

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, 2025
OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____
Commission file number 0-6233

1st Source Corporation

(Exact name of registrant as specified in its charter)

Indiana

35-1068133

(State or other jurisdiction of incorporation or organization)

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

100 North Michigan Street
South Bend, IN

(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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

Number of shares of common stock outstanding as of April 18, 2025 — 24,562,911 shares

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

	March 31, 2025	December 31, 2024
ASSETS		
Cash and due from banks	\$ 87,816	\$ 76,837
Federal funds sold and interest bearing deposits with other banks	135,003	47,989
Investment securities available-for-sale (amortized cost of \$1,591,072 and \$1,650,684 at March 31, 2025 and December 31, 2024, respectively)	1,501,877	1,536,299
Other investments	23,855	23,855
Mortgages held for sale	2,305	2,569
Loans and leases, net of unearned discount:		
Commercial and agricultural	775,118	772,974
Renewable energy	505,413	487,266
Auto and light truck	955,945	948,435
Medium and heavy duty truck	289,837	289,623
Aircraft	1,118,099	1,123,797
Construction equipment	1,171,934	1,203,912
Commercial real estate	1,230,760	1,215,265
Residential real estate and home equity	689,101	680,071
Consumer	127,186	133,465
Total loans and leases	6,863,393	6,854,808
Allowance for loan and lease losses	(157,470)	(155,540)
Net loans and leases	6,705,923	6,699,268
Equipment owned under operating leases, net	9,864	11,483
Premises and equipment, net	54,778	53,456
Goodwill and intangible assets	83,895	83,897
Accrued income and other assets	357,798	396,285
Total assets	\$ 8,963,114	\$ 8,931,938
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 1,651,479	\$ 1,639,101
Interest-bearing deposits:		
Interest-bearing demand	2,451,169	2,544,839
Savings	1,392,391	1,256,370
Time	1,922,726	1,789,725
Total interest-bearing deposits	5,766,286	5,590,934
Total deposits	7,417,765	7,230,035
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	60,025	72,346
Other short-term borrowings	1,152	176,852
Total short-term borrowings	61,177	249,198
Long-term debt and mandatorily redeemable securities	41,210	39,156
Subordinated notes	58,764	58,764
Accrued expenses and other liabilities	163,656	173,279
Total liabilities	7,742,572	7,750,432
SHAREHOLDERS' EQUITY		
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, 2025 and December 31, 2024	436,538	436,538
Retained earnings	921,717	890,937
Cost of common stock in treasury (3,643,063 shares at March 31, 2025 and 3,685,512 shares at December 31, 2024)	(128,912)	(129,175)
Accumulated other comprehensive loss	(67,884)	(87,232)
Total shareholders' equity	1,161,459	1,111,068
Noncontrolling interests	59,083	70,438
Total equity	1,220,542	1,181,506
Total liabilities and equity	\$ 8,963,114	\$ 8,931,938

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 March 31,	
	2025	2024
Interest income:		
Loans and leases	\$ 113,560	\$ 109,202
Investment securities, taxable	8,153	6,079
Investment securities, tax-exempt	277	260
Other	1,314	927
Total interest income	123,304	116,468
Interest expense:		
Deposits	39,846	39,744
Short-term borrowings	232	3,102
Subordinated notes	1,014	1,061
Long-term debt and mandatorily redeemable securities	1,274	646
Total interest expense	42,366	44,553
Net interest income	80,938	71,915
Provision for credit losses:		
Provision for credit losses — loans and leases	2,112	6,595
Provision for credit losses — unfunded loan commitments	1,153	882
Total provision for credit losses	3,265	7,477
Net interest income after provision for credit losses	77,673	64,438
Noninterest income:		
Trust and wealth advisory	6,666	6,287
Service charges on deposit accounts	3,071	3,070
Debit card	4,149	4,201
Mortgage banking	853	950
Insurance commissions	2,440	1,776
Equipment rental	899	1,671
Other	5,025	4,201
Total noninterest income	23,103	22,156
Noninterest expense:		
Salaries and employee benefits	32,115	29,572
Net occupancy	3,224	2,996
Furniture and equipment	1,347	1,149
Data processing	7,291	6,500
Depreciation – leased equipment	718	1,288
Professional fees	1,668	1,345
FDIC and other insurance	1,440	1,657
Business development and marketing	1,925	1,744
Other	3,348	2,453
Total noninterest expense	53,076	48,704
Income before income taxes	47,700	37,890
Income tax expense	10,177	8,428
Net income	37,523	29,462
Net (income) loss attributable to noncontrolling interests	(3)	(7)
Net income available to common shareholders	\$ 37,520	\$ 29,455
Per common share:		
Basic net income per common share	\$ 1.52	\$ 1.19
Diluted net income per common share	\$ 1.52	\$ 1.19
Basic weighted average common shares outstanding	24,546,819	24,459,088
Diluted weighted average common shares outstanding	24,546,819	24,459,088

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

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

	Three Months Ended March 31,	
	2025	2024
Net income	\$ 37,523	\$ 29,462
Other comprehensive income (loss):		
Unrealized appreciation (depreciation) of available-for-sale securities	25,190	(3,791)
Income tax effect	(5,842)	839
Other comprehensive income (loss), net of tax	19,348	(2,952)
Comprehensive income (loss)	56,871	26,510
Comprehensive (income) loss attributable to noncontrolling interests	(3)	(7)
Comprehensive income (loss) available to common shareholders	\$ 56,868	\$ 26,503

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 Stock	Common Stock	Retained Earnings	Cost of Common Stock in Treasury	Accumulated Other Comprehensive Income (Loss), Net	Total Shareholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2024	\$ —	\$ 436,538	\$ 789,842	\$ (130,489)	\$ (106,323)	\$ 989,568	\$ 78,695	\$ 1,068,263
Net income	—	—	29,455	—	—	29,455	7	29,462
Other comprehensive loss	—	—	—	—	(2,952)	(2,952)	—	(2,952)
Issuance of 43,054 common shares under stock based compensation awards	—	—	1,462	699	—	2,161	—	2,161
Common stock dividend (\$0.34 per share)	—	—	(8,346)	—	—	(8,346)	—	(8,346)
Distributions to noncontrolling interests	—	—	—	—	—	—	(1,119)	(1,119)
Liquidation of noncontrolling interests	—	—	—	—	—	—	(5,920)	(5,920)
Balance at March 31, 2024	\$ —	\$ 436,538	\$ 812,413	\$ (129,790)	\$ (109,275)	\$ 1,009,886	\$ 71,663	\$ 1,081,549
Balance at January 1, 2025	\$ —	\$ 436,538	\$ 890,937	\$ (129,175)	\$ (87,232)	\$ 1,111,068	\$ 70,438	\$ 1,181,506
Net income	—	—	37,520	—	—	37,520	3	37,523
Other comprehensive income	—	—	—	—	19,348	19,348	—	19,348
Issuance of 50,003 common shares under stock based compensation awards	—	—	2,125	718	—	2,843	—	2,843
Cost of 7,554 shares of common stock acquired for treasury	—	—	—	(455)	—	(455)	—	(455)
Common stock dividend (\$0.36 per share)	—	—	(8,865)	—	—	(8,865)	—	(8,865)
Distributions to noncontrolling interests	—	—	—	—	—	—	(1,513)	(1,513)
Liquidation of noncontrolling interests	—	—	—	—	—	—	(9,845)	(9,845)
Balance at March 31, 2025	\$ —	\$ 436,538	\$ 921,717	\$ (128,912)	\$ (67,884)	\$ 1,161,459	\$ 59,083	\$ 1,220,542

