange Act, or if the shareholder solicits proxies in support of such shareholder's nominee(s) without such shareholder having made the representation required by clause (e) of the preceding paragraph. If a shareholder does not appear or send a qualified representative to present his or her nomination at such meeting, the Corporation need not present such nomination for a vote at such meeting, notwithstanding that proxies in respect of such nomination may have been received by the Corporation.

Without limiting the other provisions and requirements of this Section 3.14, unless otherwise required by law, if any shareholder (A) either provides notice pursuant to Rule 14a-19(b) under the Exchange Act or includes the information required by Rule 14a-19(b) under the Exchange Act in a preliminary or definitive proxy statement previously filed by such shareholder and (B) subsequently fails to comply with the requirements of Rule 14a-19(a)(2) and/or Rule 14a-19(a)(3) under the Exchange Act, then the Corporation shall disregard any proxies or votes solicited for such shareholder's nominees. Upon request by the Corporation, if any shareholder either provides notice pursuant to Rule 14a-19(b) under the Exchange Act or includes the information required by Rule 14a-19(b) under the Exchange Act in a preliminary or definitive proxy statement previously filed by such shareholder, such shareholder shall deliver to the Corporation, no later than five business days prior to the applicable meeting, reasonable evidence that it has met the requirements of Rule 14a-19(a)(3) under the Exchange Act.

ARTICLE 4 BOARD OF DIRECTORS

Section 4.1 Duties and Number. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of a Board of Directors consisting of not fewer than three (3) or more than twenty-five (25) members. The actual number of Directors may be fixed or changed, from time to time, within the minimum and maximum, by the Board.

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BYLAWS OF 1ST SOURCE CORPORATION

Section 4.2 Election, Term of Office and Qualification. If there are nine (9) or more Directors, their terms shall be staggered by dividing the total number of Directors into three (3) groups, with each group containing one-third (1/3) of the total as near as may be. In that event, the terms of Directors in the first group expire at the first annual Shareholders meeting after their election, the terms of the second group expire at the second annual Shareholders meeting after their election, and the terms of the third group expire at the third annual Shareholders meeting after their election. At each annual Shareholders meeting held thereafter, Directors shall be chosen for a term of two (2) years or three (3) years as the case may be, to succeed those whose terms expire. Directors need not be Shareholders of the Corporation at the time of nomination or election. No decrease in the number of Directors shall have the effect of shortening the term of any incumbent Director.

The Board or an authorized committee shall determine the criteria for and eligibility of nominees for the Board of Directors. Nominees shall, at a minimum:

- (1) Be active in the nominee's chosen business, occupation or profession; and
- (2) Be in such health as permits active participation as a member of the Board;

and

- (3) Be below 72 years of age as of the date of the next election of Directors.

The Board or authorized committee may waive the requirements in (1) and (3) for an incumbent Director upon a determination that such Director's continued service on the Board is in the best interests of the Corporation.

Section 4.3 Retirement. Any Director who is not a current or former officer of the Corporation or any subsidiary and becomes 72 years of age during his/her term of office shall resign as a Director prior to the next annual meeting of shareholders, provided, however, that the Board or

authorized committee may waive such requirement upon a determination that such Director's continued service through a portion or all of the remainder of his/her term of office is in the best interests of the Corporation.

Section 4.4 Lead Director. Unless otherwise determined by the Board, the incumbent chairperson of the Governance & Nominating Committee shall serve as Lead Director. The Lead Director will conduct the executive sessions of the independent directors.

Section 4.5 Meetings. Regular meetings of the Board may be held with or without notice of the date, time, place or purpose of the meeting. Special meetings of the Board may be called at any time by the Chairman of the Board of Directors, the Lead Director, the Vice-Chairman of the Board of Directors, the Chief Executive Officer, or by the President, and shall be called on request of not less than a majority of the members of the Board or on request of the Executive Committee. Notice of a special meeting shall be sent by the person or persons calling the meeting to each Director at the Director's residence or usual place of business by letter sent by first class United States mail,

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postage prepaid, or private carrier service, or by electronic mail, text message or other form of wire or wireless communication, and shall be effective if received on or before the day of the meeting or five (5) days after sending; or may be personally delivered or given orally to a Director in person or by telephone at any time on or before the day of the meeting. A Director may waive any required notice before or after the date and time stated in the notice. Except as provided in the next sentence, the waiver must be in writing, signed by the Director entitled to the notice, and filed with the minutes or corporate records. A Director's attendance at or participation in a meeting waives any required notice to the Director of the meeting unless the Director at the beginning of the meeting or promptly upon the Director's arrival objects to holding the meeting or transacting business at the meeting and does not vote for or assent to action taken at the meeting.

