

**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 March 31, 2021  
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**

(State or other jurisdiction of incorporation or organization)

**35-1068133**

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

**100 North Michigan Street**

**South Bend, IN**

(Address of principal executive offices)

**46601**

(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:

| <u>Title of each class</u>       | <u>Trading Symbol(s)</u> | <u>Name of each exchange on which registered</u> |
|----------------------------------|--------------------------|--------------------------------------------------|
| 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 | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/> |

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 April 16, 2021 — 25,268,707 shares

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

|                                                                                                                 | March 31,<br>2021 | December 31,<br>2020 |
|-----------------------------------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>ASSETS</b>                                                                                                   |                   |                      |
| Cash and due from banks                                                                                         | \$ 69,683         | \$ 74,186            |
| Federal funds sold and interest bearing deposits with other banks                                               | 266,271           | 168,861              |
| Investment securities available-for-sale                                                                        | 1,291,340         | 1,197,467            |
| Other investments                                                                                               | 27,429            | 27,429               |
| Mortgages held for sale                                                                                         | 9,351             | 12,885               |
| Loans and leases, net of unearned discount:                                                                     |                   |                      |
| Commercial and agricultural                                                                                     | 1,238,708         | 1,186,118            |
| Solar                                                                                                           | 296,124           | 292,604              |
| Auto and light truck                                                                                            | 552,676           | 542,369              |
| Medium and heavy duty truck                                                                                     | 268,636           | 279,172              |
| Aircraft                                                                                                        | 873,770           | 861,460              |
| Construction equipment                                                                                          | 705,744           | 714,888              |
| Commercial real estate                                                                                          | 975,383           | 969,864              |
| Residential real estate and home equity                                                                         | 486,156           | 511,379              |
| Consumer                                                                                                        | 125,888           | 131,447              |
| <b>Total loans and leases</b>                                                                                   | 5,523,085         | 5,489,301            |
| Allowance for loan and lease losses                                                                             | (139,550)         | (140,654)            |
| <b>Net loans and leases</b>                                                                                     | 5,383,535         | 5,348,647            |
| Equipment owned under operating leases, net                                                                     | 61,395            | 65,040               |
| Net premises and equipment                                                                                      | 48,288            | 49,373               |
| Goodwill and intangible assets                                                                                  | 83,942            | 83,948               |
| Accrued income and other assets                                                                                 | 270,697           | 288,575              |
| <b>Total assets</b>                                                                                             | \$ 7,511,931      | \$ 7,316,411         |
| <b>LIABILITIES</b>                                                                                              |                   |                      |
| Deposits:                                                                                                       |                   |                      |
| Noninterest-bearing demand                                                                                      | \$ 1,833,116      | \$ 1,636,684         |
| Interest-bearing deposits:                                                                                      |                   |                      |
| Interest-bearing demand                                                                                         | 2,068,382         | 2,059,139            |
| Savings                                                                                                         | 1,148,823         | 1,082,848            |
| Time                                                                                                            | 1,081,020         | 1,167,357            |
| <b>Total interest-bearing deposits</b>                                                                          | 4,298,225         | 4,309,344            |
| <b>Total deposits</b>                                                                                           | 6,131,341         | 5,946,028            |
| Short-term borrowings:                                                                                          |                   |                      |
| Federal funds purchased and securities sold under agreements to repurchase                                      | 173,302           | 143,564              |
| Other short-term borrowings                                                                                     | 7,299             | 7,077                |
| <b>Total short-term borrowings</b>                                                                              | 180,601           | 150,641              |
| Long-term debt and mandatorily redeemable securities                                                            | 81,722            | 81,864               |
| Subordinated notes                                                                                              | 58,764            | 58,764               |
| Accrued expenses and other liabilities                                                                          | 123,744           | 148,444              |
| <b>Total liabilities</b>                                                                                        | 6,576,172         | 6,385,741            |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                     |                   |                      |
| Preferred stock; no par value                                                                                   |                   |                      |
| Authorized 10,000,000 shares; none issued or outstanding                                                        | —                 | —                    |
| Common stock; no par value                                                                                      |                   |                      |
| Authorized 40,000,000 shares; issued 28,205,674 at March 31, 2021 and December 31, 2020                         | 436,538           | 436,538              |
| Retained earnings                                                                                               | 535,737           | 514,176              |
| Cost of common stock in treasury (2,936,987 shares at March 31, 2021 and 2,816,557 shares at December 31, 2020) | (88,223)          | (82,240)             |
| Accumulated other comprehensive income                                                                          | 7,243             | 18,371               |
| <b>Total shareholders' equity</b>                                                                               | 891,295           | 886,845              |
| Noncontrolling interests                                                                                        | 44,464            | 43,825               |
| <b>Total equity</b>                                                                                             | 935,759           | 930,670              |
| <b>Total liabilities and equity</b>                                                                             | \$ 7,511,931      | \$ 7,316,411         |

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<br>March 31, |                  |
|--------------------------------------------------------------|---------------------------------|------------------|
|                                                              | 2021                            | 2020             |
| Interest income:                                             |                                 |                  |
| Loans and leases                                             | \$ 57,864                       | \$ 61,526        |
| Investment securities, taxable                               | 3,988                           | 5,550            |
| Investment securities, tax-exempt                            | 174                             | 264              |
| Other                                                        | 266                             | 346              |
| <b>Total interest income</b>                                 | <b>62,292</b>                   | <b>67,686</b>    |
| Interest expense:                                            |                                 |                  |
| Deposits                                                     | 3,526                           | 10,851           |
| Short-term borrowings                                        | 36                              | 254              |
| Subordinated notes                                           | 818                             | 884              |
| Long-term debt and mandatorily redeemable securities         | 500                             | 853              |
| <b>Total interest expense</b>                                | <b>4,880</b>                    | <b>12,842</b>    |
| <b>Net interest income</b>                                   | <b>57,412</b>                   | <b>54,844</b>    |
| Provision for credit losses*                                 | 2,398                           | 11,353           |
| <b>Net interest income after provision for credit losses</b> | <b>55,014</b>                   | <b>43,491</b>    |
| Noninterest income:                                          |                                 |                  |
| Trust and wealth advisory                                    | 5,481                           | 4,848            |
| Service charges on deposit accounts                          | 2,447                           | 2,605            |
| Debit card                                                   | 4,182                           | 3,373            |
| Mortgage banking                                             | 3,901                           | 2,336            |
| Insurance commissions                                        | 2,152                           | 1,881            |
| Equipment rental                                             | 4,629                           | 6,630            |
| Gains on investment securities available-for-sale            | —                               | 280              |
| Other                                                        | 3,077                           | 2,669            |
| <b>Total noninterest income</b>                              | <b>25,869</b>                   | <b>24,622</b>    |
| Noninterest expense:                                         |                                 |                  |
| Salaries and employee benefits                               | 25,196                          | 24,401           |
| Net occupancy                                                | 2,719                           | 2,721            |
| Furniture and equipment                                      | 6,458                           | 6,407            |
| Depreciation – leased equipment                              | 3,773                           | 5,427            |
| Professional fees                                            | 1,613                           | 1,442            |
| Supplies and communication                                   | 1,475                           | 1,634            |
| FDIC and other insurance                                     | 665                             | 288              |
| Business development and marketing                           | 997                             | 1,359            |
| Loan and lease collection and repossession                   | 129                             | 763              |
| Other                                                        | 1,115                           | 2,093            |
| <b>Total noninterest expense</b>                             | <b>44,140</b>                   | <b>46,535</b>    |
| Income before income taxes                                   | 36,743                          | 21,578           |
| Income tax expense                                           | 8,637                           | 5,160            |
| <b>Net income</b>                                            | <b>28,106</b>                   | <b>16,418</b>    |
| Net (income) loss attributable to noncontrolling interests   | (1)                             | (5)              |
| <b>Net income available to common shareholders</b>           | <b>\$ 28,105</b>                | <b>\$ 16,413</b> |
| Per common share:                                            |                                 |                  |
| Basic net income per common share                            | \$ 1.10                         | \$ 0.64          |
| Diluted net income per common share                          | \$ 1.10                         | \$ 0.64          |
| Cash dividends                                               | \$ 0.29                         | \$ 0.29          |
| Basic weighted average common shares outstanding             | 25,320,930                      | 25,523,356       |
| Diluted weighted average common shares outstanding           | 25,320,930                      | 25,523,356       |

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

\*ASU 2016-13 adopted during the fourth quarter of 2020 therefore March 31, 2020 provision amount reflects the incurred loss method.

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

|                                                                         | Three Months Ended<br>March 31, |                  |
|-------------------------------------------------------------------------|---------------------------------|------------------|
|                                                                         | 2021                            | 2020             |
| Net income                                                              | \$ 28,106                       | \$ 16,418        |
| Other comprehensive income:                                             |                                 |                  |
| Unrealized (depreciation) appreciation of available-for-sale securities | (14,658)                        | 16,717           |
| Reclassification adjustment for realized gains included in net income   | —                               | (280)            |
| Income tax effect                                                       | 3,530                           | (3,958)          |
| Other comprehensive (loss) income, net of tax                           | (11,128)                        | 12,479           |
| <b>Comprehensive income</b>                                             | <b>\$ 16,978</b>                | <b>\$ 28,897</b> |
| Comprehensive (income) loss attributable to noncontrolling interests    | (1)                             | (5)              |
| <b>Comprehensive income available to common shareholders</b>            | <b>\$ 16,977</b>                | <b>\$ 28,892</b> |

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 |                   |                      |                                           |                                                             |                               |                             |                   |  |
|------------------------------------------------------------------------|--------------------|-------------------|----------------------|-------------------------------------------|-------------------------------------------------------------|-------------------------------|-----------------------------|-------------------|--|
|                                                                        | Preferred<br>Stock | Common<br>Stock   | Retained<br>Earnings | Cost of<br>Common<br>Stock<br>in Treasury | Accumulated<br>Other<br>Comprehensive<br>Income (Loss), Net | Total Shareholders'<br>Equity | Noncontrolling<br>Interests | Total Equity      |  |
| Balance at January 1, 2020                                             | \$ —               | \$ 436,538        | \$ 463,269           | \$ (76,702)                               | \$ 5,172                                                    | \$ 828,277                    | \$ 20,359                   | \$ 848,636        |  |
| Net income                                                             | —                  | —                 | 16,413               | —                                         | —                                                           | 16,413                        | 5                           | 16,418            |  |
| Other comprehensive income                                             | —                  | —                 | —                    | —                                         | 12,479                                                      | 12,479                        | —                           | 12,479            |  |
| Issuance of 25,910 common shares under stock based compensation awards | —                  | —                 | 638                  | 499                                       | —                                                           | 1,137                         | —                           | 1,137             |  |
| Cost of 0 shares of common stock acquired for treasury                 | —                  | —                 | —                    | —                                         | —                                                           | —                             | —                           | —                 |  |
| Common stock dividend (\$0.29 per share)                               | —                  | —                 | (7,409)              | —                                         | —                                                           | (7,409)                       | —                           | (7,409)           |  |
| Contributions from noncontrolling interests                            | —                  | —                 | —                    | —                                         | —                                                           | —                             | 6,140                       | 6,140             |  |
| Distributions to noncontrolling interests                              | —                  | —                 | —                    | —                                         | —                                                           | —                             | (99)                        | (99)              |  |
| <b>Balance at March 31, 2020</b>                                       | <b>\$ —</b>        | <b>\$ 436,538</b> | <b>\$ 472,911</b>    | <b>\$ (76,203)</b>                        | <b>\$ 17,651</b>                                            | <b>\$ 850,897</b>             | <b>\$ 26,405</b>            | <b>\$ 877,302</b> |  |
| Balance at January 1, 2021                                             | \$ —               | \$ 436,538        | \$ 514,176           | \$ (82,240)                               | \$ 18,371                                                   | \$ 886,845                    | \$ 43,825                   | \$ 930,670        |  |
| Net income                                                             | —                  | —                 | 28,105               | —                                         | —                                                           | 28,105                        | 1                           | 28,106            |  |
| Other comprehensive loss                                               | —                  | —                 | —                    | —                                         | (11,128)                                                    | (11,128)                      | —                           | (11,128)          |  |
| Issuance of 35,027 common shares under stock based compensation awards | —                  | —                 | 844                  | 638                                       | —                                                           | 1,482                         | —                           | 1,482             |  |
| Cost of 155,457 shares of common stock acquired for treasury           | —                  | —                 | —                    | (6,621)                                   | —                                                           | (6,621)                       | —                           | (6,621)           |  |
| Common stock dividend (\$0.29 per share)                               | —                  | —                 | (7,388)              | —                                         | —                                                           | (7,388)                       | —                           | (7,388)           |  |
| Contributions from noncontrolling interests                            | —                  | —                 | —                    | —                                         | —                                                           | —                             | 887                         | 887               |  |
| Distributions to noncontrolling interests                              | —                  | —                 | —                    | —                                         | —                                                           | —                             | (249)                       | (249)             |  |
| <b>Balance at March 31, 2021</b>                                       | <b>\$ —</b>        | <b>\$ 436,538</b> | <b>\$ 535,737</b>    | <b>\$ (88,223)</b>                        | <b>\$ 7,243</b>                                             | <b>\$ 891,295</b>             | <b>\$ 44,464</b>            | <b>\$ 935,759</b> |  |