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

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

	Three Months Ended March 31,	
	2025	2024
Operating activities:		
Net income	\$ 37,523	\$ 29,462
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,265	7,477
Depreciation of premises and equipment	1,190	1,032
Depreciation of equipment owned and leased to others	718	1,288
Stock-based compensation	1,389	1,310
(Accretion) amortization of investment securities premiums and discounts, net	(646)	767
Amortization of mortgage servicing rights	176	184
Amortization of right of use assets	745	759
Deferred income taxes	(642)	2,379
Originations of loans held for sale, net of principal collected	(9,675)	(10,727)
Proceeds from the sales of loans held for sale	9,977	9,652
Net gain on sale of loans held for sale	(38)	(364)
Net gain on sale of other real estate and repossessions	(19)	(96)
Change in interest receivable	1,331	(453)
Change in interest payable	(6,755)	2,695
Change in other assets	1,250	(1,725)
Change in other liabilities	32,138	(1,281)
Other	(134)	(399)
Net change in operating activities	71,793	41,960
Investing activities:		
Proceeds from maturities and paydowns of investment securities available-for-sale	89,721	55,723
Purchases of investment securities available-for-sale	(29,463)	(20,925)
Net change in partnership investments	(4,510)	(10,259)
Loans sold or participated to others	17,160	22,276
Proceeds from principal payments on direct finance leases	20,291	17,810
Net change in loans and leases	(53,120)	(91,045)
Net change in equipment owned under operating leases	901	2,387
Purchases of premises and equipment	(2,512)	(575)
Proceeds from disposal of premises and equipment	—	13
Proceeds from sales of other real estate and repossessions	828	905
Net change in investing activities	39,296	(23,690)
Financing activities:		
Net change in demand deposits and savings accounts	54,729	(46,245)
Net change in time deposits	133,001	62,975
Net change in short-term borrowings	(188,021)	(62,779)
Payments on long-term debt	(1,727)	(11,264)
Acquisition of treasury stock	(455)	—
Net (distributions to) contributions from noncontrolling interests	(1,513)	(1,119)
Cash dividends paid on common stock	(9,110)	(8,592)
Net change in financing activities	(13,096)	(67,024)
Net change in cash and cash equivalents	97,993	(48,754)
Cash and cash equivalents, beginning of year	124,826	129,668
Cash and cash equivalents, end of period	\$ 222,819	\$ 80,914
Supplemental Information:		
Non-cash transactions:		
Loans transferred to other real estate and repossessed assets	\$ 2,604	\$ 412
Common stock matching contribution to Employee Stock Ownership and Profit Sharing Plan	1,227	1,153
Right of use assets obtained in exchange for lease obligations	68	535
Liquidation of noncontrolling interests	9,845	5,920
Cash paid (received) for:		
Interest	49,121	41,858
Income Taxes	(20,457)	61

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

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

Note 1 — Accounting Policies

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](#) (2024 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, 2024, has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation.

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

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

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

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

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

Note 2 — Recent Accounting Pronouncements

Debt: In November 2024, the Financial Accounting Standards Board (FASB) issued ASU No. 2024-04 “*Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversion of Convertible Debt Issuances.*” These amendments clarify the requirements for determining whether certain settlements of convertible debt instruments, including convertible debt instruments with cash conversion features or convertible debt instruments that are not currently convertible, should be accounted for as an induced conversion. This guidance is effective for all entities for fiscal years including interim periods within those fiscal years, beginning after December 15, 2025. Early adoption is permitted in any interim period. The Company is assessing ASU 2024-04 and its impact on its accounting and disclosures.

Income Statement: In November 2024, the FASB issued ASU No. 2024-03 “*Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses.*” These amendments require public companies to disclose, in the notes to financial statements, specified information about certain costs and expenses at each interim and annual reporting period. Specifically, they will be required to:

- Disclose the amounts of (a) purchases of inventory; (b) employee compensation; (c) depreciation; (d) intangible asset amortization; and (e) depreciation, depletion, and amortization recognized as part of oil- and gas-producing activities (or other amounts of depletion expense) included in each relevant expense caption.
- Include certain amounts that are already required to be disclosed under current generally accepted accounting principles (GAAP) in the same disclosure as the other disaggregation requirements.
- Disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively.
- Disclose the total amount of selling expenses and, in annual reporting periods, an entity’s definition of selling expenses.

In January 2025, the FASB issued ASU No. 2025-01 clarifying the effective date for public business entities for fiscal years beginning after December 15, 2026 and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption is permitted. The Company is assessing ASU 2024-03 and its impact on its accounting and disclosures.

Income Taxes: In December 2023, the FASB issued Accounting Standards Update (ASU) No. 2023-09 “*Income Taxes (Topic 740): Improvements to Income Tax Disclosures.*” Among other things, these amendments require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than five percent of the amount computed by multiplying pretax income (loss) by the applicable statutory income tax rate.) The amendments also require that all entities disclose on an annual basis the following information about income taxes paid: (1) the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and (2) the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than five percent of total income taxes paid (net of refunds received.) This guidance is effective for public business entities for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments should be applied on a prospective basis although retrospective application is permitted. The Company is assessing ASU 2023-09 and its impact on its disclosures.

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
March 31, 2025				
U.S. Treasury and Federal agencies securities	\$ 746,212	\$ 1,025	\$ (20,921)	\$ 726,316
U.S. States and political subdivisions securities	91,509	88	(3,236)	88,361
Mortgage-backed securities — Federal agencies	753,351	1,427	(67,578)	687,200
Total debt securities available-for-sale	\$ 1,591,072	\$ 2,540	\$ (91,735)	\$ 1,501,877
December 31, 2024				
U.S. Treasury and Federal agencies securities	\$ 786,417	\$ 24	\$ (28,692)	\$ 757,749
U.S. States and political subdivisions securities	86,305	33	(3,706)	82,632
Mortgage-backed securities — Federal agencies	777,962	192	(82,236)	695,918
Total debt securities available-for-sale	\$ 1,650,684	\$ 249	\$ (114,634)	\$ 1,536,299

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, 2025 and December 31, 2024, accrued interest receivable on investment securities available-for-sale was \$4.74 million and \$4.68 million, respectively.

At March 31, 2025 and December 31, 2024, 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 Company did not hold any marketable equity securities at March 31, 2025 and December 31, 2024.

The following table shows the contractual maturities of investments in debt securities available-for-sale at March 31, 2025. 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	\$	277,203	\$	271,984
Due after one year through five years		488,417		471,085
Due after five years through ten years		56,250		56,354
Due after ten years		15,851		15,254
Mortgage-backed securities		753,351		687,200
Total debt securities available-for-sale	\$	1,591,072	\$	1,501,877

The following table summarizes gross unrealized losses and fair value by investment category and age. At March 31, 2025, the Company's available-for-sale securities portfolio consisted of 620 securities, 539 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
March 31, 2025						
U.S. Treasury and Federal agencies securities	\$ 34,135	\$ (332)	\$ 589,349	\$ (20,589)	\$ 623,484	\$ (20,921)
U.S. States and political subdivisions securities	29,868	(622)	38,722	(2,614)	68,590	(3,236)
Mortgage-backed securities - Federal agencies	92,043	(1,093)	462,637	(66,485)	554,680	(67,578)
Total debt securities available-for-sale	\$ 156,046	\$ (2,047)	\$ 1,090,708	\$ (89,688)	\$ 1,246,754	\$ (91,735)
December 31, 2024						
U.S. Treasury and Federal agencies securities	\$ 103,621	\$ (1,324)	\$ 644,614	\$ (27,368)	\$ 748,235	\$ (28,692)
U.S. States and political subdivisions securities	37,017	(670)	39,280	(3,036)	76,297	(3,706)
Mortgage-backed securities - Federal agencies	191,779	(3,355)	466,204	(78,881)	657,983	(82,236)
Total debt securities available-for-sale	\$ 332,417	\$ (5,349)	\$ 1,150,098	\$ (109,285)	\$ 1,482,515	\$ (114,634)

The Company does not consider available-for-sale securities with unrealized losses at March 31, 2025, 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,	
	2025	2024
Gross realized gains	\$ —	\$ —
Gross realized losses	—	—
Net realized losses	\$ —	\$ —

At March 31, 2025 and December 31, 2024, investment securities available-for-sale with carrying values of \$240.88 million and \$359.10 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 loans, home equity loans, and consumer loans, are assigned credit quality grades on a scale from 1 to 12, with grade 1 representing superior credit quality. The criteria used to assign grades to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Company's safety and soundness. Loans or leases graded 7 or weaker are considered "special attention" credits and, as such, relationships in excess of \$250,000 are reviewed quarterly as part of management's evaluation of the appropriateness of the allowance for loan and lease losses. Grade 7 credits are defined as "watch" and contain greater than average credit risk and are monitored to limit the exposure to increased risk; grade 8 credits are "special mention" and, following regulatory guidelines, are defined as having potential weaknesses that deserve management's close attention. Credits that exhibit well-defined weaknesses and a distinct possibility of loss are considered "classified" and are graded 9 through 12 corresponding to the regulatory definitions of "substandard" (grades 9 and 10) and the more severe "doubtful" (grade 11) and "loss" (grade 12). For residential real estate and home equity and consumer loans, credit quality is based on the aging status of the loan and by payment activity. Nonperforming loans are those loans which are on nonaccrual status or are 90 days or more past due.