Section 4.6 Executive Session of Independent Directors. To ensure free and open discussion and communication among the independent Directors of the Board, the independent Directors will meet in executive session at least twice per year with no other Directors present. Executive sessions shall be informal sessions for open discussion. Issues raised in executive session may be raised by the independent directors and formally addressed by subsequent Board or Board committee action, as appropriate.

Section 4.7 Meeting by Telephone, Etc. Any or all of the members of the Board or of any committee designated by the Board may participate in a meeting of the Board or the committee by any means of communication by which all Directors participating may simultaneously hear each other during the meeting, and participation by these means constitutes presence in person at the meeting.

Section 4.8 Quorum. A majority of the number of Directors designated for a full Board shall be necessary to constitute a quorum for transacting any business except filling vacancies, and the act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board unless the act of a greater number is required by law, the Articles or the Bylaws.

Section 4.9 Action Without Meeting. Any action required by law to be taken at any meeting of the Board or of any committee of the Board may be taken without a meeting if one or more written consents setting forth the action taken are signed or transmitted electronically by all members of the Board or of the committee, as the case may be, and the written consents are included in the minutes of proceedings of the Board or committee or filed with the corporate records and delivered to the Secretary. Action taken in this manner is effective when the last Director signs or otherwise provides the consent unless the consent specifies a different prior or subsequent effective date.

Section 4.10 Resignations. Any Director may resign at any time by giving written notice to the Board, the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary. Such resignation shall take effect when delivered unless the notice specifies a later effective date or an effective date determined upon the happening of an event.

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Section 4.11 Removal. Any Director may be removed, either with or without cause, at any meeting of the Shareholders or Directors called for that purpose if the meeting notice states that the purpose or one of the purposes of the meeting is removal of the Director

and if the number of votes cast to remove the Director exceeds the number of votes cast not to remove the Director. If the removal occurs at a meeting of the Shareholders and the notice so provides, the vacancy caused by the removal may be filled at the meeting by vote of the holders of a majority of the outstanding shares present and entitled to vote for the election of Directors.

Section 4.12 Vacancies. Any vacancy occurring on the Board, caused by removal, resignation, death or other incapacity, or increase in the number of Directors, may be filled by the Board, or, if the Directors remaining in office constitute fewer than a quorum of the Board, they may fill the vacancy by a majority vote of the remaining members of the Board.

Section 4.13 Compensation of Directors. The Board shall fix the compensation of Directors.

Section 4.14 Election Not to Be Governed by Indiana Code Section 23-1-33-6(c). The Corporation shall not be governed by any of the provisions set forth in Section 23-1- 33-6(c) of the Act.

Section 4.15 Designation of Committees. The Board of Directors may designate two (2) or more of its number to constitute one (1) or more committees, and may, at any time, increase or decrease the number of members of any committee, fill vacancies, change any member, and change the functions or terminate the existence of any committee.

Section 4.16 Executive Committee. The Board of Directors may designate three (3) or more of its members to constitute an Executive Committee. During the intervals between meetings of the Board, and subject to any limitations required by law or by resolution of the Board, the Executive Committee shall have and may exercise all of the authority of the Board, except that the Committee shall not have authority to: (i) authorize distributions, except that the Committee (or an executive officer of the Corporation designated by the Board) may authorize or approve a reacquisition of shares or other distribution if done according to a formula or method, or within a range, prescribed by the Board; (ii) approve or propose to the Shareholders action that by law is required to be approved by the Shareholders; (iii) fill vacancies on the Board or on any of its committees; (iv) except to the extent permitted by subsection (vii) below, amend the Articles when no Shareholder action is required by law; (v) adopt, amend, or repeal Bylaws; (vi) approve a plan of merger not requiring Shareholder approval; or (vii) authorize or approve the issuance or sale or a contract for sale of shares, or determine the designation and relative rights, preferences, and limitations of a class or series of shares, except the Board may authorize the Committee (or an executive officer of the Corporation designated by the Board) to take the action described in this subsection (vii) within limits prescribed by the Board.