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

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

|                                                                                        | <b>Three Months Ended March 31,</b> |                 |
|----------------------------------------------------------------------------------------|-------------------------------------|-----------------|
|                                                                                        | <b>2021</b>                         | <b>2020</b>     |
| Operating activities:                                                                  |                                     |                 |
| Net income                                                                             | \$ 28,106                           | \$ 16,418       |
| Adjustments to reconcile net income to net cash provided by operating activities:      |                                     |                 |
| Provision for credit losses*                                                           | 2,398                               | 11,353          |
| Depreciation of premises and equipment                                                 | 1,361                               | 1,435           |
| Depreciation of equipment owned and leased to others                                   | 3,773                               | 5,427           |
| Stock-based compensation                                                               | 885                                 | 736             |
| Amortization of investment securities premiums and accretion of discounts, net         | 1,734                               | 717             |
| Amortization of mortgage servicing rights                                              | 590                                 | 409             |
| Mortgage servicing rights impairment recoveries                                        | (42)                                | —               |
| Amortization of right of use assets                                                    | 1,133                               | 704             |
| Deferred income taxes                                                                  | 2,452                               | (2,941)         |
| Gains on investment securities available-for-sale                                      | —                                   | (280)           |
| Originations of loans held for sale, net of principal collected                        | (85,661)                            | (33,104)        |
| Proceeds from the sales of loans held for sale                                         | 91,720                              | 41,699          |
| Net gain on sale of loans held for sale                                                | (2,525)                             | (1,767)         |
| Net gain on sale of other real estate and repossessions                                | (141)                               | (23)            |
| Change in interest receivable                                                          | (142)                               | (702)           |
| Change in interest payable                                                             | 265                                 | (199)           |
| Change in other assets                                                                 | (7,843)                             | (826)           |
| Change in other liabilities                                                            | 4,519                               | (6,237)         |
| Other                                                                                  | (93)                                | 486             |
| <b>Net change in operating activities</b>                                              | <b>42,489</b>                       | <b>33,305</b>   |
| Investing activities:                                                                  |                                     |                 |
| Proceeds from sales of investment securities available-for-sale                        | —                                   | 5,578           |
| Proceeds from maturities and paydowns of investment securities available-for-sale      | 119,692                             | 121,353         |
| Purchases of investment securities available-for-sale                                  | (229,957)                           | (127,517)       |
| Net change in partnership investments                                                  | (1,142)                             | (12,904)        |
| Loans sold or participated to others                                                   | 3,813                               | 2,863           |
| Proceeds from principal payments on direct finance leases                              | 7,317                               | 9,682           |
| Net change in loans and leases                                                         | (49,255)                            | (59,609)        |
| Net change in equipment owned under operating leases                                   | (128)                               | 5,019           |
| Purchases of premises and equipment                                                    | (280)                               | (1,659)         |
| Proceeds from disposal of premises and equipment                                       | 5                                   | 12              |
| Proceeds from sales of other real estate and repossessions                             | 697                                 | 764             |
| <b>Net change in investing activities</b>                                              | <b>(149,238)</b>                    | <b>(56,418)</b> |
| Financing activities:                                                                  |                                     |                 |
| Net change in demand deposits and savings accounts                                     | 271,650                             | (57,476)        |
| Net change in time deposits                                                            | (86,337)                            | (23,939)        |
| Net change in short-term borrowings                                                    | 29,960                              | 136,952         |
| Proceeds from issuance of long-term debt                                               | —                                   | 10,000          |
| Payments on long-term debt                                                             | (2,035)                             | (1,917)         |
| Acquisition of treasury stock                                                          | (6,621)                             | —               |
| Net change in noncontrolling interests                                                 | 639                                 | 6,041           |
| Cash dividends paid on common stock                                                    | (7,600)                             | (7,614)         |
| <b>Net change in financing activities</b>                                              | <b>199,656</b>                      | <b>62,047</b>   |
| Net change in cash and cash equivalents                                                | 92,907                              | 38,934          |
| Cash and cash equivalents, beginning of year                                           | 243,047                             | 83,365          |
| Cash and cash equivalents, end of period                                               | \$ 335,954                          | \$ 122,299      |
| <b>Supplemental Information:</b>                                                       |                                     |                 |
| Non-cash transactions:                                                                 |                                     |                 |
| Loans transferred to other real estate and repossessed assets                          | \$ 839                              | \$ 1,268        |
| Common stock matching contribution to Employee Stock Ownership and Profit Sharing Plan | 715                                 | 622             |
| Right of use assets obtained in exchange for lease obligations                         | 46                                  | 31              |

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

\*ASU 2016-13 adopted during the fourth quarter of 2020 therefore March 31, 2020 provision amount reflects the incurred loss method.

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

**Note 1 — Accounting Policies**

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](#) (2020 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, 2020 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. 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. Effective January 1, 2019, as part of the new leasing standard, only those costs incurred as a direct result of closing a lease transaction are capitalized. All existing deferrals will continue to be amortized over the estimated life of the lease while all new incremental direct costs are expensed immediately.

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.

Loans and leases that have been modified and economic concessions have been granted to borrowers who have experienced financial difficulties are considered a troubled debt restructuring (TDR). These concessions typically result from the Company’s loss mitigation activities and may include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Certain TDRs are classified as nonperforming at the time of restructuring and typically are returned to performing status after considering the borrower’s sustained repayment performance for a reasonable period of at least six months.

When the Company modifies loans and leases in a TDR, it evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, or uses the current fair value of the collateral, less selling costs for collateral dependent loans. 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. In periods subsequent to modification, the Company evaluates all TDRs, including those that have payment defaults, for possible impairment and recognizes impairment through the allowance for loan and lease losses.

On March 27, 2020, the President of the United States signed the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), which provides entities with optional temporary relief from certain accounting and financial reporting requirements under U.S. GAAP. Section 4013 of the CARES Act allows financial institutions to suspend application of certain TDR accounting guidance for loan and lease modifications related to the COVID-19 pandemic made between March 1, 2020 and the earlier of December 31, 2020 or 60 days after the end of the COVID-19 national emergency, provided certain criteria are met. Section 4013 of the CARES Act was amended on December 27, 2020 to extend this relief until January 1, 2022. The relief can be applied to loan and lease modifications for borrowers that were not more than 30 days past due as of December 31, 2019 and to loan and lease modifications that defer or delay the payment of principal or interest, or change the interest rate on the loan. The Company chose to apply this relief to eligible loan and lease modifications. At March 31, 2021 and December 31, 2020, loan and lease modification balances related to the COVID-19 pandemic were \$104 million and \$129 million, respectively.

## Note 2 — Recent Accounting Pronouncements

**Reference Rate Reform:** In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 “*Reference Rate Reform (Topic 848): Facilitation 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 by the discounting transition. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is implementing a transition plan to identify and modify its loans and other financial instruments with attributes that are either directly or indirectly influenced by LIBOR. The Company is continuing to assess ASU 2020-04 and its impact on the Company’s transition away from LIBOR for its loan and other financial instruments.

## Note 3 — Investment Securities Available-For-Sale

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

| <i>(Dollars in thousands)</i>                     | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value   |
|---------------------------------------------------|----------------|------------------------|-------------------------|--------------|
| <b>March 31, 2021</b>                             |                |                        |                         |              |
| U.S. Treasury and Federal agencies securities     | \$ 675,940     | \$ 7,482               | \$ (5,017)              | \$ 678,405   |
| U.S. States and political subdivisions securities | 84,472         | 1,926                  | (729)                   | 85,669       |
| Mortgage-backed securities — Federal agencies     | 484,888        | 9,008                  | (4,406)                 | 489,490      |
| Corporate debt securities                         | 35,800         | 1,276                  | —                       | 37,076       |
| Foreign government and other securities           | 700            | —                      | —                       | 700          |
| Total debt securities available-for-sale          | \$ 1,281,800   | \$ 19,692              | \$ (10,152)             | \$ 1,291,340 |
| <b>December 31, 2020</b>                          |                |                        |                         |              |
| U.S. Treasury and Federal agencies securities     | \$ 610,195     | \$ 9,521               | \$ (234)                | \$ 619,482   |
| U.S. States and political subdivisions securities | 78,812         | 2,346                  | (31)                    | 81,127       |
| Mortgage-backed securities — Federal agencies     | 442,748        | 11,237                 | (196)                   | 453,789      |
| Corporate debt securities                         | 40,813         | 1,556                  | —                       | 42,369       |
| Foreign government and other securities           | 700            | —                      | —                       | 700          |
| Total debt securities available-for-sale          | \$ 1,173,268   | \$ 24,660              | \$ (461)                | \$ 1,197,467 |

Amortized cost excludes accrued interest receivable which is included in Accrued Income and Other Assets on the Consolidated Statements of Financial Condition. At March 31, 2021 and December 31, 2020, accrued interest receivable on investment securities available-for-sale was \$3.98 million and \$3.84 million, respectively.

At March 31, 2021 and December 31, 2020, 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 March 31, 2021. 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.

| <i>(Dollars in thousands)</i>            | Amortized Cost |           | Fair Value |           |
|------------------------------------------|----------------|-----------|------------|-----------|
| Due in one year or less                  | \$             | 96,850    | \$         | 97,884    |
| Due after one year through five years    |                | 586,850   |            | 592,948   |
| Due after five years through ten years   |                | 112,742   |            | 110,586   |
| Due after ten years                      |                | 470       |            | 432       |
| Mortgage-backed securities               |                | 484,888   |            | 489,490   |
| Total debt securities available-for-sale | \$             | 1,281,800 | \$         | 1,291,340 |

The following table summarizes gross unrealized losses and fair value by investment category and age. At March 31, 2021, the Company's available-for-sale securities portfolio consisted of 646 securities, 152 of which were in an unrealized loss position.

| <i>(Dollars in thousands)</i>                     | Less than 12 Months |                   | 12 months or Longer |                   | Total      |                   |
|---------------------------------------------------|---------------------|-------------------|---------------------|-------------------|------------|-------------------|
|                                                   | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value | Unrealized Losses |
| <b>March 31, 2021</b>                             |                     |                   |                     |                   |            |                   |
| U.S. Treasury and Federal agencies securities     | \$ 368,296          | \$ (5,017)        | \$ —                | \$ —              | \$ 368,296 | \$ (5,017)        |
| U.S. States and political subdivisions securities | 25,027              | (696)             | 407                 | (33)              | 25,434     | (729)             |
| Mortgage-backed securities - Federal agencies     | 220,921             | (4,398)           | 752                 | (8)               | 221,673    | (4,406)           |
| Corporate debt securities                         | —                   | —                 | —                   | —                 | —          | —                 |
| Foreign government and other securities           | —                   | —                 | —                   | —                 | —          | —                 |
| Total debt securities available-for-sale          | \$ 614,244          | \$ (10,111)       | \$ 1,159            | \$ (41)           | \$ 615,403 | \$ (10,152)       |
| <b>December 31, 2020</b>                          |                     |                   |                     |                   |            |                   |
| U.S. Treasury and Federal agencies securities     | \$ 136,534          | \$ (234)          | \$ —                | \$ —              | \$ 136,534 | \$ (234)          |
| U.S. States and political subdivisions securities | 6,391               | (30)              | 199                 | (1)               | 6,590      | (31)              |
| Mortgage-backed securities - Federal agencies     | 67,736              | (187)             | 3,274               | (9)               | 71,010     | (196)             |
| Corporate debt securities                         | —                   | —                 | —                   | —                 | —          | —                 |
| Foreign government and other securities           | 200                 | —                 | —                   | —                 | 200        | —                 |
| Total debt securities available-for-sale          | \$ 210,861          | \$ (451)          | \$ 3,473            | \$ (10)           | \$ 214,334 | \$ (461)          |

The Company does not consider available-for-sale securities with unrealized losses at March 31, 2021 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.

| <i>(Dollars in thousands)</i> | Three Months Ended March 31, |        |
|-------------------------------|------------------------------|--------|
|                               | 2021                         | 2020   |
| Gross realized gains          | \$ —                         | \$ 280 |
| Gross realized losses         | —                            | —      |
| Net realized gains (losses)   | \$ —                         | \$ 280 |

At March 31, 2021 and December 31, 2020, investment securities available-for-sale with carrying values of \$354.17 million and \$338.68 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 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 \$100,000 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. This portfolio sector also includes PPP loans, which are fully guaranteed by the SBA. Total PPP loan originations during the three months ended March 31, 2021 and the full year of 2020 amounted to \$232.44 million and \$597.45 million, respectively. As of March 31, 2021, PPP loan balances were \$443.84 million which is net of an unearned discount of \$13.62 million. Previously, solar loans and leases had been included in this portfolio segment but after a reevaluation of credit risk characteristics and outstanding balance levels, it was determined that they should be removed and placed into a separate and unique segment.

*Solar* – 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, pledge of permits and licenses, and guarantee of the sponsor. Financing is provided to qualified borrowers throughout the continental United States with an emphasis on the region east of the Rocky Mountains. Previously, this portfolio segment was included in the commercial and agricultural portfolio segment.

*Auto and light truck* – loans are secured by vehicles and borrowers are nationwide. The portfolio consists of multiple industries: auto rental, auto leasing and specialty vehicle which includes bus, funeral car and step van. 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 lease stream. Risks in both these segments include economic risks and collateral risks, principally used vehicle values. The bus segment is secured primarily by motor coaches and some shuttle busses. Risks include lack of well-established mechanisms for disposition of collateral, such as auctions that are key to disposition of autos. Loans in the portfolio generally carry personal guarantees and are presently stressed due to the continued shut down of various sports and entertainment.

*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 or businesses. 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 United States 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, crane rental entities, forestry, and mining operations. Generally, loans include personal or business guarantees. The construction equipment industry is heavily dependent on the U.S. economy and the 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 had been primarily to the less risky owner-occupied segment although growth in recent years has been in the non-owner-occupied segment which now accounts for slightly less than half of the portfolio. The non-owner-occupied segment includes hotels, apartment complexes and warehousing facilities. There is limited exposure to development or 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 March 31, 2021.

|                                               | Term Loans and Leases by Origination Year |            |           |            |           |           | Revolving<br>Loans | Revolving Loans<br>Converted to<br>Term | Total        |
|-----------------------------------------------|-------------------------------------------|------------|-----------|------------|-----------|-----------|--------------------|-----------------------------------------|--------------|
| (Dollars in thousands)                        | 2021                                      | 2020       | 2019      | 2018       | 2017      | Prior     |                    |                                         |              |
| Commercial and agricultural                   |                                           |            |           |            |           |           |                    |                                         |              |
| Grades 1-6                                    | \$ 255,244                                | \$ 384,680 | \$ 88,262 | \$ 103,661 | \$ 50,785 | \$ 35,240 | \$ 268,480         | \$ —                                    | \$ 1,186,352 |
| Grades 7-12                                   | 5,790                                     | 840        | 3,775     | 4,353      | 2,848     | 3,190     | 31,560             | —                                       | 52,356       |
| Total commercial and agricultural             | 261,034                                   | 385,520    | 92,037    | 108,014    | 53,633    | 38,430    | 300,040            | —                                       | 1,238,708    |
| Solar                                         |                                           |            |           |            |           |           |                    |                                         |              |
| Grades 1-6                                    | 28,077                                    | 116,125    | 83,874    | 19,336     | 36,740    | 3,999     | —                  | —                                       | 288,151      |
| Grades 7-12                                   | —                                         | 1,188      | 6,040     | 745        | —         | —         | —                  | —                                       | 7,973        |
| Total solar                                   | 28,077                                    | 117,313    | 89,914    | 20,081     | 36,740    | 3,999     | —                  | —                                       | 296,124      |
| Auto and light truck                          |                                           |            |           |            |           |           |                    |                                         |              |
| Grades 1-6                                    | 92,970                                    | 209,596    | 119,507   | 44,072     | 19,813    | 3,384     | —                  | —                                       | 489,342      |
| Grades 7-12                                   | —                                         | 17,831     | 24,883    | 11,062     | 7,589     | 1,969     | —                  | —                                       | 63,334       |
| Total auto and light truck                    | 92,970                                    | 227,427    | 144,390   | 55,134     | 27,402    | 5,353     | —                  | —                                       | 552,676      |
| Medium and heavy duty truck                   |                                           |            |           |            |           |           |                    |                                         |              |
| Grades 1-6                                    | 16,870                                    | 86,222     | 81,785    | 40,273     | 26,270    | 15,702    | —                  | —                                       | 267,122      |
| Grades 7-12                                   | —                                         | —          | 898       | —          | —         | 616       | —                  | —                                       | 1,514        |
| Total medium and heavy duty truck             | 16,870                                    | 86,222     | 82,683    | 40,273     | 26,270    | 16,318    | —                  | —                                       | 268,636      |
| Aircraft                                      |                                           |            |           |            |           |           |                    |                                         |              |
| Grades 1-6                                    | 91,745                                    | 383,028    | 143,854   | 80,623     | 85,767    | 63,229    | 7,640              | —                                       | 855,886      |
| Grades 7-12                                   | —                                         | 10,717     | 2,502     | 470        | 583       | 3,612     | —                  | —                                       | 17,884       |
| Total aircraft                                | 91,745                                    | 393,745    | 146,356   | 81,093     | 86,350    | 66,841    | 7,640              | —                                       | 873,770      |
| Construction equipment                        |                                           |            |           |            |           |           |                    |                                         |              |
| Grades 1-6                                    | 59,070                                    | 295,555    | 167,247   | 85,951     | 32,604    | 14,310    | 18,105             | 41                                      | 672,883      |
| Grades 7-12                                   | 572                                       | 11,847     | 8,038     | 7,379      | 44        | 159       | 1,705              | 3,117                                   | 32,861       |
| Total construction equipment                  | 59,642                                    | 307,402    | 175,285   | 93,330     | 32,648    | 14,469    | 19,810             | 3,158                                   | 705,744      |
| Commercial real estate                        |                                           |            |           |            |           |           |                    |                                         |              |
| Grades 1-6                                    | 37,606                                    | 192,699    | 195,889   | 169,354    | 170,139   | 175,081   | 503                | —                                       | 941,271      |
| Grades 7-12                                   | 3,525                                     | 7,895      | 7,526     | 4,504      | 6,679     | 3,983     | —                  | —                                       | 34,112       |
| Total commercial real estate                  | 41,131                                    | 200,594    | 203,415   | 173,858    | 176,818   | 179,064   | 503                | —                                       | 975,383      |
| Residential real estate and home equity       |                                           |            |           |            |           |           |                    |                                         |              |
| Performing                                    | 19,235                                    | 130,509    | 56,110    | 16,840     | 17,801    | 112,867   | 126,248            | 4,837                                   | 484,447      |
| Nonperforming                                 | —                                         | —          | —         | 21         | —         | 1,341     | 247                | 100                                     | 1,709        |
| Total residential real estate and home equity | 19,235                                    | 130,509    | 56,110    | 16,861     | 17,801    | 114,208   | 126,495            | 4,937                                   | 486,156      |
| Consumer                                      |                                           |            |           |            |           |           |                    |                                         |              |
| Performing                                    | 15,816                                    | 38,546     | 29,303    | 15,557     | 5,605     | 1,987     | 18,761             | —                                       | 125,575      |
| Nonperforming                                 | —                                         | —          | 39        | 76         | 32        | 8         | 158                | —                                       | 313          |
| Total consumer                                | \$ 15,816                                 | \$ 38,546  | \$ 29,342 | \$ 15,633  | \$ 5,637  | \$ 1,995  | \$ 18,919          | \$ —                                    | \$ 125,888   |