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

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

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

Auto and light truck – loans are secured by vehicles and borrowers are nationwide. The portfolio consists of multiple industries: auto rental, auto leasing and a small specialty vehicle segment which the Company is largely exiting. 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 terms are relatively short, generally eighteen months, but up to four years. Auto leasing customers lease to businesses and the Company takes assignment of the lease stream and places its lien on the vehicles. Terms are generally longer than the auto rental sector, three to seven years and match the underlying leases. Risks include economic risks and collateral risks, principally used vehicle values.

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

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

Construction equipment – loans are to borrowers throughout the country secured by specific equipment. The borrowers include highway and road builders, asphalt producers and pavers, suppliers of aggregate products, site developers, frac sand operations, general construction equipment dealers and operators, and crane rental entities. Generally, loans include personal guarantees. The construction equipment industry is heavily dependent on 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 the non-owner-occupied segment of this portfolio has increased over the last several years. The non-owner-occupied segment includes hotels, apartment complexes and warehousing facilities. There is generally limited exposure to construction loans although at present, construction exposures are comparably higher than previous periods. Many commercial real estate loans carry personal guarantees. Additional risks in the commercial real estate portfolio include interest rate risk, 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, 2025, and gross charge-offs for the three months ended March 31, 2025.

	Term Loans and Leases by Origination Year									
(Dollars in thousands)	2025	2024	2023	2022	2021	Prior	Revolving Loans	Revolving Loans Converted to Term	Total	
Commercial and agricultural										
Grades 1-6	\$ 41,402	\$ 120,818	\$ 107,725	\$ 62,731	\$ 32,203	\$ 25,999	\$ 333,749	\$ —	\$ 724,627	
Grades 7-12	1,551	332	3,954	6,949	2,256	2,420	33,029	—	50,491	
Total commercial and agricultural	42,953	121,150	111,679	69,680	34,459	28,419	366,778	—	775,118	
Current period gross charge-offs	—	—	127	109	9	—	170	—	415	
Renewable energy										
Grades 1-6	57,261	133,666	127,379	21,636	68,740	96,731	—	—	505,413	
Grades 7-12	—	—	—	—	—	—	—	—	—	
Total renewable energy	57,261	133,666	127,379	21,636	68,740	96,731	—	—	505,413	
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	
Auto and light truck										
Grades 1-6	150,679	388,516	228,588	85,676	20,336	12,724	—	—	886,519	
Grades 7-12	643	21,877	42,811	3,138	65	892	—	—	69,426	
Total auto and light truck	151,322	410,393	271,399	88,814	20,401	13,616	—	—	955,945	
Current period gross charge-offs	—	117	—	223	—	—	—	—	340	
Medium and heavy duty truck										
Grades 1-6	26,743	83,087	67,746	73,765	21,784	12,565	—	—	285,690	
Grades 7-12	—	—	1,436	1,366	617	10	—	718	4,147	
Total medium and heavy duty truck	26,743	83,087	69,182	75,131	22,401	12,575	—	718	289,837	
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	
Aircraft										
Grades 1-6	85,283	305,113	174,569	273,294	143,688	103,132	7,843	—	1,092,922	
Grades 7-12	—	2,881	8,530	10,672	—	3,094	—	—	25,177	
Total aircraft	85,283	307,994	183,099	283,966	143,688	106,226	7,843	—	1,118,099	
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	
Construction equipment										
Grades 1-6	100,372	446,518	294,211	181,537	58,533	29,285	23,959	1,830	1,136,245	
Grades 7-12	—	3,253	7,858	11,320	1,486	11,772	—	—	35,689	
Total construction equipment	100,372	449,771	302,069	192,857	60,019	41,057	23,959	1,830	1,171,934	
Current period gross charge-offs	—	2	680	—	—	—	—	—	682	
Commercial real estate										
Grades 1-6	50,839	275,475	299,801	222,236	122,433	236,220	219	—	1,207,223	
Grades 7-12	—	144	7,702	5,637	5,927	4,127	—	—	23,537	
Total commercial real estate	50,839	275,619	307,503	227,873	128,360	240,347	219	—	1,230,760	
Current period gross charge-offs	—	—	—	—	—	5	—	—	5	
Residential real estate and home equity										
Performing	17,517	85,128	67,384	92,143	79,943	157,264	178,156	8,033	685,568	
Nonperforming	—	—	144	748	215	1,008	1,331	87	3,533	
Total residential real estate and home equity	17,517	85,128	67,528	92,891	80,158	158,272	179,487	8,120	689,101	
Current period gross charge-offs	—	—	—	5	—	—	1	—	6	
Consumer										
Performing	9,879	39,493	29,271	24,486	8,117	2,540	12,717	—	126,503	
Nonperforming	—	10	315	217	68	73	—	—	683	
Total consumer	9,879	39,503	29,586	24,703	8,185	2,613	12,717	—	127,186	
Current period gross charge-offs	\$ 121	\$ 111	\$ 88	\$ 130	\$ 20	\$ —	\$ 6	\$ —	\$ 476	

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, 2024, and gross charge-offs for the year ended December 31, 2024.

	Term Loans and Leases by Origination Year									
(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans	Revolving Loans Converted to Term	Total	
Commercial and agricultural										
Grades 1-6	\$ 136,888	\$ 115,508	\$ 66,696	\$ 36,315	\$ 19,677	\$ 18,369	\$ 331,282	\$ —	\$ 724,735	
Grades 7-12	438	4,079	7,769	2,426	194	2,325	31,008	—	48,239	
Total commercial and agricultural	137,326	119,587	74,465	38,741	19,871	20,694	362,290	—	772,974	
Current period gross charge-offs	—	276	117	550	—	—	8,882	—	9,825	
Renewable energy										
Grades 1-6	150,951	145,126	22,110	70,606	22,329	76,144	—	—	487,266	
Grades 7-12	—	—	—	—	—	—	—	—	—	
Total renewable energy	150,951	145,126	22,110	70,606	22,329	76,144	—	—	487,266	
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	
Auto and light truck										
Grades 1-6	443,033	276,295	106,199	25,535	10,018	6,677	—	—	867,757	
Grades 7-12	26,131	48,319	4,754	99	1,210	165	—	—	80,678	
Total auto and light truck	469,164	324,614	110,953	25,634	11,228	6,842	—	—	948,435	
Current period gross charge-offs	—	165	448	6	—	111	—	—	730	
Medium and heavy duty truck										
Grades 1-6	88,395	72,816	81,238	25,726	11,298	5,493	—	—	284,966	
Grades 7-12	—	1,524	1,623	690	—	13	—	807	4,657	
Total medium and heavy duty truck	88,395	74,340	82,861	26,416	11,298	5,506	—	807	289,623	
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	
Aircraft										
Grades 1-6	347,099	190,776	285,677	151,194	82,208	32,326	7,773	—	1,097,053	
Grades 7-12	2,882	7,704	10,920	1,846	3,392	—	—	—	26,744	
Total aircraft	349,981	198,480	296,597	153,040	85,600	32,326	7,773	—	1,123,797	
Current period gross charge-offs	—	—	—	15	—	53	—	—	68	
Construction equipment										
Grades 1-6	488,870	325,443	208,114	70,258	33,095	10,890	25,916	1,966	1,164,552	
Grades 7-12	2,716	10,650	11,686	1,679	12,629	—	—	—	39,360	
Total construction equipment	491,586	336,093	219,800	71,937	45,724	10,890	25,916	1,966	1,203,912	
Current period gross charge-offs	46	989	390	267	—	—	—	—	1,692	
Commercial real estate										
Grades 1-6	258,988	303,717	237,103	126,129	82,249	177,798	264	—	1,186,248	
Grades 7-12	145	14,580	5,846	6,386	27	2,033	—	—	29,017	
Total commercial real estate	259,133	318,297	242,949	132,515	82,276	179,831	264	—	1,215,265	
Current period gross charge-offs	—	—	—	—	—	—	—	—	—	
Residential real estate and home equity										
Performing	87,045	69,439	94,441	81,345	79,575	85,333	173,876	6,210	677,264	
Nonperforming	—	171	624	346	103	340	1,138	85	2,807	
Total residential real estate and home equity	87,045	69,610	95,065	81,691	79,678	85,673	175,014	6,295	680,071	
Current period gross charge-offs	—	3	—	32	—	—	30	1	66	
Consumer										
Performing	43,692	33,063	28,594	10,092	2,398	983	13,823	—	132,645	
Nonperforming	22	352	336	57	33	20	—	—	820	
Total consumer	43,714	33,415	28,930	10,149	2,431	1,003	13,823	—	133,465	
Current period gross charge-offs	\$ 565	\$ 230	\$ 276	\$ 118	\$ 16	\$ 22	\$ 122	\$ —	\$ 1,349	