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Section 4.17 Meetings; Procedure; Quorum. The provisions of these Bylaws and those required by law that apply to the Board regarding meetings, action without meetings, notice and waiver of notice, and quorum and voting requirements apply to the committees and their members as well. The members of any committee shall act only as a committee, and the individual members shall have no power as such. Each committee shall appoint a secretary, who need not be a member of the committee, to keep minutes of its meetings. All minutes of meetings of committees shall be submitted to the next succeeding meeting of the Board for approval, but failure to submit the minutes or to receive approval shall not invalidate any action taken by the Corporation upon authorization by a committee.

ARTICLE 5 OFFICERS

Section 5.1 Number and Qualifications. The Officers of the Corporation shall consist of the Chairman of the Board of Directors, the Chief Executive Officer, the President, the Secretary, the Treasurer, and any other officers chosen by the Board or the Chairman of the Board at the times, in the manner and for the terms prescribed by the Board or the Chairman of the Board, respectively. The same individual may simultaneously hold more than one (1) office in the Corporation.

Section 5.2 Election and Term of Office. The Officers shall be chosen annually by the Board, except that Assistant Officers may be designated as provided in Section 5.12 of these Bylaws. Each Officer shall hold office until a successor is chosen and qualified, or until death, or resignation or removal in the manner provided in these Bylaws.

Section 5.3 Resignations. Any Officer may resign at any time by giving written notice to the Board, the Chairman of the Board, the Chief Executive Officer, the President or the Secretary. Except as otherwise provided in an employment agreement, a resignation shall take effect when the notice is delivered unless the notice specifies a later effective date. If a resignation is made effective at a later date and the Corporation accepts the future effective date, then the Board may fill the pending vacancy before the effective date if the Board provides that the successor does not take office until the effective date.

Section 5.4 Removal. Any Officer, excepting an Officer who is also a Director, may be removed either with or without cause, at any time, by the Board or by such Officer or Officers to whom the Officer is directly responsible. Any Officer who is a Director may be discharged as an Officer at any time by the Board of Directors or the Executive Committee. Except as otherwise provided in an employment agreement, the employment of all Officers shall be for an indefinite time, terminable at will.

Section 5.5 Vacancies. Whenever a vacancy occurs in any office by reason of death, resignation, removal, increase in the number of officers of the Corporation, or otherwise, it shall be filled by the Board, and the Officer so chosen shall hold office during the remainder of the predecessor's term or as otherwise provided in these Bylaws. Assistant

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Officers may be designated to fill vacancies in the manner provided in Section 5.12 of these Bylaws.

Section 5.6 Chairman of the Board of Directors. The Chairman of the Board of Directors shall be a Director. The Chairman shall preside at all meetings of the Shareholders and at all meetings of the Board of Directors. The Chairman shall also perform all such other duties as are incidental to the office or properly required by the Board.

Section 5.7 Vice-Chairman of the Board of Directors. The Vice-Chairman of the Board of Directors shall be a Director. In the absence of the Chairman, the Vice-Chairman shall preside at all meetings of the Shareholders and at all meetings of the Board of Directors. The Vice-Chairman shall perform such other duties as are properly required by the Board.

Section 5.8 Chief Executive Officer and President. Subject to the general control of the Board, the Chief Executive Officer and the President, respectively, shall manage and supervise all the affairs and personnel of the Corporation, shall discharge all the usual functions of the chief executive officer and the president of a corporation, and shall perform such other duties as the Bylaws or the Board may prescribe. The Chief Executive Officer and the President shall have full authority to execute proxies on behalf of the Corporation, to vote stock owned by it in any other corporation, and to execute, with the Secretary, powers of attorney appointing other corporations, partnerships, or individuals the agent of the Corporation, all subject to the provisions of the Act, the Articles and the Bylaws. The respective duties of the Chief Executive Officer and the President may or may not be performed by the same person, subject to the discretion of the Board. The Chief Executive Officer shall be a Director. The President may be a Director.

Section 5.9 Vice-Presidents. Each Vice-President shall have general supervision of those affairs of the Corporation designated by the Officer to whom the Vice-President is directly responsible and may employ and discharge subordinate officers, employees, clerks and agents under his supervision. Each Vice-President shall perform all such duties as are incidental to his office or properly required by the Board of Directors, Chairman of the Board of Directors and such other Officer or Officers to whom he is directly responsible.