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, 2020.

|                                               | Term Loans and Leases by Origination Year |            |            |           |           |           |                    |                                         |              |  |
|-----------------------------------------------|-------------------------------------------|------------|------------|-----------|-----------|-----------|--------------------|-----------------------------------------|--------------|--|
| (Dollars in thousands)                        | 2020                                      | 2019       | 2018       | 2017      | 2016      | Prior     | Revolving<br>Loans | Revolving Loans<br>Converted to<br>Term | Total        |  |
| Commercial and agricultural                   |                                           |            |            |           |           |           |                    |                                         |              |  |
| Grades 1-6                                    | \$ 525,816                                | \$ 103,120 | \$ 114,251 | \$ 56,007 | \$ 22,023 | \$ 19,790 | \$ 291,990         | \$ —                                    | \$ 1,132,997 |  |
| Grades 7-12                                   | 6,788                                     | 1,699      | 4,726      | 3,507     | 1,200     | 2,134     | 33,067             | —                                       | 53,121       |  |
| Total commercial and agricultural             | 532,604                                   | 104,819    | 118,977    | 59,514    | 23,223    | 21,924    | 325,057            | —                                       | 1,186,118    |  |
| Solar                                         |                                           |            |            |           |           |           |                    |                                         |              |  |
| Grades 1-6                                    | 141,089                                   | 90,435     | 20,160     | 36,909    | 4,011     | —         | —                  | —                                       | 292,604      |  |
| Grades 7-12                                   | —                                         | —          | —          | —         | —         | —         | —                  | —                                       | —            |  |
| Total solar                                   | 141,089                                   | 90,435     | 20,160     | 36,909    | 4,011     | —         | —                  | —                                       | 292,604      |  |
| Auto and light truck                          |                                           |            |            |           |           |           |                    |                                         |              |  |
| Grades 1-6                                    | 248,932                                   | 141,841    | 52,749     | 24,101    | 4,210     | 608       | —                  | —                                       | 472,441      |  |
| Grades 7-12                                   | 19,113                                    | 27,136     | 12,796     | 8,612     | 2,250     | 21        | —                  | —                                       | 69,928       |  |
| Total auto and light truck                    | 268,045                                   | 168,977    | 65,545     | 32,713    | 6,460     | 629       | —                  | —                                       | 542,369      |  |
| Medium and heavy duty truck                   |                                           |            |            |           |           |           |                    |                                         |              |  |
| Grades 1-6                                    | 92,698                                    | 88,314     | 44,205     | 31,773    | 15,644    | 4,840     | —                  | —                                       | 277,474      |  |
| Grades 7-12                                   | —                                         | 978        | —          | —         | 632       | 88        | —                  | —                                       | 1,698        |  |
| Total medium and heavy duty truck             | 92,698                                    | 89,292     | 44,205     | 31,773    | 16,276    | 4,928     | —                  | —                                       | 279,172      |  |
| Aircraft                                      |                                           |            |            |           |           |           |                    |                                         |              |  |
| Grades 1-6                                    | 429,283                                   | 153,358    | 93,042     | 95,457    | 43,972    | 20,966    | 6,370              | —                                       | 842,448      |  |
| Grades 7-12                                   | 11,519                                    | 2,561      | 479        | 596       | 2,187     | 1,670     | —                  | —                                       | 19,012       |  |
| Total aircraft                                | 440,802                                   | 155,919    | 93,521     | 96,053    | 46,159    | 22,636    | 6,370              | —                                       | 861,460      |  |
| Construction equipment                        |                                           |            |            |           |           |           |                    |                                         |              |  |
| Grades 1-6                                    | 311,174                                   | 180,550    | 96,320     | 42,713    | 12,624    | 5,722     | 17,502             | 737                                     | 667,342      |  |
| Grades 7-12                                   | 17,518                                    | 13,743     | 10,642     | 398       | 237       | 85        | 2,988              | 1,935                                   | 47,546       |  |
| Total construction equipment                  | 328,692                                   | 194,293    | 106,962    | 43,111    | 12,861    | 5,807     | 20,490             | 2,672                                   | 714,888      |  |
| Commercial real estate                        |                                           |            |            |           |           |           |                    |                                         |              |  |
| Grades 1-6                                    | 190,725                                   | 204,477    | 173,847    | 175,009   | 69,022    | 122,762   | 373                | —                                       | 936,215      |  |
| Grades 7-12                                   | 9,518                                     | 7,990      | 5,173      | 6,684     | 1,762     | 2,522     | —                  | —                                       | 33,649       |  |
| Total commercial real estate                  | 200,243                                   | 212,467    | 179,020    | 181,693   | 70,784    | 125,284   | 373                | —                                       | 969,864      |  |
| Residential real estate and home equity       |                                           |            |            |           |           |           |                    |                                         |              |  |
| Performing                                    | 133,829                                   | 65,690     | 18,194     | 22,929    | 41,847    | 86,106    | 135,255            | 5,703                                   | 509,553      |  |
| Nonperforming                                 | —                                         | —          | 21         | 14        | —         | 1,435     | 247                | 109                                     | 1,826        |  |
| Total residential real estate and home equity | 133,829                                   | 65,690     | 18,215     | 22,943    | 41,847    | 87,541    | 135,502            | 5,812                                   | 511,379      |  |
| Consumer                                      |                                           |            |            |           |           |           |                    |                                         |              |  |
| Performing                                    | 43,824                                    | 34,409     | 18,904     | 7,005     | 2,259     | 793       | 23,869             | —                                       | 131,063      |  |
| Nonperforming                                 | 2                                         | 99         | 78         | 36        | 8         | 2         | 159                | —                                       | 384          |  |
| Total consumer                                | \$ 43,826                                 | \$ 34,508  | \$ 18,982  | \$ 7,041  | \$ 2,267  | \$ 795    | \$ 24,028          | \$ —                                    | \$ 131,447   |  |

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

| <i>(Dollars in thousands)</i>           | Current      | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | 90 Days or More<br>Past Due<br>and Accruing | Total<br>Accruing<br>Loans | Nonaccrual | Total<br>Financing<br>Receivables |
|-----------------------------------------|--------------|------------------------|------------------------|---------------------------------------------|----------------------------|------------|-----------------------------------|
| <b>March 31, 2021</b>                   |              |                        |                        |                                             |                            |            |                                   |
| Commercial and agricultural             | \$ 1,233,324 | \$ 9                   | \$ 149                 | \$ —                                        | \$ 1,233,482               | \$ 5,226   | \$ 1,238,708                      |
| Solar                                   | 296,124      | —                      | —                      | —                                           | 296,124                    | —          | 296,124                           |
| Auto and light truck                    | 514,136      | 350                    | 195                    | —                                           | 514,681                    | 37,995     | 552,676                           |
| Medium and heavy duty truck             | 268,009      | 11                     | —                      | —                                           | 268,020                    | 616        | 268,636                           |
| Aircraft                                | 869,618      | —                      | 3,384                  | —                                           | 873,002                    | 768        | 873,770                           |
| Construction equipment                  | 693,952      | 1,085                  | —                      | —                                           | 695,037                    | 10,707     | 705,744                           |
| Commercial real estate                  | 974,137      | —                      | —                      | —                                           | 974,137                    | 1,246      | 975,383                           |
| Residential real estate and home equity | 483,718      | 672                    | 57                     | 59                                          | 484,506                    | 1,650      | 486,156                           |
| Consumer                                | 125,014      | 292                    | 269                    | 8                                           | 125,583                    | 305        | 125,888                           |
| Total                                   | \$ 5,458,032 | \$ 2,419               | \$ 4,054               | \$ 67                                       | \$ 5,464,572               | \$ 58,513  | \$ 5,523,085                      |
| <b>December 31, 2020</b>                |              |                        |                        |                                             |                            |            |                                   |
| Commercial and agricultural             | \$ 1,180,151 | \$ 34                  | \$ —                   | \$ —                                        | \$ 1,180,185               | \$ 5,933   | \$ 1,186,118                      |
| Solar                                   | 292,604      | —                      | —                      | —                                           | 292,604                    | —          | 292,604                           |
| Auto and light truck                    | 504,659      | 560                    | 205                    | —                                           | 505,424                    | 36,945     | 542,369                           |
| Medium and heavy duty truck             | 278,452      | —                      | —                      | —                                           | 278,452                    | 720        | 279,172                           |
| Aircraft                                | 860,632      | —                      | —                      | —                                           | 860,632                    | 828        | 861,460                           |
| Construction equipment                  | 701,124      | 1,093                  | 298                    | —                                           | 702,515                    | 12,373     | 714,888                           |
| Commercial real estate                  | 968,370      | —                      | —                      | —                                           | 968,370                    | 1,494      | 969,864                           |
| Residential real estate and home equity | 508,532      | 782                    | 239                    | 108                                         | 509,661                    | 1,718      | 511,379                           |
| Consumer                                | 130,458      | 504                    | 101                    | 7                                           | 131,070                    | 377        | 131,447                           |
| Total                                   | \$ 5,424,982 | \$ 2,973               | \$ 843                 | \$ 115                                      | \$ 5,428,913               | \$ 60,388  | \$ 5,489,301                      |

Accrued interest receivable on loans and leases at March 31, 2021 and December 31, 2020 was \$16.39 million and \$16.39 million, respectively.

The following table shows average recorded investment and interest income recognized on impaired loans and leases, segregated by portfolio segment for the three months ended March 31, 2020.

| <i>(Dollars in thousands)</i>           | Three Months Ended<br>March 31, 2020 |                    |
|-----------------------------------------|--------------------------------------|--------------------|
|                                         | Average<br>Recorded<br>Investment    | Interest<br>Income |
| Commercial and agricultural             | \$ 7,807                             | \$ 102             |
| Solar                                   | —                                    | —                  |
| Auto and light truck                    | 743                                  | —                  |
| Medium and heavy duty truck             | 1,025                                | —                  |
| Aircraft                                | 1,781                                | —                  |
| Construction equipment                  | 7,778                                | 4                  |
| Commercial real estate                  | 1,372                                | —                  |
| Residential real estate and home equity | 336                                  | 4                  |
| Consumer                                | —                                    | —                  |
| Total                                   | \$ 20,842                            | \$ 110             |

There were no loan and lease modifications classified as troubled debt restructurings (TDR) during the three months ended March 31, 2021 and 2020. 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 months ended March 31, 2021 and 2020 that resulted in an interest rate below market rate.

There were no TDRs which had payment defaults within the twelve months following modification during the three months ended March 31, 2021 and one TDR which had a payment default within the twelve months following modification during the three months ended March 31, 2020. 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 March 31, 2021 and December 31, 2020.

| <i>(Dollars in thousands)</i> | <b>March 31,<br/>2021</b> |       | <b>December 31,<br/>2020</b> |        |
|-------------------------------|---------------------------|-------|------------------------------|--------|
| Performing TDRs               | \$                        | 327   | \$                           | 330    |
| Nonperforming TDRs            |                           | 9,359 |                              | 11,156 |
| Total TDRs                    | \$                        | 9,686 | \$                           | 11,486 |

## **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. As permitted under The Cares Act, the Company adopted ASU 2016-13 on December 31, 2020. Therefore, the March 31, 2020 provision for credit losses and other allowance for loan and lease loss disclosures for the three months ended March 31, 2020 were calculated under the incurred loss method.

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 March 31, 2021 and 2020.

| <i>(Dollars in thousands)</i>      | Commercial and agricultural | Solar    | Auto and light truck | Medium and heavy duty truck | Aircraft  | Construction equipment | Commercial real estate | Residential real estate and home equity | Consumer | Total      |
|------------------------------------|-----------------------------|----------|----------------------|-----------------------------|-----------|------------------------|------------------------|-----------------------------------------|----------|------------|
| <b>March 31, 2021</b>              |                             |          |                      |                             |           |                        |                        |                                         |          |            |
| Balance, beginning of period       | \$ 16,680                   | \$ 5,549 | \$ 28,926            | \$ 6,400                    | \$ 34,053 | \$ 19,166              | \$ 22,758              | \$ 5,374                                | \$ 1,748 | \$ 140,654 |
| Charge-offs                        | 1                           | —        | 4,286                | —                           | —         | 8                      | —                      | 5                                       | 152      | 4,452      |
| Recoveries                         | 377                         | —        | 49                   | —                           | 119       | 254                    | 15                     | 1                                       | 135      | 950        |
| Net charge-offs (recoveries)       | (376)                       | —        | 4,237                | —                           | (119)     | (246)                  | (15)                   | 4                                       | 17       | 3,502      |
| Provision (recovery of provision)  | (1,605)                     | 209      | 4,654                | (129)                       | 1,047     | (3,103)                | 1,561                  | (207)                                   | (29)     | 2,398      |
| Balance, end of period             | \$ 15,451                   | \$ 5,758 | \$ 29,343            | \$ 6,271                    | \$ 35,219 | \$ 16,309              | \$ 24,334              | \$ 5,163                                | \$ 1,702 | \$ 139,550 |
| <b>March 31, 2020</b>              |                             |          |                      |                             |           |                        |                        |                                         |          |            |
| Balance, beginning of period*      | \$ 20,926                   | \$ 2,745 | \$ 14,400            | \$ 4,612                    | \$ 31,058 | \$ 14,120              | \$ 18,350              | \$ 3,609                                | \$ 1,434 | \$ 111,254 |
| Charge-offs                        | 529                         | —        | 34                   | —                           | 586       | 1,432                  | 1                      | 13                                      | 243      | 2,838      |
| Recoveries                         | 166                         | —        | 82                   | —                           | 448       | 211                    | 15                     | 27                                      | 80       | 1,029      |
| Net charge-offs (recoveries)       | 363                         | —        | (48)                 | —                           | 138       | 1,221                  | (14)                   | (14)                                    | 163      | 1,809      |
| Provision (recovery of provision)* | (280)                       | 151      | 1,023                | (256)                       | (851)     | 9,794                  | 1,224                  | 285                                     | 263      | 11,353     |
| Balance, end of period*            | \$ 20,283                   | \$ 2,896 | \$ 15,471            | \$ 4,356                    | \$ 30,069 | \$ 22,693              | \$ 19,588              | \$ 3,908                                | \$ 1,534 | \$ 120,798 |

\*ASU 2016-13 adopted during the fourth quarter of 2020 therefore first quarter 2020 amounts reflect the incurred loss method.