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 Past Due	60-89 Days Past Due	90 Days or More Past Due and Accruing	Total Accruing Loans	Nonaccrual	Total Financing Receivables
March 31, 2025							
Commercial and agricultural	\$ 767,662	\$ 993	\$ 711	\$ —	\$ 769,366	\$ 5,752	\$ 775,118
Renewable energy	505,413	—	—	—	505,413	—	505,413
Auto and light truck	943,827	—	—	—	943,827	12,118	955,945
Medium and heavy duty truck	289,837	—	—	—	289,837	—	289,837
Aircraft	1,117,107	—	—	—	1,117,107	992	1,118,099
Construction equipment	1,154,053	2,739	—	—	1,156,792	15,142	1,171,934
Commercial real estate	1,227,984	334	—	—	1,228,318	2,442	1,230,760
Residential real estate and home equity	684,814	637	117	120	685,688	3,413	689,101
Consumer	125,813	594	96	2	126,505	681	127,186
Total	\$ 6,816,510	\$ 5,297	\$ 924	\$ 122	\$ 6,822,853	\$ 40,540	\$ 6,863,393
December 31, 2024							
Commercial and agricultural	\$ 767,942	\$ 275	\$ 42	\$ —	\$ 768,259	\$ 4,715	\$ 772,974
Renewable energy	487,266	—	—	—	487,266	—	487,266
Auto and light truck	943,403	2,226	—	—	945,629	2,806	948,435
Medium and heavy duty truck	289,623	—	—	—	289,623	—	289,623
Aircraft	1,123,797	—	—	—	1,123,797	—	1,123,797
Construction equipment	1,185,936	—	—	—	1,185,936	17,976	1,203,912
Commercial real estate	1,203,967	9,703	—	—	1,213,670	1,595	1,215,265
Residential real estate and home equity	675,669	1,010	585	96	677,360	2,711	680,071
Consumer	131,585	852	208	10	132,655	810	133,465
Total	\$ 6,809,188	\$ 14,066	\$ 835	\$ 106	\$ 6,824,195	\$ 30,613	\$ 6,854,808

Accrued interest receivable on loans and leases at March 31, 2025 and December 31, 2024 was \$26.38 million and \$28.02 million, respectively.

Loan Modifications to Borrowers Experiencing Financial Difficulty

The following table shows the amortized cost of loans and leases over \$250,000 at March 31, 2025 and March 31, 2024, respectively, that were both experiencing financial difficulty and modified during the three months ended March 31, 2025 and March 31, 2024, respectively, segregated by portfolio segment and type of modification. The percentage of the amortized cost of loans and leases that were modified to borrowers in financial distress as compared to the amortized cost of each segment of financial receivable is also presented below.

<i>(Dollars in thousands)</i>	Payment Delay	Term Extension	Interest Rate Reduction	Combination Payment Delay and Term Extension	% of Total Segment Financing Receivables
Three Months Ended March 31, 2025					
Construction equipment	—	514	—	—	0.04
Total	\$ —	\$ 514	\$ —	\$ —	0.01 %
Three Months Ended March 31, 2024					
Commercial and agricultural	\$ —	108	\$ —	—	0.01 %
Auto and light truck	—	—	—	25,583	2.56
Total	\$ —	\$ 108	\$ —	\$ 25,583	0.39 %

There were \$0.00 million and \$2.63 million in commitments to lend additional amounts to the borrowers included in the previous table at March 31, 2025 and March 31, 2024, respectively.

The Company closely monitors the performance of loans and leases that have been modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table shows the performance of such loans and leases that have been modified during the twelve months ended March 31, 2025 and March 31, 2024, respectively.

<i>(Dollars in thousands)</i>	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due
Twelve months ended March 31, 2025					
Commercial and agricultural	\$ 1,052	\$ —	\$ —	\$ —	\$ —
Auto and light truck	5,339	—	10,775	—	10,775
Medium and heavy duty truck	2,797	—	—	—	—
Construction equipment	514	—	—	—	—
Commercial real estate	988	—	—	—	—
Total	\$ 10,690	\$ —	\$ 10,775	\$ —	\$ 10,775
Twelve months ended March 31, 2024					
Commercial and agricultural	\$ 1,798	\$ —	\$ —	\$ 1,869	\$ 1,869
Auto and light truck	25,583	—	—	—	—
Medium and heavy duty truck	10,699	—	—	—	—
Construction equipment	1,372	—	—	—	—
Commercial real estate	269	—	—	—	—
Total	\$ 39,721	\$ —	\$ —	\$ 1,869	\$ 1,869

The following table shows the financial effect of loan and lease modifications presented above to borrowers experiencing financial difficulty for the twelve months ended March 31, 2025 and March 31, 2024, respectively.

	Weighted- Average Interest Rate Reduction	Weighted- Average Term Extension (in months)	Weighted- Average Payment Delay (in months)	Combination Weighted-Average Payment Delay and Term Extension (in months)
Twelve months ended March 31, 2025				
Commercial and agricultural	— %	0	6	3
Auto and light truck	—	0	0	3
Medium and heavy duty truck	—	0	0	4
Construction equipment	—	5	0	0
Commercial real estate	—	0	6	0
Total	— %	5	6	3
Twelve months ended March 31, 2024				
Commercial and agricultural	— %	9	6	35
Auto and light truck	—	0	0	3
Medium and heavy duty truck	—	0	0	6
Construction equipment	—	4	0	0
Commercial real estate	—	0	3	0
Total	— %	4	6	5

There was one modified loan to a borrower experiencing financial difficulty which had a payment default within twelve months of modification during the three month period ended March 31, 2025 and no modified loans to borrowers experiencing financial difficulty which had payment defaults within twelve months of modification during the three months ended March 31, 2024.

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

Note 5 — Allowance for Credit Losses

Allowance for Loan and Lease Losses

The allowance for credit losses is established for current expected credit losses on the Company's loan and lease portfolios utilizing guidance in Accounting Standards Codification (ASC) Topic 326. The determination of the allowance requires significant judgment to estimate credit losses measured on a collective pool basis when similar risk characteristics exist, and for loans evaluated individually. In determining the allowance, the Company estimates expected future losses for the loan's entire contractual term adjusted for expected payments when appropriate. The allowance estimate considers relevant available information, from internal and external sources, relating to the historical loss experience, current conditions, and reasonable and supportable forecasts for the Company's outstanding loan and lease balances. The allowance is an estimation that reflects management's evaluation of expected losses related to the Company's financial assets measured at amortized cost. To ensure 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, 2025 and 2024.

<i>(Dollars in thousands)</i>	Commercial and agricultural	Renewable energy	Auto and light truck	Medium and heavy duty truck	Aircraft	Construction equipment	Commercial real estate	Residential real estate and home equity	Consumer	Total
March 31, 2025										
Balance, beginning of period	\$ 21,316	\$ 8,562	\$ 18,437	\$ 7,292	\$ 36,663	\$ 28,258	\$ 24,821	\$ 7,976	\$ 2,215	\$ 155,540
Charge-offs	415	—	340	—	—	682	5	6	476	1,924
Recoveries	282	—	890	—	209	281	3	16	61	1,742
Net charge-offs (recoveries)	133	—	(550)	—	(209)	401	2	(10)	415	182
Provision (recovery of provision)	729	303	(330)	(408)	(40)	864	154	452	388	2,112
Balance, end of period	\$ 21,912	\$ 8,865	\$ 18,657	\$ 6,884	\$ 36,832	\$ 28,721	\$ 24,973	\$ 8,438	\$ 2,188	\$ 157,470
March 31, 2024										
Balance, beginning of period	\$ 17,385	\$ 6,610	\$ 16,858	\$ 8,965	\$ 37,653	\$ 26,510	\$ 23,690	\$ 7,698	\$ 2,183	\$ 147,552
Charge-offs	7,068	—	1	—	68	292	—	13	229	7,671
Recoveries	86	—	653	—	368	199	181	8	53	1,548
Net charge-offs (recoveries)	6,982	—	(652)	—	(300)	93	(181)	5	176	6,123
Provision (recovery of provision)	6,860	248	74	(177)	(1,029)	387	(27)	115	144	6,595
Balance, end of period	\$ 17,263	\$ 6,858	\$ 17,584	\$ 8,788	\$ 36,924	\$ 26,804	\$ 23,844	\$ 7,808	\$ 2,151	\$ 148,024