Section 5.10 Secretary. The Secretary shall authenticate records of the Corporation, attend all meetings of the Shareholders and of the Board, keep or cause to be kept a true and complete record of the proceedings of Directors' and Shareholders' meetings, perform a like duty, when required, for all committees appointed by the Board, and perform any other duties which the Bylaws, the Board, the Chairman of the Board, the Lead Director, the Vice-Chairman, the Chief Executive Officer or the President may prescribe. The Secretary shall give all notices of the Corporation; however, in case of the Secretary's absence, negligence or refusal so to do, any notice may be given by a person directed by the Chief Executive Officer or President or by the requisite number of Directors or Shareholders upon whose request the meeting is called.

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Section 5.11 Treasurer. The Treasurer shall perform all such duties as are incidental to the office or properly required by the Board or such Officer or Officers to whom the Treasurer is directly responsible.

Section 5.12 Assistant Officers. The Board, the Chairman of the Board, or the Vice- Chairman of the Board may from time to time designate and elect Assistant Officers who shall have the powers and duties as the Officers whom they are elected to assist shall specify and delegate to them, and any other powers and duties which the Bylaws, the Board or the Chairman of the Board or the Vice-Chairman of the Board may prescribe.

Section 5.13 Delegation of Authority. In case of the absence of any Officer of the Corporation, or for any other reason that the Board may deem sufficient, the Board may temporarily delegate the powers or duties of the Officer to any other Officer or Assistant Officer or to any Director.

ARTICLE 6

INDEMNIFICATION

Section 6.1 Indemnification of Directors and Officers. Every person who is or was a Director or Officer of the Corporation shall be indemnified by the Corporation against all liability, including any obligation to pay a judgment, settlement, penalty, excise tax, or fine, and against reasonable expenses, including counsel fees, actually incurred by such person in his or her Official Capacity, provided that such person is determined in the manner specified in Section 6.3 to have met the standard of conduct specified in Section 6.4.

Section 6.2 Reimbursement of Expenses in Advance of Final Disposition. The Corporation may, upon authorization of those entitled to select counsel under Section 6.3, pay for or reimburse the reasonable expenses, including counsel fees, incurred by any person who is or was a Director or Officer of the Corporation in connection with any Proceeding to which such person is a Party because of such person serving in his or her Official Capacity in advance of final disposition of the Proceeding if:

- (1) The person furnishes the Corporation a written affirmation of the person's good faith belief that the person has met the standard of conduct specified in 6.4 below;
- (2) The person furnishes the Corporation an unlimited general written undertaking, executed personally or on the person's behalf, to repay the advance if it is ultimately determined that the person did not meet such standard of conduct; and
- (3) A determination is made in the manner specified in 6.3 below that the facts then known to those making the determination would not preclude indemnification under 6.1 above.

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Section 6.3 Authorization of Indemnification. Upon demand for indemnification, the Corporation shall determine whether to authorize indemnification by any one of the following procedures, as selected by the Board of Directors by majority vote of the entire Board of Directors:

- (1) By the Board of Directors by majority vote of a quorum consisting of Directors not at the time Parties to the Proceeding as to which indemnification or advancement of expenses is at issue.
- (2) If a quorum cannot be obtained under Subdivision (1), by majority vote of a committee duly designated by the Board of Directors (in which designation Directors who are Parties may participate), consisting solely of two or more Directors not at the time Parties to the Proceeding.

(3) By special legal counsel selected by the Board of Directors or its committee in the manner prescribed in Subdivision (1) or (2); or, if a quorum of the Board of Directors cannot be obtained under Subdivision (1) and a committee cannot be designated under Subdivision (2), by special legal counsel selected by majority vote of the full Board of Directors (in which selection Directors who are Parties may participate).

(4) By a majority vote of shareholders excluding shares owned or controlled by Directors or Officers who at the time of the vote are Parties to the Proceeding.

Section 6.4 Standard of Conduct. The standard of conduct for any act or omission is:

(1) In the case of any criminal Proceeding, the person either had reasonable cause to believe that the person's conduct was lawful, or, had no reasonable cause to believe the person's conduct was unlawful.

(2) In all non-criminal Proceedings, either (a)(i) the person's conduct was in good faith, and (ii) the person reasonably believed (A) in the case of conduct in the person's Official Capacity, that the person's conduct was in the Corporation's best interest, or, (B) in all other cases, that the person's conduct was not opposed to the Corporation's best interests; or (b) the person's breach of or failure to act in accordance with the standard set forth in this subsection (2)(a) above did not constitute willful misconduct or recklessness. A person's conduct with respect to an employee benefit plan for a purpose which the person reasonably believed to be in the interests of the participants in and beneficiaries of the plan is conduct that satisfies the requirements of this subsection (2)(a)(i)(B).