The allowance for loan and lease losses increased during first quarter 2021 for the most concerning portfolio segment, the bus segment of the auto and light truck portfolio, due to downward migration in credit quality and increased risk as a result of the pandemic. Increases in the allowance for the remainder of the auto and light truck portfolio were driven by loan growth, as were increases in other portfolios. Likewise, decreases in the allowance in other portfolio segments were due to decreases in loan balances. The decrease in the allowance for the construction equipment was also driven by a reduction of impairments for loans evaluated individually. The impact of adopting ASC 326 is included in the beginning balance (December 31, 2020) of each loan segment.

*Commercial and agricultural* – loan balances increased during the period due to a \$92.28 million net increase in PPP loans. Allowances were released as a result of paydowns exceeding loan originations on our core business products and minimal allowances were established for PPP loans, which have negligible risk.

*Solar* – allowance increased slightly to accommodate the limited loan growth in this portfolio segment.

*Auto and light truck* – allowance increased as a result of the significant impact the pandemic had on the bus segment of the portfolio with the increase in the allowance attributable primarily to credit deterioration in the bus segment, as well as a small increase for loan growth in the auto rental and leasing segments.

*Medium and heavy duty truck* – allowance decrease was principally attributable to a decline in loan balances during the period.

*Aircraft* – allowance increase was principally impacted by loan growth in the domestic segment.

*Construction equipment* – allowance decrease was mainly driven by lower impairments on loans evaluated individually and somewhat lower portfolio loan outstanding balances.

*Commercial real estate* – allowance increase was primarily due to credit deterioration in a hotel sector credit.

*Residential real estate and home equity* – allowance decreased as a result of lower portfolio outstanding balances.

*Consumer* – segment saw a decrease in the allowance due to somewhat lower outstanding loan balances.

#### Economic Outlook

As of March 31, 2021, the impact of the COVID-19 pandemic continues to adversely affect the loan and lease portfolios. The forecast considers global and domestic economic effects from the ongoing pandemic as well as the potential impact of U.S. monetary and fiscal policy, which may impact clients, particularly those who will benefit from a second round of paycheck protection program funds or targeted funds for struggling industry sectors such as transportation. The Company's assumption was that the economic slowdown will have an adverse impact on the loan and lease portfolio over the next two years. GDP is expected to grow throughout 2021 but is not expected to return to pre-pandemic levels until 2022. Likewise, unemployment is not likely to get back to pre-shutdown levels until 2022.

As a result of the unprecedented economic uncertainty caused by the COVID-19 pandemic, the Company's future loss estimates may vary considerably from the March 31, 2021 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<br>March 31, |          |
|------------------------------------|---------------------------------|----------|
|                                    | 2021                            | 2020     |
| <i>(Dollars in thousands)</i>      |                                 |          |
| Balance, beginning of period*      | \$ 4,499                        | \$ 3,172 |
| Provision (recovery of provision)* | 94                              | 94       |
| Balance, end of period*            | \$ 4,593                        | \$ 3,266 |

\*ASU 2016-13 adopted during the fourth quarter of 2020 therefore first quarter 2020 amounts reflect the incurred loss method.

### 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, 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<br>March 31, |          |
|-------------------------------------|---------------------------------|----------|
|                                     | 2021                            | 2020     |
| <i>(Dollars in thousands)</i>       |                                 |          |
| <b>Direct finance leases:</b>       |                                 |          |
| Interest income on lease receivable | \$ 1,590                        | \$ 2,333 |
| <b>Operating leases:</b>            |                                 |          |
| Income related to lease payments    | \$ 4,629                        | \$ 6,630 |
| Depreciation expense                | 3,773                           | 5,427    |

Income related to reimbursements from lessees for personal property tax on operating leased equipment for the three months ended March 31, 2021 and 2020 was \$0.24 million and \$0.25 million, respectively. Expense related to personal property tax payments on operating leased equipment for the three months ended March 31, 2021 and 2020 was \$0.24 million and \$0.25 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 \$866.57 million and \$838.45 million at March 31, 2021 and December 31, 2020, 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.

| (Dollars in thousands)                                           | Three Months Ended<br>March 31, |          |
|------------------------------------------------------------------|---------------------------------|----------|
|                                                                  | 2021                            | 2020     |
| Mortgage servicing rights:                                       |                                 |          |
| Balance at beginning of period                                   | \$ 4,616                        | \$ 4,200 |
| Additions                                                        | 761                             | 362      |
| Amortization                                                     | (590)                           | (409)    |
| Sales                                                            | —                               | —        |
| Carrying value before valuation allowance at end of period       | 4,787                           | 4,153    |
| Valuation allowance:                                             |                                 |          |
| Balance at beginning of period                                   | (812)                           | —        |
| Impairment recoveries                                            | 42                              | —        |
| Balance at end of period                                         | \$ (770)                        | \$ —     |
| Net carrying value of mortgage servicing rights at end of period | \$ 4,017                        | \$ 4,153 |
| Fair value of mortgage servicing rights at end of period         | \$ 4,365                        | \$ 4,538 |

At March 31, 2021 and 2020, the fair value of MSRs exceeded the carrying value reported in the Consolidated Statements of Financial Condition by \$0.35 million and \$0.39 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 \$0.81 million and \$0.69 million for the three months ended March 31, 2021 and 2020, 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.

| (Dollars in thousands)                   | March 31, 2021 | December 31, 2020 |
|------------------------------------------|----------------|-------------------|
| Amounts of commitments:                  |                |                   |
| Loan commitments to extend credit        | \$ 1,189,671   | \$ 1,140,892      |
| Standby letters of credit                | \$ 26,978      | \$ 24,884         |
| Commercial and similar letters of credit | \$ 8,491       | \$ 7,095          |

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)            | Notional or contractual amount | Asset derivatives                               |            | Liability derivatives                           |            |
|-----------------------------------|--------------------------------|-------------------------------------------------|------------|-------------------------------------------------|------------|
|                                   |                                | Statement of Financial Condition classification | Fair value | Statement of Financial Condition classification | Fair value |
| March 31, 2021                    |                                |                                                 |            |                                                 |            |
| Interest rate swap contracts      | \$ 1,158,793                   | Other assets                                    | \$ 31,311  | Other liabilities                               | \$ 32,005  |
| Loan commitments                  | 22,010                         | Mortgages held for sale                         | 789        | N/A                                             | —          |
| Forward contracts - mortgage loan | 23,000                         | Mortgages held for sale                         | 287        | N/A                                             | —          |
| Total                             | \$ 1,203,803                   |                                                 | \$ 32,387  |                                                 | \$ 32,005  |
|                                   |                                |                                                 |            |                                                 |            |
| December 31, 2020                 |                                |                                                 |            |                                                 |            |
| Interest rate swap contracts      | \$ 1,155,252                   | Other assets                                    | \$ 46,654  | Other liabilities                               | \$ 47,681  |
| Loan commitments                  | 32,588                         | Mortgages held for sale                         | 1,487      | N/A                                             | —          |
| Forward contracts - mortgage loan | 38,310                         | N/A                                             | —          | Mortgages held for sale                         | 290        |
| Total                             | \$ 1,226,150                   |                                                 | \$ 48,141  |                                                 | \$ 47,971  |

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

| (Dollars in thousands)            | Statement of Income classification | Gain (loss)                  |          |
|-----------------------------------|------------------------------------|------------------------------|----------|
|                                   |                                    | Three Months Ended March 31, |          |
|                                   |                                    | 2021                         | 2020     |
| Interest rate swap contracts      | Other expense                      | \$ 333                       | \$ (519) |
| Interest rate swap contracts      | Other income                       | 86                           | 91       |
| Loan commitments                  | Mortgage banking                   | (698)                        | 1,196    |
| Forward contracts - mortgage loan | Mortgage banking                   | 577                          | (320)    |
| Total                             |                                    | \$ 298                       | \$ 448   |

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

| (Dollars in thousands) | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statement of Financial Condition | Net Amounts of Assets Presented in the Statement of Financial Condition | Gross Amounts Not Offset in the Statement of Financial Condition |                          |            |
|------------------------|------------------------------------|--------------------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------------------------------|--------------------------|------------|
|                        |                                    |                                                              |                                                                         | Financial Instruments                                            | Cash Collateral Received | Net Amount |
| March 31, 2021         |                                    |                                                              |                                                                         |                                                                  |                          |            |
| Interest rate swaps    | \$ 35,034                          | \$ 3,723                                                     | \$ 31,311                                                               | \$ —                                                             | \$ —                     | \$ 31,311  |
| December 31, 2020      |                                    |                                                              |                                                                         |                                                                  |                          |            |
| Interest rate swaps    | \$ 52,872                          | \$ 6,218                                                     | \$ 46,654                                                               | \$ —                                                             | \$ —                     | \$ 46,654  |

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

| (Dollars in thousands) | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Condition | Net Amounts of Liabilities Presented in the Statement of Financial Condition | Gross Amounts Not Offset in the Statement of Financial Condition |                         |            |  |  |
|------------------------|-----------------------------------------|--------------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------------------------------------|-------------------------|------------|--|--|
|                        |                                         |                                                              |                                                                              | Financial Instruments                                            | Cash Collateral Pledged | Net Amount |  |  |
| March 31, 2021         |                                         |                                                              |                                                                              |                                                                  |                         |            |  |  |
| Interest rate swaps    | \$ 35,728                               | \$ 3,723                                                     | \$ 32,005                                                                    | \$ 32,090                                                        | \$ —                    | \$ (85)    |  |  |
| Repurchase agreements  | 173,302                                 | —                                                            | 173,302                                                                      | 173,302                                                          | —                       | —          |  |  |
| Total                  | \$ 209,030                              | \$ 3,723                                                     | \$ 205,307                                                                   | \$ 205,392                                                       | \$ —                    | \$ (85)    |  |  |
|                        |                                         |                                                              |                                                                              |                                                                  |                         |            |  |  |
| December 31, 2020      |                                         |                                                              |                                                                              |                                                                  |                         |            |  |  |
| Interest rate swaps    | \$ 53,899                               | \$ 6,218                                                     | \$ 47,681                                                                    | \$ 46,978                                                        | \$ —                    | \$ 703     |  |  |
| Repurchase agreements  | 143,564                                 | —                                                            | 143,564                                                                      | 143,564                                                          | —                       | —          |  |  |
| Total                  | \$ 197,463                              | \$ 6,218                                                     | \$ 191,245                                                                   | \$ 190,542                                                       | \$ —                    | \$ 703     |  |  |

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 March 31, 2021 and December 31, 2020, repurchase agreements had a remaining contractual maturity of \$172.30 million and \$141.42 million in overnight and \$1.00 million and \$2.14 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 credits from affordable housing investments and community development investments are recognized as a reduction of tax expense. Investments in renewable energy sources qualify as investment tax credits and are recognized as a reduction to the related investment asset. The Company recognized federal income tax credits related to its affordable housing and community development tax-advantaged investments in tax expense of \$0.50 million and \$0.43 million for the three months ended March 31, 2021 and 2020, respectively. The Company also recognized \$1.92 million and \$2.24 million of investment tax credits for the three months ended March 31, 2021 and 2020, 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, we are 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 include 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, 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.

| <i>(Dollars in thousands)</i>          | <b>March 31, 2021</b> | <b>December 31, 2020</b> |
|----------------------------------------|-----------------------|--------------------------|
| Investment carrying amount             | \$ 20,209             | \$ 22,742                |
| Unfunded capital and other commitments | 25,981                | 26,716                   |
| Maximum exposure to loss               | 50,092                | 52,106                   |

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 third parties. At March 31, 2021 and December 31, 2020, approximately \$53.33 million and \$53.61 million of the Company's assets and \$3.94 million and \$4.93 million 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 therefore reported in the financial statements as an unconsolidated subsidiary. The junior subordinated debentures are reflected as subordinated notes in the Statements of Financial Condition with the corresponding interest distributions reflected as Interest Expense in the Statements of Income. The common shares issued by the Capital Trust are included in Other Assets in the 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 March 31, 2021.

| <i>(Dollars in thousands)</i> | Amount of<br>Subordinated Notes | Interest Rate | Maturity Date |
|-------------------------------|---------------------------------|---------------|---------------|
| June 2007 issuance (1)        | \$ 41,238                       | 7.22 %        | 6/15/2037     |
| August 2007 issuance (2)      | 17,526                          | 1.66 %        | 9/15/2037     |
| <b>Total</b>                  | <b>\$ 58,764</b>                |               |               |

(1) Fixed rate through life of debt.

(2) 3-Month LIBOR +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 March 31, 2021 and 2020.

The following table presents a reconciliation of the number of shares used in the calculation of basic and diluted earnings per common share.

| <i>(Dollars in thousands - except per share amounts)</i>                  | Three Months Ended<br>March 31, |            |
|---------------------------------------------------------------------------|---------------------------------|------------|
|                                                                           | 2021                            | 2020       |
| Distributed earnings allocated to common stock                            | \$ 7,364                        | \$ 7,399   |
| Undistributed earnings allocated to common stock                          | 20,531                          | 8,941      |
| Net earnings allocated to common stock                                    | 27,895                          | 16,340     |
| Net earnings allocated to participating securities                        | 210                             | 73         |
| Net income allocated to common stock and participating securities         | \$ 28,105                       | \$ 16,413  |
| Weighted average shares outstanding for basic earnings per common share   | 25,320,930                      | 25,523,356 |
| Dilutive effect of stock compensation                                     | —                               | —          |
| Weighted average shares outstanding for diluted earnings per common share | 25,320,930                      | 25,523,356 |
| Basic earnings per common share                                           | \$ 1.10                         | \$ 0.64    |
| Diluted earnings per common share                                         | \$ 1.10                         | \$ 0.64    |

## Note 12 — Stock Based Compensation

As of March 31, 2021, 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, 2020. These plans include three executive stock award plans, the Executive Incentive Plan, the Restricted Stock Award Plan, the Strategic Deployment Incentive Plan; and the Employee Stock Purchase Plan. The 2011 Stock Option Plan was approved by the shareholders on April 21, 2011 but the Company had not made any grants through March 31, 2021.

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 three months ended March 31, 2021 and 2020. As of March 31, 2021 and 2020 there were no outstanding stock options. There were no stock options exercised during the three months ended March 31, 2021 and 2020. All shares issued in connection with stock option exercises are issued from available treasury stock.