The higher allowance for credit losses during the current quarter reflects an accretive allowance adjustment in the Company's forecast assumption along with a slight increase in loan balances. The previous forecast assumption as of December 31, 2024, was adjusted with the current quarter's analysis to reflect weaker growth expectations during the two-year forecast time horizon and a substantial increase in uncertainty in the macro environment stemming from a lack of predictability of domestic trade policies. Wide-ranging tariffs targeting steel, aluminum, automobile manufacturing, and a host of other goods and materials which directly impact the Company's loan portfolios have been implemented or proposed. The Company remains cautious on the forward outlook and the accretive forecast adjustment represents increased downside risk and a broader range of potential economic outcomes as compared to the previous quarter's outlook. Ongoing risks include heightened geopolitical instability, tightened credit conditions, increasing consumer stressors and falling consumer confidence, some softening in labor markets, and still elevated inflation and interest rates. Credit quality metrics reflect lower special attention outstandings during the current quarter, with modest levels of non-performing and delinquency that are trending higher. Net credit losses were minimal during the period, with losses in the construction equipment, commercial and agricultural and consumer portfolios, largely offset by recoveries in the auto and light truck and aircraft portfolios.

Commercial and agricultural – the increase in the allowance in the current quarter was principally due to the accretive impact of the forecast adjustment along with slightly higher loan balances during the period.

Renewable energy – the allowance increased due to loan growth. Credit quality remains stable.

Auto and light truck – the allowance increased slightly during the current quarter due to modest loan growth and the accretive impact of the forecast adjustment. The industry is currently challenged by higher vehicle capital costs and weaker rental rates.

Medium and heavy duty truck – the allowance decreased due to a decline in special attention loan balances within the segment which carry higher reserves. The industry continues to work through difficulties brought on by overcapacity. The forward outlook for freight demand is uncertain.

Aircraft – the allowance increased slightly during the current quarter due to the accretive impact of the forecast adjustment, partially offset by modestly lower loan volumes. The Company has historically carried a higher allowance in this portfolio due to risk volatility.

Construction equipment – the allowance increased due to the accretive impact of the forecast adjustment and a slight increase in historical rates from losses recognized during the quarter, partially offset by a decline in loan balances.

Commercial real estate – the allowance was little changed as loan balances increased modestly offset by slightly lower historical loss rates. Higher interest rates and shifting demand dynamics have impacted commercial real estate markets, but the Company’s real estate portfolios have exhibited minimal problem loan activity and it has experienced no material losses in recent quarters. The majority of the Company’s real estate exposure is owner-occupied, and exposure to non-owner-occupied office property is minimal.

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

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

Economic Outlook

As of March 31, 2025, the most significant economic factors impacting the Company’s loan portfolios are a fragile and weakening domestic growth outlook, impacted by uncertainty surrounding domestic trade policies, elevated inflation and interest rates, along with broadening foreign conflicts and increasing geopolitical instability. The labor market has shown limited signs of softening and questions surrounding the timing and velocity of future interest rate cuts persist. The Company is concerned about the breadth of tariff proposals and their impact on the Company’s markets, and the corresponding increase in downside economic risks. Consumer stressors are increasing and consumer confidence is falling. The Company remains concerned about small businesses’ ability to manage expenses in an environment of broader macro instability and compete for labor, while absorbing the impact of higher interest rates and higher cost of capital. Asset valuations, particularly in the auto and light truck, construction equipment, and medium and heavy duty portfolios, are softening. Restrictive trade policies increase the potential for volatility in asset prices which collateralize our loans. Tightened lending conditions and the higher-rate environment are impacting commercial real estate activity. The forecast considers global and domestic economic impacts from these factors, as well as other key economic factors, such as changes in gross domestic product and unemployment which may impact the Company’s clients. The Company’s assumption is that the forward outlook has deteriorated since its previous analysis, economic growth will weaken during the forecast period over the next two years, with inflation slowly moving back towards the 2% Federal Reserve target rate, resulting in an adverse impact on the loan and lease portfolio.

Although the Company’s current loss estimates consider geopolitical and economic risk, due to the level of uncertainty associated with these and other risk factors, the complexity of the current environment, and the potential for future changes in the forecast, the Company’s future loss estimates may vary considerably from the March 31, 2025 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.

<i>(Dollars in thousands)</i>	Three Months Ended March 31,			
	2025		2024	
Balance, beginning of period	\$	6,985	\$	8,182
Provision		1,153		882
Balance, end of period	\$	8,138	\$	9,064

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, Renewable Energy, Auto and Light Truck, Medium and Heavy Duty Truck, Aircraft, and Construction Equipment on the Consolidated Statements of Financial Condition. The Company also finances various types of construction equipment, medium and heavy duty trucks, automobiles and other equipment under leases classified as operating leases, which are included in Equipment Owned Under Operating Leases, Net, on the Consolidated Statements of Financial Condition.

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

(Dollars in thousands)	Three Months Ended March 31,	
	2025	2024
Direct finance leases:		
Interest income on lease receivable	\$ 3,330	\$ 3,439
Operating leases:		
Income related to lease payments	\$ 899	\$ 1,671
Depreciation expense	718	1,288

Income related to reimbursements from lessees for personal property tax on operating leased equipment for the three months ended March 31, 2025 and 2024, was \$0.11 million and \$0.12 million, respectively. Expense related to personal property tax payments on operating leased equipment for the three months ended March 31, 2025 and 2024, was \$0.11 million and \$0.12 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 \$766.27 million and \$777.81 million at March 31, 2025 and December 31, 2024, 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 March 31,	
	2025	2024
Mortgage servicing rights:		
Balance at beginning of period	\$ 3,436	\$ 3,670
Additions	84	88
Amortization	(176)	(184)
Carrying value before valuation allowance at end of period	3,344	3,574
Valuation allowance:		
Balance at beginning of period	—	—
Impairment recoveries	—	—
Balance at end of period	\$ —	\$ —
Net carrying value of mortgage servicing rights at end of period	\$ 3,344	\$ 3,574
Fair value of mortgage servicing rights at end of period	\$ 7,718	\$ 8,357

At March 31, 2025 and 2024, the fair value of MSRs exceeded the carrying value reported in the Consolidated Statements of Financial Condition by \$4.37 million and \$4.78 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 \$0.59 million and \$0.61 million for the three months ended March 31, 2025 and 2024, 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.

<i>(Dollars in thousands)</i>	March 31, 2025	December 31, 2024
Amounts of commitments:		
Loan commitments to extend credit	\$ 1,378,613	\$ 1,304,735
Standby letters of credit	\$ 23,426	\$ 21,828
Commercial and similar letters of credit	\$ —	\$ 161

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.

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. 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.

Standby letters of credit are conditional commitments issued to guarantee the performance of a client to a third party. The credit risk involved in and collateral obtained when issuing standby letters of credit are essentially the same as those 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.

	Notional or contractual amount	Asset derivatives		Liability derivatives	
(Dollars in thousands)		Statement of Financial Condition classification	Fair value	Statement of Financial Condition classification	Fair value
March 31, 2025					
Interest rate swap contracts	\$ 1,187,136	Other assets	\$ 17,378	Other liabilities	\$ 17,703
Loan commitments	6,675	Mortgages held for sale	200	N/A	—
Forward contracts - mortgage loan	6,000	N/A	—	Mortgages held for sale	8
Total	\$ 1,199,811		\$ 17,578		\$ 17,711
December 31, 2024					
Interest rate swap contracts	\$ 1,083,673	Other assets	\$ 16,424	Other liabilities	\$ 16,727
Loan commitments	3,586	Mortgages held for sale	118	N/A	—
Forward contracts - mortgage loan	4,500	Mortgages held for sale	17	N/A	—
Total	\$ 1,091,759		\$ 16,559		\$ 16,727

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,	
		2025	2024
Interest rate swap contracts	Other expense	\$ (21)	\$ 27
Interest rate swap contracts	Other income	451	186
Loan commitments	Mortgage banking	82	61
Forward contracts - mortgage loan	Mortgage banking	(25)	8
Total		\$ 487	\$ 282