(3) The termination of a Proceeding by judgment, order, agreement, or settlement, or upon conviction or a plea of nolo contendere, or the equivalent of any of the foregoing, is not, of itself, determinative that the person did not meet the standard of conduct.

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Section 6.5 Definitions. As used in this Article 6, the following terms have the following meanings:

"Director" means an individual who is or was a director of the Corporation. "Director" includes the heirs, estate, executors, administrators, and personal representatives of a Director.

"Officer" means an individual who is or was an officer of the Corporation. "Officer" includes the heirs, estate, executors, administrators, and personal representatives of an Officer.

"Official Capacity" means: (a) when used with respect to a Director, the position of Director of the Corporation; (b) when used with respect to an Officer, the office in the Corporation held by an Officer, and (c) when used with respect to a Director or Officer, any service by a person while a Director or Officer of the Corporation at the Corporation's specific request, as a Director, Officer, partner, trustee, employee, or agent of the Corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, whether for profit or not. For these purposes, a person is considered to be serving an employee benefit plan at the Corporation's specific request of the person's duties to the Corporation also impose duties on, or otherwise involve services by, such person to the plan or to participants in or beneficiaries of the plan.

"Parties" means persons who were, are, or are threatened to be named defendant or respondent in a Proceeding.

"Proceeding" means any threatened, pending, or completed action, suit, proceeding, or appeal therefrom, whether civil, criminal, administrative, regulatory, or investigative, and whether formal or informal.

Section 6.6 Insurance. The Corporation reserves the right to purchase and maintain insurance for the matters covered by these provisions and to the extent of such insurance payments these provisions shall not be effective.

ARTICLE 7

CONFLICT OF INTEREST TRANSACTIONS

Section 7.1 Conflict of Interest Transactions. No contract or transaction between the Corporation and one or more of its Directors, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors, officers, trustees, or

general partners are Directors of this Corporation, or in which any Director of the Corporation has a material financial interest, shall be void or voidable solely for this reason, or solely because the Director is present at or participates in the meeting of the Board or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

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(1) The material facts as to his or her interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee authorizes, approves or ratifies the contract or transaction by a majority vote without counting the vote of the interested Director or Directors, provided, that more than one disinterested Director is required to act under this section; or

(2) The material facts as to his or her interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote, and the contract or transaction is authorized, approved, or ratified by majority vote of the Stockholders; or

(3) The contract or transaction was fair to the Corporation.

Section 7.2 Quorum. Common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

Section 7.3 Review of Related Party Transactions. In addition to the foregoing requirements for approval of a transaction in which a Director may be interested, the Audit Committee of the Board of Directors (or such other independent body of the Board of Directors as the Board may designate) shall conduct an appropriate review and oversee all related party transactions for potential conflict of interest situations on an ongoing basis and the disclosure of same pursuant to Item 404 of regulation S-K of the Securities and Exchange Act of 1934.

ARTICLE 8 GENERAL PROVISIONS

Section 8.1 Seal. The Board may designate the form of a corporate seal. The seal may be used by causing it or a facsimile to be impressed or affixed or in any other manner reproduced, but the failure of the Board to designate a seal or the absence of the seal from any instrument shall not affect in any way its validity or effect.

Section 8.2 Fiscal Year. The fiscal year of the Corporation shall end on December 31.

Section 8.3 Amendments of Bylaws. These Bylaws may be amended, altered or repealed at any meeting of the Board by the affirmative vote of a majority of the Board.

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Exhibit 31.1

CERTIFICATION

I, Christopher J. Murphy III, Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1st Source Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 19, 2023 April 25, 2024

/s/ CHRISTOPHER J. MURPHY III

Christopher J. Murphy III
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Brett A. Bauer, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1st Source Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 19, 2023 April 25, 2024

/s/ BRETT A. BAUER

Brett A. Bauer

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of 1st Source Corporation (1st Source) on Form 10-Q for the quarterly period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Murphy III, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of sections 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of 1st Source.

Date: October 19, 2023 April 25, 2024

/s/ CHRISTOPHER J. MURPHY III

Christopher J. Murphy III

Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of 1st Source Corporation (1st Source) on Form 10-Q for the quarterly period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brett A. Bauer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of sections 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of 1st Source.

Date: October 19, 2023 April 25, 2024

/s/ BRETT A. BAUER

Brett A. Bauer

Chief Financial Officer

DISCLAIMER

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