As of March 31, 2021, there was \$9.17 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 3.60 years.

### Note 13 — Accumulated Other Comprehensive Income (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 March 31, |        | Affected Line Item in the Statements of Income    |
|---------------------------------------|------------------------------|--------|---------------------------------------------------|
|                                       | 2021                         | 2020   |                                                   |
| Realized gains included in net income | \$ —                         | \$ 280 | Gains on investment securities available-for-sale |
|                                       |                              | 280    | Income before income taxes                        |
| Tax effect                            | —                            | (67)   | Income tax expense                                |
| Net of tax                            | \$ —                         | \$ 213 | 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 March 31, 2021 and December 31, 2020. Interest and penalties are recognized through the income tax provision. For the three months ended March 31, 2021 and 2020, the Company recognized no interest or penalties. There were no accrued interest and penalties at March 31, 2021 and December 31, 2020.

Tax years that remain open and subject to audit include the federal 2017-2020 years and the Indiana 2017-2020 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-efforts forward sales commitments. At March 31, 2021 and December 31, 2020, 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.

| <i>(Dollars in thousands)</i>                  | Fair value carrying<br>amount | Aggregate<br>unpaid principal | Excess of fair<br>value carrying<br>amount over<br>(under) unpaid<br>principal |
|------------------------------------------------|-------------------------------|-------------------------------|--------------------------------------------------------------------------------|
| <b>March 31, 2021</b>                          |                               |                               |                                                                                |
| Mortgages held for sale reported at fair value | \$ 9,351                      | \$ 7,733                      | \$ 1,618 (1)                                                                   |
| <b>December 31, 2020</b>                       |                               |                               |                                                                                |
| Mortgages held for sale reported at fair value | \$ 12,885                     | \$ 11,045                     | \$ 1,840 (1)                                                                   |

(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 using a market value approach and utilizing an appropriate current market yield and a loan commitment closing rate based on historical analysis.

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.

| <i>(Dollars in thousands)</i>                                          | Level 1           | Level 2             | Level 3         | Total               |
|------------------------------------------------------------------------|-------------------|---------------------|-----------------|---------------------|
| <b>March 31, 2021</b>                                                  |                   |                     |                 |                     |
| <u>Assets:</u>                                                         |                   |                     |                 |                     |
| Investment securities available-for-sale:                              |                   |                     |                 |                     |
| U.S. Treasury and Federal agencies securities                          | \$ 118,956        | \$ 559,449          | \$ —            | \$ 678,405          |
| U.S. States and political subdivisions securities                      | —                 | 83,762              | 1,907           | 85,669              |
| Mortgage-backed securities — Federal agencies                          | —                 | 489,490             | —               | 489,490             |
| Corporate debt securities                                              | —                 | 37,076              | —               | 37,076              |
| Foreign government and other securities                                | —                 | 700                 | —               | 700                 |
| Total debt securities available-for-sale                               | 118,956           | 1,170,477           | 1,907           | 1,291,340           |
| Mortgages held for sale                                                | —                 | 9,351               | —               | 9,351               |
| Accrued income and other assets (interest rate swap agreements)        | —                 | 31,311              | —               | 31,311              |
| <b>Total</b>                                                           | <b>\$ 118,956</b> | <b>\$ 1,211,139</b> | <b>\$ 1,907</b> | <b>\$ 1,332,002</b> |
| <u>Liabilities:</u>                                                    |                   |                     |                 |                     |
| Accrued expenses and other liabilities (interest rate swap agreements) | \$ —              | \$ 32,005           | \$ —            | \$ 32,005           |
| <b>Total</b>                                                           | <b>\$ —</b>       | <b>\$ 32,005</b>    | <b>\$ —</b>     | <b>\$ 32,005</b>    |
| <b>December 31, 2020</b>                                               |                   |                     |                 |                     |
| <u>Assets:</u>                                                         |                   |                     |                 |                     |
| Investment securities available-for-sale:                              |                   |                     |                 |                     |
| U.S. Treasury and Federal agencies securities                          | \$ 80,285         | \$ 539,197          | \$ —            | \$ 619,482          |
| U.S. States and political subdivisions securities                      | —                 | 78,975              | 2,152           | 81,127              |
| Mortgage-backed securities — Federal agencies                          | —                 | 453,789             | —               | 453,789             |
| Corporate debt securities                                              | —                 | 42,369              | —               | 42,369              |
| Foreign government and other securities                                | —                 | 700                 | —               | 700                 |
| Total debt securities available-for-sale                               | 80,285            | 1,115,030           | 2,152           | 1,197,467           |
| Mortgages held for sale                                                | —                 | 12,885              | —               | 12,885              |
| Accrued income and other assets (interest rate swap agreements)        | —                 | 46,654              | —               | 46,654              |
| <b>Total</b>                                                           | <b>\$ 80,285</b>  | <b>\$ 1,174,569</b> | <b>\$ 2,152</b> | <b>\$ 1,257,006</b> |
| <u>Liabilities:</u>                                                    |                   |                     |                 |                     |
| Accrued expenses and other liabilities (interest rate swap agreements) | \$ —              | \$ 47,681           | \$ —            | \$ 47,681           |
| <b>Total</b>                                                           | <b>\$ —</b>       | <b>\$ 47,681</b>    | <b>\$ —</b>     | <b>\$ 47,681</b>    |

The following table shows changes in Level 3 assets measured at fair value on a recurring basis for the quarter ended March 31, 2021 and 2020.

|                                              | U.S. States and<br>political<br>subdivisions<br>securities |
|----------------------------------------------|------------------------------------------------------------|
| <i>(Dollars in thousands)</i>                |                                                            |
| <b>Beginning balance January 1, 2021</b>     | \$ 2,152                                                   |
| Total gains or losses (realized/unrealized): |                                                            |
| Included in earnings                         | —                                                          |
| Included in other comprehensive income       | (80)                                                       |
| Purchases                                    | —                                                          |
| Issuances                                    | —                                                          |
| Sales                                        | —                                                          |
| Settlements                                  | —                                                          |
| Maturities                                   | (165)                                                      |
| Transfers into Level 3                       | —                                                          |
| Transfers out of Level 3                     | —                                                          |
| <b>Ending balance March 31, 2021</b>         | \$ 1,907                                                   |
| <b>Beginning balance January 1, 2020</b>     | \$ 2,292                                                   |
| Total gains or losses (realized/unrealized): |                                                            |
| Included in earnings                         | —                                                          |
| Included in other comprehensive income       | (17)                                                       |
| Purchases                                    | 3,100                                                      |
| Issuances                                    | —                                                          |
| Sales                                        | —                                                          |
| Settlements                                  | —                                                          |
| Maturities                                   | (80)                                                       |
| Transfers into Level 3                       | —                                                          |
| Transfers out of Level 3                     | —                                                          |
| <b>Ending balance March 31, 2020</b>         | \$ 5,295                                                   |

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 March 31, 2021 or 2020.

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>         | Fair Value | Valuation Methodology | Unobservable Inputs      | Range of Inputs | Weighted Average |
|---------------------------------------|------------|-----------------------|--------------------------|-----------------|------------------|
| <b>March 31, 2021</b>                 |            |                       |                          |                 |                  |
| Debt securities available-for sale    |            |                       |                          |                 |                  |
| Direct placement municipal securities | \$ 1,907   | Discounted cash flows | Credit spread assumption | 1.78% - 3.15%   | 2.34 %           |
| <b>December 31, 2020</b>              |            |                       |                          |                 |                  |
| Debt securities available-for sale    |            |                       |                          |                 |                  |
| Direct placement municipal securities | \$ 2,152   | Discounted cash flows | Credit spread assumption | 0.04% - 2.30%   | 1.55 %           |

**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 March 31, 2021: collateral-dependent impaired loans - \$0.00 million; mortgage servicing rights - (\$0.04) million; repossessions - \$0.03 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.

| <i>(Dollars in thousands)</i>                               | Level 1     | Level 2     | Level 3          | Total            |
|-------------------------------------------------------------|-------------|-------------|------------------|------------------|
| <b>March 31, 2021</b>                                       |             |             |                  |                  |
| Collateral-dependent impaired loans                         | \$ —        | \$ —        | \$ 9,171         | \$ 9,171         |
| Accrued income and other assets (mortgage servicing rights) | —           | —           | 4,017            | 4,017            |
| Accrued income and other assets (repossessions)             | —           | —           | 2,214            | 2,214            |
| Accrued income and other assets (other real estate)         | —           | —           | 369              | 369              |
| <b>Total</b>                                                | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 15,771</b> | <b>\$ 15,771</b> |
| <b>December 31, 2020</b>                                    |             |             |                  |                  |
| Collateral-dependent impaired loans                         | \$ —        | \$ —        | \$ 11,991        | \$ 11,991        |
| Accrued income and other assets (mortgage servicing rights) | —           | —           | 3,804            | 3,804            |
| Accrued income and other assets (repossessions)             | —           | —           | 1,976            | 1,976            |
| Accrued income and other assets (other real estate)         | —           | —           | 359              | 359              |
| <b>Total</b>                                                | <b>\$ —</b> | <b>\$ —</b> | <b>\$ 18,130</b> | <b>\$ 18,130</b> |

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.

| <i>(Dollars in thousands)</i>       | Carrying Value | Fair Value | Valuation Methodology                                                                      | Unobservable Inputs                                       | Range of Inputs               | Weighted Average |
|-------------------------------------|----------------|------------|--------------------------------------------------------------------------------------------|-----------------------------------------------------------|-------------------------------|------------------|
| <b>March 31, 2021</b>               |                |            |                                                                                            |                                                           |                               |                  |
| Collateral-dependent impaired loans | \$ 9,171       | \$ 9,171   | Collateral based measurements including appraisals, trade publications, and auction values | Discount for lack of marketability and current conditions | 10% - 90%                     | 30.0 %           |
| Mortgage servicing rights           | 4,017          | 4,365      | Discounted cash flows                                                                      | Constant prepayment rate (CPR)<br>Discount rate           | 14.6% - 25.3%<br>8.8% - 11.6% | 21.7 %<br>8.9 %  |
| Repossessions                       | 2,214          | 2,368      | Appraisals, trade publications and auction values                                          | Discount for lack of marketability                        | 0% - 16%                      | 7 %              |
| Other real estate                   | 369            | 374        | Appraisals                                                                                 | Discount for lack of marketability                        | 0% - 13%                      | 1 %              |
| <b>December 31, 2020</b>            |                |            |                                                                                            |                                                           |                               |                  |
| Collateral-dependent impaired loans | \$ 11,991      | \$ 11,991  | Collateral based measurements including appraisals, trade publications, and auction values | Discount for lack of marketability and current conditions | 0% - 100%                     | 43.7 %           |
| Mortgage servicing rights           | 3,804          | 4,038      | Discounted cash flows                                                                      | Constant prepayment rate (CPR)<br>Discount rate           | 16.2% - 30.5%<br>8.3% - 11.1% | 22.8 %<br>8.5 %  |
| Repossessions                       | 1,976          | 2,144      | Appraisals, trade publications and auction values                                          | Discount for lack of marketability                        | 0% - 16%                      | 8 %              |
| Other real estate                   | 359            | 388        | Appraisals                                                                                 | Discount for lack of marketability                        | 6% - 13%                      | 7 %              |

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.

| <i>(Dollars in thousands)</i>                                     | Carrying or<br>Contract Value | Fair Value   | Level 1      | Level 2      | Level 3   |
|-------------------------------------------------------------------|-------------------------------|--------------|--------------|--------------|-----------|
| <b>March 31, 2021</b>                                             |                               |              |              |              |           |
| <u>Assets:</u>                                                    |                               |              |              |              |           |
| Cash and due from banks                                           | \$ 69,683                     | \$ 69,683    | \$ 69,683    | \$ —         | \$ —      |
| Federal funds sold and interest bearing deposits with other banks | 266,271                       | 266,271      | 266,271      | —            | —         |
| Investment securities, available-for-sale                         | 1,291,340                     | 1,291,340    | 118,956      | 1,170,477    | 1,907     |
| Other investments                                                 | 27,429                        | 27,429       | 27,429       | —            | —         |
| Mortgages held for sale                                           | 9,351                         | 9,351        | —            | 9,351        | —         |
| Loans and leases, net of allowance for loan and lease losses      | 5,383,535                     | 5,467,450    | —            | —            | 5,467,450 |
| Mortgage servicing rights                                         | 4,017                         | 4,365        | —            | —            | 4,365     |
| Accrued interest receivable                                       | 20,384                        | 20,384       | —            | 20,384       | —         |
| Interest rate swaps                                               | 31,311                        | 31,311       | —            | 31,311       | —         |
| <u>Liabilities:</u>                                               |                               |              |              |              |           |
| Deposits                                                          | \$ 6,131,341                  | \$ 6,138,346 | \$ 5,050,321 | \$ 1,088,025 | \$ —      |
| Short-term borrowings                                             | 180,601                       | 180,601      | 174,684      | 5,917        | —         |
| Long-term debt and mandatorily redeemable securities              | 81,722                        | 80,906       | —            | 80,906       | —         |
| Subordinated notes                                                | 58,764                        | 58,502       | —            | 58,502       | —         |
| Accrued interest payable                                          | 4,260                         | 4,260        | —            | 4,260        | —         |
| Interest rate swaps                                               | 32,005                        | 32,005       | —            | 32,005       | —         |
| Off-balance-sheet instruments *                                   | —                             | 366          | —            | 366          | —         |
| <b>December 31, 2020</b>                                          |                               |              |              |              |           |
| <u>Assets:</u>                                                    |                               |              |              |              |           |
| Cash and due from banks                                           | \$ 74,186                     | \$ 74,186    | \$ 74,186    | \$ —         | \$ —      |
| Federal funds sold and interest bearing deposits with other banks | 168,861                       | 168,861      | 168,861      | —            | —         |
| Investment securities, available-for-sale                         | 1,197,467                     | 1,197,467    | 80,285       | 1,115,030    | 2,152     |
| Other investments                                                 | 27,429                        | 27,429       | 27,429       | —            | —         |
| Mortgages held for sale                                           | 12,885                        | 12,885       | —            | 12,885       | —         |
| Loans and leases, net of allowance for loan and lease losses      | 5,348,647                     | 5,417,396    | —            | —            | 5,417,396 |
| Mortgage servicing rights                                         | 3,804                         | 4,038        | —            | —            | 4,038     |
| Accrued interest receivable                                       | 20,242                        | 20,242       | —            | 20,242       | —         |
| Interest rate swaps                                               | 46,654                        | 46,654       | —            | 46,654       | —         |
| <u>Liabilities:</u>                                               |                               |              |              |              |           |
| Deposits                                                          | \$ 5,946,028                  | \$ 5,955,545 | \$ 4,778,671 | \$ 1,176,874 | \$ —      |
| Short-term borrowings                                             | 150,641                       | 150,641      | 143,730      | 6,911        | —         |
| Long-term debt and mandatorily redeemable securities              | 81,864                        | 82,965       | —            | 82,965       | —         |
| Subordinated notes                                                | 58,764                        | 58,560       | —            | 58,560       | —         |
| Accrued interest payable                                          | 3,996                         | 3,996        | —            | 3,996        | —         |
| Interest rate swaps                                               | 47,681                        | 47,681       | —            | 47,681       | —         |
| Off-balance-sheet instruments *                                   | —                             | 321          | —            | 321          | —         |

\* 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 March 31, 2021, as compared to December 31, 2020, and the results of operations for the three months ended March 31, 2021 and 2020. 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 2020 [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," "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; more recently, 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 2020, 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 March 31, 2021 were \$7.51 billion, an increase of \$195.52 million or 2.67% from December 31, 2020. Total investment securities, available-for-sale were \$1.29 billion, an increase of \$93.87 million or 7.84% from December 31, 2020. Federal funds sold and interest bearing deposits with other banks were \$266.27 million, an increase of \$97.41 million or 57.69% from December 31, 2020.