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, 2025						
Interest rate swaps	\$ 17,738	\$ —	\$ 17,738	\$ —	\$ 4,725	\$ 13,013
December 31, 2024						
Interest rate swaps	\$ 16,424	\$ —	\$ 16,424	\$ —	\$ 12,615	\$ 3,809

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, 2025						
Interest rate swaps	\$ 17,703	\$ —	\$ 17,703	\$ —	\$ —	\$ 17,703
Repurchase agreements	60,025	—	60,025	60,025	—	—
Total	\$ 77,728	\$ —	\$ 77,728	\$ 60,025	\$ —	\$ 17,703
December 31, 2024						
Interest rate swaps	\$ 16,727	\$ —	\$ 16,727	\$ —	\$ —	\$ 16,727
Repurchase agreements	72,345	—	72,345	72,345	—	—
Total	\$ 89,072	\$ —	\$ 89,072	\$ 72,345	\$ —	\$ 16,727

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, 2025 and December 31, 2024, repurchase agreements had a remaining contractual maturity of \$59.98 million and \$72.30 million in overnight and \$0.05 million and \$0.05 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. These tax credits are recognized as a reduction of tax expense or, for investments qualifying as investment tax credits, as a reduction to the related investment asset. The Company recognized federal and state income tax credits related to its affordable housing and community development tax-advantaged investments in tax expense of \$0.95 million and \$0.80 million for the three months ended March 31, 2025 and 2024, respectively. The Company also recognized \$0.02 million and \$5.07 million of investment tax credits for the three months ended March 31, 2025 and 2024, respectively.

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

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

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

<i>(Dollars in thousands)</i>	March 31, 2025		December 31, 2024	
Investment carrying amount	\$	62,064	\$	62,044
Unfunded capital and other commitments		45,114		52,806
Maximum exposure to loss		77,031		74,242

The Company is required to consolidate VIEs in which it has concluded it has significant involvement and the ability to direct the activities that impact the entity's economic performance. The Company is the managing general partner of entities in which it shares interest in tax-advantaged investments with a third party. At March 31, 2025, and December 31, 2024, approximately \$65.57 million and \$78.20 million, respectively, of the Company's assets and \$0.00 million and \$0.00 million, respectively, of its liabilities included on the Consolidated Statements of Financial Condition were related to tax-advantaged investment VIEs which the Company has consolidated. The assets of the consolidated VIEs are reported in Other Assets, the liabilities are reported in Other Liabilities, and the non-controlling interest is reported in Equity on the Consolidated Statements of Financial Condition. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIE do not have recourse to the general credit of the Company. The Company's exposure to the consolidated VIE is generally limited to the carrying value of its variable interest plus any related tax credits previously recognized.

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

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

The following table shows subordinated notes at March 31, 2025.

<i>(Dollars in thousands)</i>	Amount of Subordinated Notes		Interest Rate	Maturity Date
June 2007 issuance (1)	\$	41,238	7.22 %	6/15/2037
August 2007 issuance (2)		17,526	6.04 %	9/15/2037
Total	\$	58,764		

(1) Fixed rate through life of debt.

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

Note 11 — Earnings Per Share

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

Stock options, where the exercise price was greater than the average market price of the common shares, were excluded from the computation of diluted earnings per common share because the result would have been antidilutive. There were no stock options outstanding as of March 31, 2025 and 2024.

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

	Three Months Ended March 31,	
(Dollars in thousands - except per share amounts)	2025	2024
Distributed earnings allocated to common stock	\$ 8,837	\$ 8,309
Undistributed earnings allocated to common stock	28,366	20,870
Net earnings allocated to common stock	37,203	29,179
Net earnings allocated to participating securities	317	276
Net income allocated to common stock and participating securities	\$ 37,520	\$ 29,455
Weighted average shares outstanding for basic earnings per common share	24,546,819	24,459,088
Dilutive effect of stock compensation	—	—
Weighted average shares outstanding for diluted earnings per common share	24,546,819	24,459,088
Basic earnings per common share	\$ 1.52	\$ 1.19
Diluted earnings per common share	\$ 1.52	\$ 1.19

Note 12 — Stock Based Compensation

As of March 31, 2025, 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, 2024. These plans include three executive stock award plans, the Executive Incentive Plan (EIP), the Restricted Stock Award Plan (RSAP), the Strategic Deployment Incentive Plan (SDP); and the Employee Stock Purchase Plan (ESPP). The 2011 Stock Option Plan was approved by the shareholders on April 21, 2011, but the Company had not made any grants through March 31, 2025.

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, 2025 and 2024. As of March 31, 2025 and 2024 there were no outstanding stock options. There were no stock options exercised during the three months ended March 31, 2025 and 2024. All shares issued in connection with stock option exercises are issued from available treasury stock.

As of March 31, 2025, there was \$12.58 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 3.45 years.

Note 13 — Accumulated Other Comprehensive Loss

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

(Dollars in thousands)	Three Months Ended March 31,		Affected Line Item in the Consolidated Statements of Income
	2025	2024	
Realized losses included in net income	\$ —	\$ —	Losses on investment securities available-for-sale
	—	—	Income before income taxes
Tax effect	—	—	Income tax expense
Net of tax	\$ —	\$ —	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, 2025 and December 31, 2024. Interest and penalties are recognized through the income tax provision. For the three months ended March 31, 2025, the Company recognized the receipt of a one-time \$0.74 million after-tax interest payment on federal tax refunds from tax credit carrybacks and no penalties. For the three months ended March 31, 2025 and 2024, the Company recognized no interest expense or penalties. There were no accrued interest and penalties at March 31, 2025 and December 31, 2024.

Tax years that remain open and subject to audit include the federal 2021-2024 years and the Indiana 2021-2024 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, 2025 and December 31, 2024, 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 amount	Aggregate unpaid principal	Excess of fair value carrying amount over (under) unpaid principal
March 31, 2025			
Mortgages held for sale reported at fair value	\$ 2,305	\$ 2,041	\$ 264 (1)
December 31, 2024			
Mortgages held for sale reported at fair value	\$ 2,569	\$ 2,343	\$ 226 (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 by a third-party pricing agent. Prices supplied by the independent pricing agent, as well as their pricing methodologies, are reviewed by the Company for reasonableness and to ensure such prices are aligned with market values. On a quarterly basis, prices supplied by the pricing agent are validated by comparison to the prices obtained from other third-party sources.

Interest rate swap positions, both assets and liabilities, are valued by a third-party pricing agent using an income approach and utilizing models that use as their basis readily observable market parameters. This valuation process considers various factors including interest rate yield curves, time value and volatility factors. Validation of third-party agent valuations is accomplished by comparing those values to the Company's swap counterparty valuations. Management believes an adjustment is required to "mid-market" valuations for derivatives tied to its performing loan portfolio to recognize the imprecision and related exposure inherent in the process of estimating expected credit losses as well as velocity of deterioration evident with systemic risks embedded in these portfolios. Any change in the mid-market derivative valuation adjustment will be recognized immediately through the Consolidated Statements of Income.

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

<i>(Dollars in thousands)</i>	Level 1	Level 2	Level 3	Total
March 31, 2025				
<u>Assets:</u>				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	\$ 411,627	\$ 314,689	\$ —	\$ 726,316
U.S. States and political subdivisions securities	—	87,403	958	88,361
Mortgage-backed securities — Federal agencies	—	687,200	—	687,200
Total debt securities available-for-sale	411,627	1,089,292	958	1,501,877
Mortgages held for sale	—	2,305	—	2,305
Accrued income and other assets (interest rate swap agreements)	—	17,738	—	17,738
Total	\$ 411,627	\$ 1,109,335	\$ 958	\$ 1,521,920
<u>Liabilities:</u>				
Accrued expenses and other liabilities (interest rate swap agreements)	\$ —	\$ 17,703	\$ —	\$ 17,703
Total	\$ —	\$ 17,703	\$ —	\$ 17,703
December 31, 2024				
<u>Assets:</u>				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	\$ 446,021	\$ 311,728	\$ —	\$ 757,749
U.S. States and political subdivisions securities	—	81,600	1,032	82,632
Mortgage-backed securities — Federal agencies	—	695,918	—	695,918
Total debt securities available-for-sale	446,021	1,089,246	1,032	1,536,299
Mortgages held for sale	—	2,569	—	2,569
Accrued income and other assets (interest rate swap agreements)	—	16,424	—	16,424
Total	\$ 446,021	\$ 1,108,239	\$ 1,032	\$ 1,555,292
<u>Liabilities:</u>				
Accrued expenses and other liabilities (interest rate swap agreements)	\$ —	\$ 16,727	\$ —	\$ 16,727
Total	\$ —	\$ 16,727	\$ —	\$ 16,727

The following table shows changes in Level 3 assets measured at fair value on a recurring basis for the quarter ended March 31, 2025 and 2024.

	U.S. States and political subdivisions securities
<i>(Dollars in thousands)</i>	
Beginning balance January 1, 2025	\$ 1,032
Total gains or losses (realized/unrealized):	
Included in earnings	—
Included in other comprehensive income (loss)	16
Purchases	—
Issuances	—
Sales	—
Settlements	—
Maturities	(90)
Transfers into Level 3	—
Transfers out of Level 3	—
Ending balance March 31, 2025	\$ 958
Beginning balance January 1, 2024	\$ 1,161
Total gains or losses (realized/unrealized):	
Included in earnings	—
Included in other comprehensive income (loss)	63
Purchases	—
Issuances	—
Sales	—
Settlements	—
Maturities	(180)
Transfers into Level 3	—
Transfers out of Level 3	—
Ending balance March 31, 2024	\$ 1,044

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, 2025 or 2024.

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
March 31, 2025					
Debt securities available-for sale					
Direct placement municipal securities	\$ 958	Discounted cash flows	Credit spread assumption	3.60% - 4.25%	3.97 %
December 31, 2024					
Debt securities available-for sale					
Direct placement municipal securities	\$ 1,032	Discounted cash flows	Credit spread assumption	1.15% - 4.59%	3.96 %

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 MSR 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, 2025: collateral-dependent impaired loans - \$0.01 million; mortgage servicing rights - \$0.00 million; repossessions - \$0.00 million; and other real estate - \$0.00 million.

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

<i>(Dollars in thousands)</i>	Level 1		Level 2		Level 3		Total
March 31, 2025							
Collateral-dependent impaired loans	\$	—	\$	—	\$	11,729	\$ 11,729
Accrued income and other assets (mortgage servicing rights)		—		—		3,344	3,344
Accrued income and other assets (reposessions)		—		—		2,410	2,410
Total	\$	—	\$	—	\$	17,483	\$ 17,483
December 31, 2024							
Collateral-dependent impaired loans	\$	—	\$	—	\$	725	\$ 725
Accrued income and other assets (mortgage servicing rights)		—		—		3,436	3,436
Accrued income and other assets (reposessions)		—		—		155	155
Accrued income and other assets (other real estate)		—		—		460	460
Total	\$	—	\$	—	\$	4,776	\$ 4,776

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
March 31, 2025							
Collateral-dependent impaired loans	\$	11,729	\$ 11,729	Collateral based measurements including appraisals, trade publications, and auction values	Discount for lack of marketability and current conditions	10% - 30%	11.5 %
Mortgage servicing rights		3,344	7,718	Discounted cash flows	Constant prepayment rate (CPR) Discount rate	5.4% - 25.5% 11.0% - 13.0%	6.5 % 11.2 %
Reposessions		2,410	2,485	Appraisals, trade publications and auction values	Discount for lack of marketability	0% - 57%	3 %
December 31, 2024							
Collateral-dependent impaired loans	\$	725	\$ 725	Collateral based measurements including appraisals, trade publications, and auction values	Discount for lack of marketability and current conditions	25% - 30%	28.0 %
Mortgage servicing rights		3,436	7,480	Discounted cash flows	Constant prepayment rate (CPR) Discount rate	7.6% - 23.0% 11.1% - 13.1%	7.6 % 11.3 %
Reposessions		155	170	Appraisals, trade publications and auction values	Discount for lack of marketability	0% - 10%	9 %
Other real estate		460	500	Appraisals	Discount for lack of marketability	0% - 8%	8 %

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 Contract Value	Fair Value	Level 1	Level 2	Level 3
March 31, 2025					
<u>Assets:</u>					
Cash and due from banks	\$ 87,816	\$ 87,816	\$ 87,816	\$ —	\$ —
Federal funds sold and interest bearing deposits with other banks	135,003	135,003	135,003	—	—
Investment securities, available-for-sale	1,501,877	1,501,877	411,627	1,089,292	958
Other investments	23,855	23,855	23,855	—	—
Mortgages held for sale	2,305	2,305	—	2,305	—
Loans and leases, net of allowance for loan and lease losses	6,705,923	6,650,935	—	—	6,650,935
Mortgage servicing rights	3,344	7,718	—	—	7,718
Accrued interest receivable	31,459	31,459	—	31,459	—
Interest rate swaps	17,738	17,738	—	17,738	—
<u>Liabilities:</u>					
Deposits	\$ 7,417,765	\$ 7,413,675	\$ 5,495,039	\$ 1,918,636	\$ —
Short-term borrowings	61,177	61,177	61,130	47	—
Long-term debt and mandatorily redeemable securities	41,210	40,932	—	40,932	—
Subordinated notes	58,764	56,906	—	56,906	—
Accrued interest payable	29,739	29,739	—	29,739	—
Interest rate swaps	17,703	17,703	—	17,703	—
Off-balance-sheet instruments *	—	140	—	140	—
December 31, 2024					
<u>Assets:</u>					
Cash and due from banks	\$ 76,837	\$ 76,837	\$ 76,837	\$ —	\$ —
Federal funds sold and interest bearing deposits with other banks	47,989	47,989	47,989	—	—
Investment securities, available-for-sale	1,536,299	1,536,299	446,021	1,089,246	1,032
Other investments	23,855	23,855	23,855	—	—
Mortgages held for sale	2,569	2,569	—	2,569	—
Loans and leases, net of allowance for loan and lease losses	6,699,268	6,608,109	—	—	6,608,109
Mortgage servicing rights	3,436	7,480	—	—	7,480
Accrued interest receivable	32,790	32,790	—	32,790	—
Interest rate swaps	16,424	16,424	—	16,424	—
<u>Liabilities:</u>					
Deposits	\$ 7,230,035	\$ 7,226,239	\$ 5,440,309	\$ 1,785,930	\$ —
Short-term borrowings	249,198	249,198	74,198	175,000	—
Long-term debt and mandatorily redeemable securities	39,156	38,784	—	38,784	—
Subordinated notes	58,764	56,903	—	56,903	—
Accrued interest payable	36,494	36,494	—	36,494	—
Interest rate swaps	16,727	16,727	—	16,727	—
Off-balance-sheet instruments *	—	144	—	144	—

* 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.

Note 16 — Segment Information

The Company has one reportable operating segment, commercial banking. While our chief operating decision maker monitors revenue streams of various products and services, the identifiable segments' operations are managed, and financial performance is evaluated on a company-wide basis. The commercial banking segment provides a broad array of financial products and services including commercial and consumer banking services, trust and wealth advisory services, and insurance to individual and business clients through most of its 78 banking center locations in 18 counties in Indiana and Michigan and Sarasota County in Florida.

The accounting policies of the commercial banking segment are the same as those described in Note 1 of the Notes to Consolidated Financial Statements in 1st Source's Annual Report on [Form 10-K](#) for the year ended December 31, 2024. The chief operating decision maker assesses performance for the commercial banking segment and decides how to allocate resources based on net income available to common shareholders which is also reported on the Consolidated Statements of Income as net income available to common shareholders. The measure of segment assets is reported on the Consolidated Statements of Financial Condition as total assets.

The chief operating decision maker uses net income available to common shareholders to evaluate income generated from segment assets in deciding whether to reinvest profits into the commercial banking segment or to pay dividends or fund acquisitions. Net income available to common shareholders is also used by the chief operating decision maker to monitor budget versus actual results. Net income available to common shareholders as well as other common company-wide financial performance and credit quality metrics such as earnings per common share and net interest margin, among others, are used for competitive analysis by benchmarking to the Company's competitors as well as used in assessing the performance of the segment and for establishing management's compensation. See the Consolidated Statements of Financial Condition, the Consolidated Statements of Income, the Consolidated Statements of Comprehensive Income (Loss), the Consolidated Statements of Shareholders' Equity, and the Consolidated Statements of Cash Flows.

The Company's chief operating decision maker is the Strategic Deployment Committee which includes the Chairman of the Board and Chief Executive Officer, the President, the Chief Financial Officer, and several Group/Division Heads that report directly to the Chief Executive Officer or President.

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, 2025, as compared to December 31, 2024, and the results of operations for the three months ended March 31, 2025 and 2024. 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 2024 [Annual Report](#).