Total loans and leases were \$5.52 billion, an increase of \$33.78 million or 0.62% from December 31, 2020. The largest contributor to the increase in loans and leases was PPP loans funded during the first quarter of 2021. PPP loans are discussed in the "COVID-19 Impact" section below. Our foreign loan and lease balances, all denominated in U.S. dollars were \$178.41 million and \$180.06 million as of March 31, 2021 and December 31, 2020, respectively. Foreign loans and leases are in aircraft financing. Loan and lease balances to borrowers in Brazil and Mexico were \$68.20 million and \$103.85 million as of March 31, 2021, respectively, compared to \$66.98 million and \$103.52 million as of December 31, 2020, respectively. As of March 31, 2021 and December 31, 2020 there was not a significant concentration in any other country.

Equipment owned under operating leases was \$61.40 million, a decrease of \$3.65 million, or 5.60% compared to December 31, 2020. The largest contributor to the decrease in equipment owned under operating leases was reduced leasing volume primarily due to a change in customer preferences.

Total deposits were \$6.13 billion, an increase of \$185.31 million or 3.12% from the end of 2020. The largest contributors to the increase in total deposits was PPP loan fundings into business accounts and consumer savings levels. Short-term borrowings were \$180.60 million, an increase of \$29.96 million or 19.89% from December 31, 2020. The largest contributor to the increase in short-term borrowings was an increase of \$29.74 million in repurchase agreements at March 31, 2021 compared to December 31, 2020. Long-term debt and mandatorily redeemable securities were \$81.72 million, a decrease of \$0.14 million or 0.17% from December 31, 2020.

The following table shows accrued income and other assets.

| <i>(Dollars in thousands)</i>                  | March 31,<br>2021 | December 31,<br>2020 |
|------------------------------------------------|-------------------|----------------------|
| Accrued income and other assets:               |                   |                      |
| Bank owned life insurance cash surrender value | \$ 70,402         | \$ 70,192            |
| Operating lease right of use assets            | 23,107            | 23,825               |
| Accrued interest receivable                    | 20,384            | 20,242               |
| Mortgage servicing rights                      | 4,017             | 3,804                |
| Other real estate                              | 369               | 359                  |
| Repossessions                                  | 2,214             | 1,976                |
| Partnership investments carrying amount        | 73,539            | 76,349               |
| All other assets                               | 76,665            | 91,828               |
| <b>Total accrued income and other assets</b>   | <b>\$ 270,697</b> | <b>\$ 288,575</b>    |

The largest contributors to the decrease in accrued income and other assets from December 31, 2020 were a decrease in the fair value of interest rate swap contracts with customers and lower solar partnership investment carrying amounts.

### **CORONAVIRUS (COVID-19) IMPACT**

The following is a description of the impact the Coronavirus (COVID-19) pandemic is having on our financial condition and results of operations and certain risks to our business that the pandemic creates or exacerbates.

#### *Operational Impact*

Pursuant to our preexisting disaster recovery plan addressing potential pandemic outbreaks, we created a dedicated executive COVID-19 response team that is closely monitoring developments and providing guidance for additional precautions and initiatives. We have divided departments among various locations to help ensure that infection will not spread across entire departments. We are encouraging virtual meetings and conference calls in place of in-person meetings, including our annual shareholder meeting which will be held virtually again this year. Employees with health conditions putting them at higher risk of adverse effects from coronavirus infection have been given the opportunity to work remotely. Additionally, travel has been restricted. We are promoting social distancing, frequent hand washing, disinfection of all surfaces, and the use of masks or nose and mouth coverings have been mandated in all of our locations. We are offering paid time off to all of our colleagues to schedule vaccinations. As of mid-April, 50% of our colleagues had received at least their first dose of vaccine. The majority of our banking center lobbies had been closed except for advance appointments only. In April, we fully reopened the majority of our banking centers with safe social distancing and mask guidelines in place for the safety of our colleagues and clients. Banking center drive-ups, ATMs and online/mobile banking services continue to provide a more physically distanced alternative. Infection rates in the communities we serve vary by region and we will continue to make prudent decisions for the safety of our colleagues and our clients. We are hopeful that infection rates will continue to decline in the communities we serve as the percentage of fully vaccinated individuals continues to increase.

### Loan and lease modifications

We began receiving requests from our borrowers for loan and lease deferrals in March 2020 which declined over the remainder of 2020. Modifications include the deferral of principal payments or the deferral of principal and interest payments for terms generally 90 - 180 days. Requests are evaluated individually and approved modifications are based on the unique circumstances of each borrower. We are committed to working with our clients to allow time to work through the challenges of this pandemic. At this time, it is uncertain what future impact loan and lease modifications related to COVID-19 difficulties will have on our financial condition, results of operations and allowance for loan and lease losses. The following table shows coronavirus loan and lease modification balances in deferment as of March 31, 2021 and December 31, 2020.

| (Dollars in millions)                   | COVID-19 Related Loan and Lease Modifications |                   |
|-----------------------------------------|-----------------------------------------------|-------------------|
|                                         | March 31, 2021                                | December 31, 2020 |
| Auto and light truck rental             | \$ 1                                          | \$ 5              |
| Specialty vehicle <sup>(1)</sup>        | 27                                            | 21                |
| Medium and heavy duty truck             | —                                             | —                 |
| Aircraft                                | 9                                             | 13                |
| Construction                            | 7                                             | 7                 |
| Commercial                              | 60                                            | 83                |
| Residential real estate and home equity | —                                             | —                 |
| Consumer                                | —                                             | —                 |
| <b>Total loans and leases</b>           | <b>\$ 104</b>                                 | <b>\$ 129</b>     |

(1) Includes buses, step vans and funeral cars.

The following table shows the coronavirus loan and lease modification balances by deferral type as of March 31, 2021.

| (Dollars in millions)                              | Principal Only<br>Deferrals | Principal and<br>Interest<br>Deferrals | Total<br>Modifications in<br>Deferment | Additional<br>Modifications<br>Expected <sup>(1)</sup> | Total Modifications | Recorded Investment<br>at<br>March 31, 2021 | Total Modifications as a % of<br>March 31, 2021<br>Balance |
|----------------------------------------------------|-----------------------------|----------------------------------------|----------------------------------------|--------------------------------------------------------|---------------------|---------------------------------------------|------------------------------------------------------------|
| Auto and light truck rental                        | \$ 1                        | \$ —                                   | \$ 1                                   | \$ —                                                   | \$ 1                | \$ 425                                      | — %                                                        |
| Specialty vehicle <sup>(2)</sup>                   | 27                          | —                                      | 27                                     | 9                                                      | 36                  | 128                                         | 28 %                                                       |
| Medium and heavy duty truck                        | —                           | —                                      | —                                      | —                                                      | —                   | 269                                         | — %                                                        |
| Aircraft                                           | 9                           | —                                      | 9                                      | 8                                                      | 17                  | 874                                         | 2 %                                                        |
| Construction                                       | 7                           | —                                      | 7                                      | —                                                      | 7                   | 706                                         | 1 %                                                        |
| Commercial                                         | 15                          | 45                                     | 60                                     | 12                                                     | 72                  | 2,509                                       | 3 %                                                        |
| Residential real estate and home equity            | —                           | —                                      | —                                      | —                                                      | —                   | 486                                         | — %                                                        |
| Consumer                                           | —                           | —                                      | —                                      | —                                                      | —                   | 126                                         | — %                                                        |
| <b>Total loans and leases</b>                      | <b>59</b>                   | <b>45</b>                              | <b>104</b>                             | <b>29</b>                                              | <b>133</b>          | <b>5,523</b>                                | <b>2 %</b>                                                 |
| PPP loans, net of unearned discount <sup>(3)</sup> | —                           | —                                      | —                                      | —                                                      | —                   | 444                                         | — %                                                        |
| <b>Total loans and leases less PPP loans</b>       | <b>\$ 59</b>                | <b>\$ 45</b>                           | <b>\$ 104</b>                          | <b>\$ 29</b>                                           | <b>\$ 133</b>       | <b>\$ 5,079</b>                             | <b>3 %</b>                                                 |

(1) Represents modifications which ended deferment during March 2021 and are in the process of receiving or expected to receive an extension.

(2) Includes buses, step vans and funeral cars.

(3) PPP loan balances are located within the Commercial category above.

As of March 31, 2021, COVID-19 related loan modifications for our bus lending were \$36.30 million or 56.03% (includes \$8.86 million whose modification period ended during March but we expect to grant further extensions) of our total bus loan balances. COVID-19 related loan modifications for the hotel industry were \$67.69 million or 42.61% (includes \$11.90 million whose modification period ended during March but we expect to grant further extensions) of our total hotel loan balances. Hotel loans are shown within the Commercial category in the charts above.

*Paycheck Protection Program (PPP) and Liquidity*

As part of the CARES Act, approved by President Trump on March 27, 2020 and extended on July 4, 2020, the Small Business Administration (SBA) was authorized to guarantee loans under the PPP through August 8, 2020 for businesses who meet the necessary eligibility requirements in order to keep their workers on the payroll. We began accepting applications on April 3, 2020 and disbursed the final PPP loan on August 25, 2020 from the first round. On December 27, 2020, the Coronavirus Response and Relief Supplemental Appropriations Act was approved which authorized a second round of PPP loans. PPP loans are fully guaranteed by the SBA and as such do not represent a credit risk. The following table shows PPP loan disbursements as of March 31, 2021.

|                | Number of Loans | \$ of Loans (000's) |                | Average Loan Size |
|----------------|-----------------|---------------------|----------------|-------------------|
| 2020 PPP Loans | 3,540           | \$                  | 597,451        | \$ 169,000        |
| 2021 PPP Loans | 2,573           |                     | 232,437        | 90,000            |
| <b>Total</b>   | <b>6,113</b>    | <b>\$</b>           | <b>829,888</b> | <b>\$ 136,000</b> |

As of March 31, 2021, total PPP loans were \$443.84 million which is net of an unearned discount of \$13.62 million and located within the commercial and agricultural portfolio. At March 31, 2021, specialty finance customers had \$89.99 million of PPP loans and traditional commercial banking customers had \$353.85 million of PPP loans.

On October 8, 2020, the SBA announced a streamlined loan forgiveness application for loans \$50,000 or less. Of the 3,540 PPP loans we originated in 2020, 1,972 loans were for \$50,000 or less. Of the 2,573 PPP loans we have originated in 2021, 1,809 loans were for \$50,000 or less. As of March 31, 2021, we had helped our clients secure forgiveness for \$369.16 million and had submitted loan forgiveness requests to the SBA for over 79% of the total PPP loan amounts we funded during 2020. We were able to secure loans for over 400 minority- and women-owned businesses, which represents approximately 15% of our overall efforts in this latest round of PPP funding. Additionally, we helped fund over 200 PPP loans to new customers during 2021.

On April 9, 2020, the FDIC, Federal Reserve and OCC created the Paycheck Protection Program Liquidity Facility (PPPLF) to bolster the effectiveness of the PPP by providing liquidity to and neutralizing the regulatory capital effects on participating financial institutions. As of March 31, 2021, we had not utilized the PPPLF.

*Asset impairment*

Our MSRs had experienced a decrease in their fair value as of December 31, 2020 resulting in 2020 impairment charges of \$0.81 million due to lower mortgage rates leading to faster prepayment speeds. During the first quarter of 2021, we recognized \$0.04 million of impairment recoveries due to reduced prepayment speeds. We will continue to evaluate MSRs at each reporting date to determine whether further valuation allowances or recoveries are appropriate.

At this time, we do not believe there exists any impairment to our intangible assets, long-lived assets, right of use assets, or available-for-sale investment securities due to the COVID-19 pandemic. It is uncertain whether prolonged effects of the COVID-19 pandemic will result in future impairment charges related to any of the aforementioned assets.

*Risks*

See Part I, Item 1A, Risk Factors in our 2020 [Form 10-K](#) for more information.

### Allowance for loan and lease losses

During the first quarter of 2021, except for the bus segment of our auto and light truck portfolio, we experienced relatively stable to slightly improving credit quality. Special attention loan balances decreased \$14.88 million and nonperforming loans decreased by \$1.92 million. The impact of COVID-19 has been particularly harsh on the bus segment of our auto and light truck portfolio where we continue to experience higher than normal downgrades, movement to nonaccrual status and charge-offs. We are maintaining communication with our customers to enhance our understanding of our highest risk exposures and probable defaults. As a result of the discussions with customers, we downgraded an additional 12 bus accounts to special attention and placed an additional 18 accounts on nonaccrual status. We continue to work with these customers as long as they aspire to stay in business and have the wherewithal to maintain and insure their assets, as the bus collateral will be difficult to liquidate in this environment. Our local market customers have been buoyed in the short-term with funds from the PPP program. Thus far, we have not seen many downgrades or defaults in our commercial lending, but we anticipate this may change, particularly as businesses continue to struggle and consumer preferences may change. During the last recession, we noted a delayed impact on our commercial lending as compared to our specialty finance lending. We also remain concerned about segments of our commercial real estate portfolio, particularly the hotel sector and commercial buildings and retail property. Many of our local hotel customers continue to have payment deferrals. Our losses year-to-date remain moderate, except the bus segment where we recognized net charge-offs of \$4.25 million, but we continue to maintain the allowance for loan and lease losses as we anticipate some of the current and future downgrades and defaults will eventually result in losses.

See Part I Financial Information, Note 5 to the Consolidated Financial Statements and Part I Financial Information, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Provision and Allowance for Credit Losses" for more information.

### CAPITAL

As of March 31, 2021, total shareholders' equity was \$891.30 million, up \$4.45 million, or 0.50% from the \$886.85 million at December 31, 2020. In addition to net income of \$28.11 million, other significant changes in shareholders' equity during the first three months of 2021 included \$7.39 million of dividends paid and \$6.62 million in common stock acquired for treasury. The accumulated other comprehensive income component of shareholders' equity totaled \$7.24 million at March 31, 2021, compared to \$18.37 million at December 31, 2020. Our shareholders' equity-to-assets ratio was 11.87% as of March 31, 2021, compared to 12.12% at December 31, 2020. Book value per common share rose to \$35.27 at March 31, 2021, from \$34.93 at December 31, 2020.

We declared and paid cash dividends per common share of \$0.29 during the first quarter of 2021. The trailing four quarters dividend payout ratio, representing cash dividends per common share divided by diluted earnings per common share, was 31.13%. 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 March 31, 2021, are presented in the table below.

| (Dollars in thousands)                                  | Actual     |         | Minimum Capital Adequacy |        | Minimum Capital Adequacy with Capital Buffer |         | To Be Well Capitalized Under Prompt Corrective Action Provisions |         |
|---------------------------------------------------------|------------|---------|--------------------------|--------|----------------------------------------------|---------|------------------------------------------------------------------|---------|
|                                                         | Amount     | Ratio   | Amount                   | Ratio  | Amount                                       | Ratio   | Amount                                                           | Ratio   |
| Total Capital (to Risk-Weighted Assets):                |            |         |                          |        |                                              |         |                                                                  |         |
| 1st Source Corporation                                  | \$ 981,679 | 16.39 % | \$ 479,271               | 8.00 % | \$ 629,043                                   | 10.50 % | \$ 599,089                                                       | 10.00 % |
| 1st Source Bank                                         | 899,406    | 15.01   | 479,502                  | 8.00   | 629,346                                      | 10.50   | 599,377                                                          | 10.00   |
| Tier 1 Capital (to Risk-Weighted Assets):               |            |         |                          |        |                                              |         |                                                                  |         |
| 1st Source Corporation                                  | 905,938    | 15.12   | 359,453                  | 6.00   | 509,225                                      | 8.50    | 479,271                                                          | 8.00    |
| 1st Source Bank                                         | 823,629    | 13.74   | 359,626                  | 6.00   | 509,471                                      | 8.50    | 479,502                                                          | 8.00    |
| Common Equity Tier 1 Capital (to Risk-Weighted Assets): |            |         |                          |        |                                              |         |                                                                  |         |
| 1st Source Corporation                                  | 804,474    | 13.43   | 269,590                  | 4.50   | 419,362                                      | 7.00    | 389,408                                                          | 6.50    |
| 1st Source Bank                                         | 779,165    | 13.00   | 269,720                  | 4.50   | 419,564                                      | 7.00    | 389,595                                                          | 6.50    |
| Tier 1 Capital (to Average Assets):                     |            |         |                          |        |                                              |         |                                                                  |         |
| 1st Source Corporation                                  | 905,938    | 12.44   | 291,183                  | 4.00   | N/A                                          | N/A     | 363,979                                                          | 5.00    |
| 1st Source Bank                                         | 823,629    | 11.32   | 291,078                  | 4.00   | N/A                                          | N/A     | 363,847                                                          | 5.00    |

PPP loan balances have been assigned a zero percent risk weight and therefore had no impact on our total risk-weighted assets at March 31, 2021.

### **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 have borrowing sources available to supplement deposits and meet our funding needs. 1st Source Bank has established relationships with several banks to provide short term borrowings in the form of federal funds purchased. At March 31, 2021, we had no borrowings in the federal funds market. We could borrow \$245.00 million in additional funds for a short time from these banks on a collective basis. As of March 31, 2021, we had \$55.00 million outstanding in FHLB advances and could borrow an additional \$504.37 million contingent on the FHLB activity-based stock ownership requirement. We also had no outstandings with the FRB and could borrow \$416.41 million as of March 31, 2021.

Our loan to asset ratio was 73.52% at March 31, 2021 compared to 75.03% at December 31, 2020 and 76.16% at March 31, 2020. Cash and cash equivalents totaled \$335.95 million at March 31, 2021 compared to \$243.05 million at December 31, 2020 and \$122.30 million at March 31, 2020. The largest contributors to the increase in cash and cash equivalents was higher deposit balances due to both individual and business customers' propensity to save during times of uncertainty. At March 31, 2021, the Consolidated Statements of Financial Condition was rate sensitive by \$334.21 million more assets than liabilities scheduled to reprice within one year, or approximately 1.11%. 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 \$700 million.

### **RESULTS OF OPERATIONS**

Net income available to common shareholders for the three month period ended March 31, 2021 was \$28.11 million, compared to \$16.41 million for the same period in 2020. Diluted net income per common share was \$1.10 for the three month period ended March 31, 2021, compared to \$0.64 for the same period in 2020. Return on average common shareholders' equity was 12.74% for the three months ended March 31, 2021, compared to 7.81% in 2020. The return on total average assets was 1.55% for the three months ended March 31, 2021, compared to 1.00% in 2020.

Net income increased for the three months ended March 31, 2021 compared to the first three months of 2020. Net interest income increased, the provision for credit losses decreased, noninterest income increased and noninterest expense decreased. 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

|                                                           | March 31, 2021     |                            |                | Three Months Ended<br>December 31, 2020 |                            |                | March 31, 2020     |                            |                |
|-----------------------------------------------------------|--------------------|----------------------------|----------------|-----------------------------------------|----------------------------|----------------|--------------------|----------------------------|----------------|
|                                                           | Average<br>Balance | Interest<br>Income/Expense | Yield/<br>Rate | Average<br>Balance                      | Interest<br>Income/Expense | Yield/<br>Rate | Average<br>Balance | Interest<br>Income/Expense | Yield/<br>Rate |
| <i>(Dollars in thousands)</i>                             |                    |                            |                |                                         |                            |                |                    |                            |                |
| <b>ASSETS</b>                                             |                    |                            |                |                                         |                            |                |                    |                            |                |
| Investment securities available-for-sale:                 |                    |                            |                |                                         |                            |                |                    |                            |                |
| Taxable                                                   | \$ 1,193,583       | \$ 3,987                   | 1.35 %         | \$ 1,056,727                            | \$ 3,940                   | 1.48 %         | \$ 973,421         | \$ 5,550                   | 2.29 %         |
| Tax exempt <sup>(1)</sup>                                 | 37,394             | 214                        | 2.32 %         | 41,345                                  | 237                        | 2.28 %         | 57,219             | 325                        | 2.28 %         |
| Mortgages held for sale                                   | 14,285             | 86                         | 2.44 %         | 17,844                                  | 120                        | 2.68 %         | 11,294             | 96                         | 3.42 %         |
| Loans and leases, net of unearned discount <sup>(1)</sup> | 5,499,009          | 57,860                     | 4.27 %         | 5,517,707                               | 64,075                     | 4.62 %         | 5,098,397          | 61,520                     | 4.85 %         |
| Other investments                                         | 216,280            | 266                        | 0.50 %         | 347,837                                 | 333                        | 0.38 %         | 41,463             | 346                        | 3.36 %         |
| Total earning assets <sup>(1)</sup>                       | 6,960,551          | 62,413                     | 3.64 %         | 6,981,460                               | 68,705                     | 3.92 %         | 6,181,794          | 67,837                     | 4.41 %         |
| Cash and due from banks                                   | 75,178             |                            |                | 75,055                                  |                            |                | 65,407             |                            |                |
| Allowance for loan and lease losses                       | (143,206)          |                            |                | (143,888)                               |                            |                | (112,239)          |                            |                |
| Other assets                                              | 457,890            |                            |                | 489,804                                 |                            |                | 476,159            |                            |                |
| Total assets                                              | \$ 7,350,413       |                            |                | \$ 7,402,431                            |                            |                | \$ 6,611,121       |                            |                |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>               |                    |                            |                |                                         |                            |                |                    |                            |                |
| Interest-bearing deposits                                 | \$ 4,261,207       | \$ 3,526                   | 0.34 %         | \$ 4,272,622                            | \$ 4,811                   | 0.45 %         | \$ 4,076,270       | \$ 10,851                  | 1.07 %         |
| Short-term borrowings                                     | 176,726            | 36                         | 0.08 %         | 222,699                                 | 90                         | 0.16 %         | 202,545            | 254                        | 0.50 %         |
| Subordinated notes                                        | 58,764             | 818                        | 5.65 %         | 58,764                                  | 824                        | 5.58 %         | 58,764             | 884                        | 6.05 %         |
| Long-term debt and mandatorily redeemable securities      | 80,967             | 500                        | 2.50 %         | 81,576                                  | 746                        | 3.64 %         | 77,973             | 853                        | 4.40 %         |
| Total interest-bearing liabilities                        | 4,577,664          | 4,880                      | 0.43 %         | 4,635,661                               | 6,471                      | 0.56 %         | 4,415,552          | 12,842                     | 1.17 %         |
| Noninterest-bearing deposits                              | 1,719,264          |                            |                | 1,697,154                               |                            |                | 1,196,106          |                            |                |
| Other liabilities                                         | 115,034            |                            |                | 147,703                                 |                            |                | 131,858            |                            |                |
| Shareholders' equity                                      | 894,553            |                            |                | 884,530                                 |                            |                | 844,724            |                            |                |
| Noncontrolling interests                                  | 43,898             |                            |                | 37,383                                  |                            |                | 22,881             |                            |                |
| Total liabilities and equity                              | \$ 7,350,413       |                            |                | \$ 7,402,431                            |                            |                | \$ 6,611,121       |                            |                |
| Less: Fully tax-equivalent adjustments                    |                    | (121)                      |                |                                         | (127)                      |                |                    | (151)                      |                |
| Net interest income/margin (GAAP-derived) <sup>(1)</sup>  | \$ 57,412          |                            | 3.35 %         | \$ 62,107                               |                            | 3.54 %         | \$ 54,844          |                            | 3.57 %         |
| Fully tax-equivalent adjustments                          |                    | 121                        |                |                                         | 127                        |                |                    | 151                        |                |
| Net interest income/margin - FTE <sup>(1)</sup>           | \$ 57,533          |                            | 3.35 %         | \$ 62,234                               |                            | 3.55 %         | \$ 54,995          |                            | 3.58 %         |

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

### Quarter Ended March 31, 2021 compared to the Quarter Ended March 31, 2020

The taxable-equivalent net interest income for the three months ended March 31, 2021 was \$57.53 million, an increase of 4.61% over the same period in 2020. The net interest margin on a fully taxable-equivalent basis was 3.35% for the three months ended March 31, 2021, compared to 3.58% for the three months ended March 31, 2020.

During the three month period ended March 31, 2021, average earning assets increased \$778.76 million, up 12.60% over the comparable period in 2020. Average interest-bearing liabilities increased \$162.11 million or 3.67%. The yield on average earning assets decreased 77 basis points to 3.64% from 4.41% primarily due to lower rates on loans and leases and investment securities. Total cost of average interest-bearing liabilities decreased 74 basis points to 0.43% from 1.17% as a result of the lower interest rate environment. The result to the net interest margin, or the ratio of net interest income to average earning assets, was a decrease of 23 basis points.

The largest contributor to the reduced yield on average earning assets for the three months ended March 31, 2021, compared to the three months ended March 31, 2020, was a decrease in yields on net loans and leases of 58 basis points primarily due to the low interest rate environment as the Federal Reserve continues to support the economic recovery from the pandemic. The yield on net loans and leases was positively impacted by a net 10 basis points due to accelerated recognition of unearned fees on PPP loans which have been forgiven by the SBA offset by PPP loan balances outstanding which earn interest at 1.00%. Average net loans and leases increased \$400.61 million or 7.86% with the largest increase due to average PPP loans of \$410.29 million in the commercial and agricultural loan portfolio. Total average investment securities increased \$200.34 million or 19.44% with the largest increases in U.S. treasury and federal agency securities and mortgage-backed securities. Average mortgages held for sale increased \$2.99 million or 26.48%. Average 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 increased \$174.82 million or 421.62% from the first quarter of 2020. The majority of the increase was attributable to Federal Reserve Bank excess balances.

Average interest-bearing deposits increased \$184.94 million or 4.54% for the first quarter of 2021 over the same period in 2020 primarily due to consumer savings levels. The effective rate paid on average interest-bearing deposits decreased 73 basis points to 0.34% from 1.07%. The decrease in the average cost of interest-bearing deposits was primarily the result of lower rates and a shift in the deposit mix from the first quarter of 2020. Average noninterest-bearing deposits grew \$523.16 million or 43.74% for the first quarter of 2021 over the same period in 2020 primarily due to PPP loan fundings in business accounts.

Average short-term borrowings decreased \$25.82 million or 12.75% for the first quarter of 2021 compared to the same period in 2020. Interest paid on short-term borrowings decreased 42 basis points. Interest paid on subordinated notes decreased 40 basis points during the first quarter of 2021 from the same period a year ago due to a variable rate on one tranche. Average long-term debt and mandatorily redeemable securities balances increased \$2.99 million or 3.84%. Interest paid on long-term debt and mandatorily redeemable securities decreased 190 basis points during the first quarter of 2021 from the same period in 2020 primarily due to lower rates on mandatorily redeemable securities.

### 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.

|                                           |                                            | Three Months Ended |                   |                   |
|-------------------------------------------|--------------------------------------------|--------------------|-------------------|-------------------|
|                                           |                                            | March 31,<br>2021  | December 31, 2020 | March 31,<br>2020 |
| <i>(Dollars in thousands)</i>             |                                            |                    |                   |                   |
| <b>Calculation of Net Interest Margin</b> |                                            |                    |                   |                   |
| (A)                                       | Interest income (GAAP)                     | \$ 62,292          | \$ 68,578         | \$ 67,686         |
|                                           | Fully tax-equivalent adjustments:          |                    |                   |                   |
| (B)                                       | - Loans and leases                         | 81                 | 82                | 90                |
| (C)                                       | - Tax-exempt investment securities         | 40                 | 45                | 61                |
| (D)                                       | Interest income - FTE (A+B+C)              | 62,413             | 68,705            | 67,837            |
| (E)                                       | Interest expense (GAAP)                    | 4,880              | 6,471             | 12,842            |
| (F)                                       | Net interest income (GAAP) (A-E)           | 57,412             | 62,107            | 54,844            |
| (G)                                       | Net interest income - FTE (D-E)            | 57,533             | 62,234            | 54,995            |
| (H)                                       | Annualization factor                       | 4.056              | 3.978             | 4.022             |
| (I)                                       | Total earning assets                       | \$ 6,960,551       | \$ 6,981,460      | \$ 6,181,794      |
|                                           | Net interest margin (GAAP-derived) (F*H)/I | 3.35 %             | 3.54 %            | 3.57 %            |
|                                           | Net interest margin - FTE (G*H)/I          | 3.35 %             | 3.55 %            | 3.58 %            |

## **PROVISION AND ALLOWANCE FOR CREDIT LOSSES**

The provision for credit losses for the three months ended March 31, 2021 was \$2.40 million compared to a provision for credit losses in the three months ended March 31, 2020 of \$11.35 million. Net charge-offs of \$3.50 million or 0.26% of average loans and leases were recorded for the first quarter 2021, compared to net charge-offs of \$1.81 million or 0.14% of average loans and leases for the same quarter a year ago.

The provision for credit losses for the three months ended March 31, 2021 was principally driven by ongoing difficulties in the bus segment of the auto and light truck portfolio, as credit quality in the remaining portfolios was relatively unchanged to slightly improving. We continued to have COVID-19 related downgrades and increases in special attention loan balances and nonperforming loans concentrated in our bus segment and remain concerned about the long-term prospects for the bus segment. We also remain concerned about customers in various portfolios that benefited during the past year from payment deferrals and have not yet been able to return to original payment terms, particularly commercial real estate accounts in the hotel sector. COVID-19 related loan modifications are discussed in the “COVID-19 Impact” section above. The \$33.78 million increase in outstanding loan balances this quarter was attributable to the expanded PPP loan program. Loan balances net of PPP loans declined \$58.50 million. As of quarter-end, PPP loans total \$443.84 and necessitate minimal reserves as the program carries a 100% SBA guarantee and a debt forgiveness component. Impairment reserves for assets individually evaluated were reduced this quarter as our customers with larger impairments were able to liquidate assets for amounts greater than anticipated, applying the proceeds to reduce our debt.

We continue to evaluate risks which may impact our loan portfolios. During the first quarter of 2020, as a result of the coronavirus pandemic and resultant business shutdowns and unemployment spikes, we reviewed our loan portfolio segments, assessing the likely impact of COVID-19 on each segment and established specific qualitative adjustment factors which were reviewed and revised quarterly throughout 2020. We thoroughly reviewed these factors along with all our qualitative adjustments and forecast factors as of year-end and made several revisions and enhancements to our analysis. This quarter, we reviewed our factors and analysis and believe the adjustments made at year-end remain pertinent. We have seen improvements in some areas, but there are still so many unknowns, such a high level of uncertainty regarding the spread of COVID-19 and its variant forms, that despite the success of the vaccines, we determined our year-end adjustments remain appropriate. We remain concerned that geopolitical events, particularly in the aftermath of the pandemic, will have the potential to negatively impact the U.S. economy. Congress is working through spending initiatives and is facing several challenges. Additional current concerns include slower growth projections for world economies and the sharp decline in global trade growth exacerbated by trade supply concerns raised during the pandemic and ongoing tariff disputes, particularly between China and the U.S. Political uncertainty continues in Latin America, with governments facing increased pressures from the pandemic and the likely slow economic recovery given difficulties encountered securing equitable vaccine access and distribution and millions falling into poverty, exacerbated by escalating social tensions, and rising unemployment. Corruption scandals persist, fueling U.S. border concerns. Globally, concerns continue to be heightened due to actual and potential terrorist attacks.

Another area of concern continues to be our aircraft portfolio where we have a collateral concentration and \$178 million in foreign exposure, the majority of which is in Mexico and Brazil. At the end of 2019, the Brazilian economy was on a path of gradual improvement and Mexico’s economy, although stronger, was beginning to exhibit some weaknesses. Now, considering the pandemic, both economies contracted in 2020 and Brazil is becoming more concerning as the country struggles to control the high COVID-19 case levels with weak government leadership. We continue to monitor individual customer performance and assess risks in the portfolio as a whole.

On March 31, 2021, 30 day and over loan and lease delinquencies as a percentage of loan and lease balances were 0.12%, compared to 0.24% on March 31, 2020. The allowance for loan and lease losses as a percentage of loans and leases outstanding at the end of the period was 2.53% compared to 2.35% one year ago. The allowance as a percentage of loans and leases outstanding, net of PPP loans, was 2.74% compared to 2.73% at December 31, 2020. The increase in the allowance of 18 basis points as a percent of loans and leases outstanding was primarily due to higher special attention loan outstanding balances, qualitative adjustment factors related to COVID-19 concerns, and forecast factor adjustments as part of the current expected credit losses (CECL) methodology. A summary of loan and lease loss experience during the three months ended March 31, 2021 and 2020 is located in Note 5 of the Consolidated Financial Statements.

## NONPERFORMING ASSETS

The following table shows nonperforming assets.

| <i>(Dollars in thousands)</i>             | March 31,<br>2021 | December 31,<br>2020 | March 31,<br>2020 |
|-------------------------------------------|-------------------|----------------------|-------------------|
| Loans and leases past due 90 days or more | \$ 66             | \$ 115               | \$ 191            |
| Nonaccrual loans and leases               | 58,513            | 60,388               | 26,301            |
| Other real estate                         | 369               | 359                  | 362               |
| Repossessions                             | 2,214             | 1,976                | 9,020             |
| Equipment owned under operating leases    | 1,647             | 1,695                | —                 |
| Total nonperforming assets                | \$ 62,809         | \$ 64,533            | \$ 35,874         |

Nonperforming assets as a percentage of loans and leases were 1.12% at March 31, 2021, 1.16% at December 31, 2020, and 0.68% at March 31, 2020. Excluding PPP loans, nonperforming assets as a percentage of loan and leases were 1.22% at March 31, 2021 and 1.24% at December 31, 2020. Nonperforming assets totaled \$62.81 million at March 31, 2021, a decrease of 2.67% from the \$64.53 million reported at December 31, 2020, and a 75.08% increase from the \$35.87 million reported at March 31, 2020. The decrease in nonperforming assets during the first three months of 2021 was related to lower nonaccrual loans and leases. The increase in nonperforming assets at March 31, 2021 from March 31, 2020 was related to an increase in nonaccrual loans and leases offset by lower repossessions.

The decrease in nonaccrual loans and leases at March 31, 2021 from December 31, 2020 occurred primarily in the auto rental division of the auto and light truck portfolio and the construction equipment portfolio offset by increases in the bus division of the auto and light truck portfolio. The increase in nonaccrual loans and leases at March 31, 2021 from March 31, 2020 occurred primarily in the auto and light truck and construction equipment portfolios. A summary of nonaccrual loans and leases and past due aging for the period ended March 31, 2021 and December 31, 2020 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.

Repossessions consisted mainly of auto and light trucks and aircraft. 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 decrease in repossession balances at March 31, 2021 compared to March 31, 2020 was primarily the result of the sale of repossessed aircrafts.

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

| <i>(Dollars in thousands)</i>           | March 31,<br>2021 | December 31,<br>2020 | March 31,<br>2020 |
|-----------------------------------------|-------------------|----------------------|-------------------|
| Commercial and agricultural             | \$ —              | \$ —                 | \$ —              |
| Solar                                   | —                 | —                    | —                 |
| Auto and light truck                    | 1,414             | 1,120                | 1,165             |
| Medium and heavy duty truck             | —                 | —                    | —                 |
| Aircraft                                | 750               | 750                  | 7,808             |
| Construction equipment                  | —                 | —                    | 35                |
| Commercial real estate                  | 369               | 303                  | 303               |
| Residential real estate and home equity | —                 | 56                   | 59                |
| Consumer                                | 50                | 106                  | 12                |
| Total                                   | \$ 2,583          | \$ 2,335             | \$ 9,382          |

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.

| <i>(Dollars in thousands)</i>                     | Three Months Ended<br>March 31, |                  |              |               |
|---------------------------------------------------|---------------------------------|------------------|--------------|---------------|
|                                                   | 2021                            | 2020             | \$ Change    | % Change      |
| Noninterest income:                               |                                 |                  |              |               |
| Trust and wealth advisory                         | \$ 5,481                        | \$ 4,848         | 633          | 13.06 %       |
| Service charges on deposit accounts               | 2,447                           | 2,605            | (158)        | (6.07) %      |
| Debit card                                        | 4,182                           | 3,373            | 809          | 23.98 %       |
| Mortgage banking                                  | 3,901                           | 2,336            | 1,565        | 66.99 %       |
| Insurance commissions                             | 2,152                           | 1,881            | 271          | 14.41 %       |
| Equipment rental                                  | 4,629                           | 6,630            | (2,001)      | (30.18) %     |
| Gains on investment securities available-for-sale | —                               | 280              | (280)        | NM            |
| Other                                             | 3,077                           | 2,669            | 408          | 15.29 %       |
| <b>Total noninterest income</b>                   | <b>\$ 25,869</b>                | <b>\$ 24,622</b> | <b>1,247</b> | <b>5.06 %</b> |

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 months ended March 31, 2021 compared with the same 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 March 31, 2021, December 31, 2020, and March 31, 2020 was \$4.90 billion, \$4.74 billion, and \$3.78 billion, respectively. Stock market recoveries helped improve the market value of trust assets under management.

Service charges on deposit accounts decreased for the three months ended March 31, 2021 over the comparable period in 2020. The decrease in service charges on deposit accounts primarily reflects a lower volume of nonsufficient fund transactions partially offset by higher business deposit account fees. Higher deposit balances from elevated consumer savings levels in conjunction with the pandemic resulted in fewer overdrawn accounts.

Debit card income improved in the three months ended March 31, 2021 over the same period a year ago. The majority of the improvement in debit card income was the result of an increased volume of debit card transactions.

Mortgage banking income increased in the three months ended March 31, 2021 as compared to the same period in 2020. The increase was primarily caused by better margins on a higher volume of loan sales as a result of more loans originated for the secondary market.

Insurance commissions were higher during the three months ended March 31, 2021 compared to the same period a year ago. The increase was mainly due to increased contingent commissions received.

Equipment rental income decreased for the three months ended March 31, 2021 over the comparable period in 2020. The decline was the result of reduced leasing volume primarily in the construction equipment, aircraft and auto and light truck portfolios resulting in the average equipment rental portfolio decreasing by 30% over the same period a year ago.

Gains on investment securities available-for-sale during the three months ended March 31, 2020 were primarily from the sale of corporate securities in managing portfolio risk.

Other income increased for the three months ended March 31, 2021 compared to one year ago. The increase was primarily a result of higher partnership investment gains and increased brokerage fees and commissions.

## NONINTEREST EXPENSE

The following table shows the details of noninterest expense.

| <i>(Dollars in thousands)</i>              | Three Months Ended<br>March 31, |           |           |          |
|--------------------------------------------|---------------------------------|-----------|-----------|----------|
|                                            | 2021                            | 2020      | \$ Change | % Change |
| Noninterest expense:                       |                                 |           |           |          |
| Salaries and employee benefits             | \$ 25,196                       | \$ 24,401 | 795       | 3.26 %   |
| Net occupancy                              | 2,719                           | 2,721     | (2)       | (0.07)%  |
| Furniture and equipment                    | 6,458                           | 6,407     | 51        | 0.80 %   |
| Depreciation – leased equipment            | 3,773                           | 5,427     | (1,654)   | (30.48)% |
| Professional fees                          | 1,613                           | 1,442     | 171       | 11.86 %  |
| Supplies and communication                 | 1,475                           | 1,634     | (159)     | (9.73)%  |
| FDIC and other insurance                   | 665                             | 288       | 377       | NM       |
| Business development and marketing         | 997                             | 1,359     | (362)     | (26.64)% |
| Loan and lease collection and repossession | 129                             | 763       | (634)     | (83.09)% |
| Other                                      | 1,115                           | 2,093     | (978)     | (46.73)% |
| Total noninterest expense                  | \$ 44,140                       | \$ 46,535 | (2,395)   | (5.15)%  |

NM = Not Meaningful

Salaries and employee benefits increased during the three months ended March 31, 2021 compared to the same period in 2020. The increase was mainly due to higher base salaries as a result of normal merit increases, increased incentive compensation, and a rise in commission compensation primarily in our residential mortgage area offset by a decrease in group insurance claims.

Net occupancy expense was flat during the three months ended March 31, 2021 compared to the same period a year ago. Increased snow removal costs were offset by reduced premises repair expenses during the quarter.

Furniture and equipment expense, including depreciation, rose slightly during the three months ended March 31, 2021 compared to the same period a year ago. Furniture and equipment expense was higher in 2021 mainly due to higher software maintenance costs offset by a reduction in mileage reimbursements and equipment depreciation.

Depreciation on leased equipment decreased for the three months ended March 31, 2021 compared to the same period in 2020. Depreciation on leased equipment correlates with the decrease in equipment rental income.

Professional fees increased during the first quarter of 2021 compared to the first quarter a year ago. The increase during the first quarter was mainly due to higher legal fees.

Supplies and communication decreased during the first quarter of 2021 compared to the same period a year ago. The decrease resulted primarily from lower printing and postage costs and reduced telephone line and equipment expenses.

FDIC and other insurance was higher during the three months ended March 31, 2021 compared to the same period in 2020. The increase in 2021 was mainly due to FDIC insurance premium credits recognized during the first quarter of 2020 which was not present in 2021.

Business development and marketing expense declined during the first quarter of 2021 compared to the same period a year ago. The reduction during 2021 was primarily due to fewer business entertainment and travel opportunities tied to continued COVID-19 precautions.

Loan and lease collection and repossession expense decreased during the three months ended March 31, 2021 compared to the same period in 2020. The decrease was mainly due to lower general collection and repossession expenses, fewer valuation adjustments on repossessed assets, and increased gains on the sale of repossessed assets.

Other expenses were lower during the first quarter of 2021 compared to the same period in 2020. The decrease during the first quarter was primarily the result of a reduced provision for interest rate swaps with customers and lower employee training expenses due to COVID-19 travel precautions offset by lower gains on the sale of operating lease equipment.

## INCOME TAXES

The provision for income taxes for the three month period ended March 31, 2021 was \$8.64 million, compared to \$5.16 million for the same period in 2020. The effective tax rate was 23.51% and 23.91% for the three months ended March 31, 2021 and 2020, respectively.

**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, 2020. For information regarding our market risk, refer to 1st Source's Annual Report on [Form 10-K](#) for the year ended December 31, 2020.

**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 March 31, 2021, 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 first fiscal quarter of 2021 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 incidental to the conduct of our businesses. Management does not expect that 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.**

There have been no material changes in risks faced by 1st Source since December 31, 2020. For information regarding our risk factors, refer to 1st Source's Annual Report on [Form 10-K](#) for the year ended December 31, 2020.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.****ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b>          | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid Per Share</b> | <b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*</b> | <b>Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs</b> |
|------------------------|-----------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| January 01 - 31, 2021  | 13,426                                  | \$ 39.84                            | 13,426                                                                                   | 679,502                                                                                                             |
| February 01 - 28, 2021 | 138,421                                 | 42.80                               | 138,421                                                                                  | 541,081                                                                                                             |
| March 01 - 31, 2021    | 3,610                                   | 44.96                               | 3,610                                                                                    | 537,471                                                                                                             |

\* 1st Source maintains a stock repurchase plan that was authorized by the Board of Directors on July 24, 2014. Under the terms of the plan, 1st Source may repurchase up to 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 plan, 1st Source has repurchased a total of 1,462,529 shares.

**ITEM 3. Defaults Upon Senior Securities.**

None

**ITEM 4. Mine Safety Disclosures.**

None

ITEM 5. Other Information.

None

ITEM 6. Exhibits.

The following exhibits are filed with this report:

|                      |                                                                                                                                                                 |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#">31.1</a> | <a href="#">Certification of Chief Executive Officer required by Rule 13a-14(a).</a>                                                                            |
| <a href="#">31.2</a> | <a href="#">Certification of Chief Financial Officer required by Rule 13a-14(a).</a>                                                                            |
| <a href="#">32.1</a> | <a href="#">Certification pursuant to 18 U.S.C. Section 1350 of Chief Executive Officer.</a>                                                                    |
| <a href="#">32.2</a> | <a href="#">Certification pursuant to 18 U.S.C. Section 1350 of Chief Financial Officer.</a>                                                                    |
| 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 | <u>April 22, 2021</u> | <u>/s/ CHRISTOPHER J. MURPHY III</u><br>Christopher J. Murphy III<br>Chairman of the Board, President and CEO          |
| DATE | <u>April 22, 2021</u> | <u>/s/ ANDREA G. SHORT</u><br>Andrea G. Short<br>Treasurer and Chief Financial Officer<br>Principal Accounting Officer |

## 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: April 22, 2021

/s/ CHRISTOPHER J. MURPHY III

Christopher J. Murphy III  
Chief Executive Officer

## CERTIFICATION

I, Andrea G. Short, 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: April 22, 2021

/s/ ANDREA G. SHORT

Andrea G. Short  
Chief Financial Officer

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 March 31, 2021, 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: April 22, 2021

/s/ CHRISTOPHER J. MURPHY III

Christopher J. Murphy III  
Chief Executive Officer

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 March 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Andrea G. Short, 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: April 22, 2021

/s/ ANDREA G. SHORT

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Andrea G. Short

Chief Financial Officer