Except for historical information contained herein, the matters discussed in this document express "forward-looking statements." Generally, the words "believe," "contemplate," "seek," "plan," "possible," "assume," "hope," "expect," "intend," "targeted," "continue," "remain," "estimate," "anticipate," "project," "will," "should," "indicate," "would," "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Those statements, including statements, projections, estimates or assumptions concerning future events or performance, and other statements that are other than statements of historical fact, are subject to material risks and uncertainties. We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. We may make other written or oral forward-looking statements from time to time. Readers are advised that various important factors could cause our actual results or circumstances for future periods to differ materially from those anticipated or projected in such forward-looking statements. Such factors include, but are not limited to, changes in law, regulations or GAAP; our competitive position within the markets we serve; increasing consolidation within the banking industry; unforeseen changes in interest rates; unforeseen changes in loan prepayment assumptions; unforeseen downturns in or major events affecting the local, regional or national economies or the industries in which we have credit concentrations; potential impacts of epidemics, pandemics or other infectious disease outbreaks; and other matters discussed in our filings with the SEC, including our Annual Report on [Form 10-K](#) for 2024, 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, 2025 were \$8.96 billion, an increase of \$31.18 million or 0.35% from December 31, 2024. Total investment securities available-for-sale were \$1.50 billion, a decrease of \$34.42 million or 2.24% from December 31, 2024. The largest contributor to the decrease in investment securities available-for-sale was expected redemptions. Federal funds sold and interest bearing deposits with other banks were \$135.00 million, an increase of \$87.01 million or 181.32% from December 31, 2024. The increase in federal funds sold and interest bearing deposits with other banks was due to higher interest bearing deposits at other banks as a result of growth in deposit balances and the expected maturities of investment securities.

Total loans and leases were \$6.86 billion, an increase of \$8.59 million or 0.13% from December 31, 2024. The largest contributors to the increase in loans and leases was growth in the renewable energy, commercial real estate, residential real estate and home equity, and auto and light truck portfolios, offset by decreases in the construction equipment, consumer, and aircraft portfolios. Our foreign loan and lease balances, all denominated in U.S. dollars were \$299.00 million and \$301.18 million as of March 31, 2025 and December 31, 2024, respectively. Foreign loans and leases are in aircraft financing. Loan and lease balances to borrowers in Brazil and Mexico were \$133.26 million and \$136.55 million as of March 31, 2025, respectively, compared to \$129.12 million and \$145.85 million as of December 31, 2024, respectively. As of March 31, 2025 and December 31, 2024, there was not a significant concentration in any other country.

Equipment owned under operating leases was \$9.86 million, a decrease of \$1.62 million, or 14.10% compared to December 31, 2024. The largest contributors to the decrease in equipment owned under operating leases was reduced leasing volume primarily due to a change in customer preferences and continued competitive pricing pressure for new business.

Total deposits were \$7.42 billion, an increase of \$187.73 million or 2.60% from the end of 2024. The largest contributors to the increase in total deposits was higher savings and time deposits offset by lower interest-bearing demand deposits. Rate competition for deposits persisted during the first quarter across our footprint from various sources, including traditional bank and credit union competitors, money market funds, bond markets, and other non-bank alternatives.

Short-term borrowings were \$61.18 million, a decrease of \$188.02 million or 75.45% from December 31, 2024, due primarily to the maturity and pay off of \$100 million in borrowings from the Federal Reserve's Bank Term Funding Program and pay downs of short-term FHLB borrowings. Long-term debt and mandatorily redeemable securities were \$41.21 million, an increase of \$2.05 million or 5.25% from December 31, 2024, due primarily to an increase in mandatorily redeemable securities. Accrued expenses and other liabilities were \$163.66 million, a decrease of \$9.62 million or 5.55% from December 31, 2024, mainly due to decreased accrued interest payable, annual incentive-related payments to employees, and decreased unfunded partnership commitments offset by an increase in accounts payable and the reserve for unfunded commitments.

The following table shows accrued income and other assets.

<i>(Dollars in thousands)</i>	March 31, 2025	December 31, 2024
Accrued income and other assets:		
Bank owned life insurance cash surrender value	\$ 87,073	\$ 86,396
Operating lease right of use assets	20,400	21,076
Accrued interest receivable	31,459	32,790
Mortgage servicing rights	3,344	3,436
Other real estate	—	460
Repossessions	2,410	155
Partnership investments carrying amount	127,633	140,244
Deferred tax assets	50,344	55,543
All other assets	35,135	56,185
Total accrued income and other assets	\$ 357,798	\$ 396,285

The largest contributors to the decrease in accrued income and other assets from December 31, 2024 were decreases in accounts receivable, partnership investments, and deferred tax assets offset by increased repossessions.

CAPITAL

As of March 31, 2025, total shareholders' equity was \$1.16 billion, up \$50.39 million, or 4.54% from the \$1.11 billion at December 31, 2024. In addition to net income of \$37.52 million, other significant changes in shareholders' equity during the first three months of 2025 included \$8.87 million of dividends paid. The accumulated other comprehensive loss component of shareholders' equity decreased to \$67.88 million at March 31, 2025, compared to \$87.23 million at December 31, 2024, due to changes in market conditions on our available-for-sale investment portfolio. Our shareholders' equity-to-assets ratio was 12.96% as of March 31, 2025, compared to 12.44% at December 31, 2024. Book value per common share increased to \$47.29 at March 31, 2025, from \$45.31 at December 31, 2024, primarily due to increased retained earnings and decreased accumulated other comprehensive losses.

We declared and paid cash dividends per common share of \$0.36 during the first quarter of 2025. The trailing four quarters dividend payout ratio, representing cash dividends per common share divided by diluted earnings per common share, was 24.96%. 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, 2025, remained at their historically strong and conservative levels and are presented in the table below.

<i>(Dollars in thousands)</i>	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	\$ 1,364,487	17.46 %	\$ 625,215	8.00 %	\$ 820,594	10.50 %	\$ 781,518	10.00 %
1st Source Bank	1,258,381	16.10	625,236	8.00	820,623	10.50	781,545	10.00
Tier 1 Capital (to Risk-Weighted Assets):								
1st Source Corporation	1,265,959	16.20	468,911	6.00	664,290	8.50	625,215	8.00
1st Source Bank	1,159,849	14.84	468,927	6.00	664,314	8.50	625,236	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):								
1st Source Corporation	1,149,876	14.71	351,683	4.50	547,063	7.00	507,987	6.50
1st Source Bank	1,100,766	14.08	351,695	4.50	547,082	7.00	508,005	6.50
Tier 1 Capital (to Average Assets):								
1st Source Corporation	1,265,959	14.23	355,935	4.00	N/A	N/A	444,918	5.00
1st Source Bank	1,159,849	13.04	355,830	4.00	N/A	N/A	444,788	5.00

LIQUIDITY AND INTEREST RATE SENSITIVITY

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

We maintain prudent strategies to support a strong liquidity position. The following table represents our sources of liquidity as of March 31, 2025.

(Dollars in thousands)

	Available
Internal Sources	
Unencumbered securities	\$ 1,260,997
External Sources	
FHLB advances ⁽¹⁾	607,914
FRB borrowings	406,957
Fed funds purchased ⁽²⁾	410,000
Brokered deposits ⁽³⁾	310,934
Listing services deposits ⁽³⁾	447,564
Total liquidity	\$ 3,444,366
% of Total deposits net brokered and listing services certificates of deposit	50.41 %

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

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

(3) Availability contingent on internal borrowing guidelines

External sources as listed in the table above are managed to approved guidelines by our Board of Directors. Total net available liquidity was \$3.44 billion at March 31, 2025, which accounted for approximately 50% of total deposits net of brokered and listing services certificates of deposit.

Our loan to asset ratio was 76.57% at March 31, 2025 compared to 76.74% at December 31, 2024 and 75.71% at March 31, 2024. Cash and cash equivalents totaled \$222.82 million at March 31, 2025 compared to \$124.83 million at December 31, 2024 and \$80.91 million at March 31, 2024. The increase in cash and cash equivalents was primarily due to an increase in deposits and the expected redemptions of investment securities available-for-sale. At March 31, 2025, the Consolidated Statements of Financial Condition was rate sensitive by \$442.12 million more liabilities than assets scheduled to reprice within one year, or approximately 0.90%. Management believes that the present funding sources provide adequate liquidity to meet our cash flow needs.

Under Indiana law governing the collateralization of public fund deposits, the Indiana Board of Depositories determines which financial institutions are required to pledge collateral based on the strength of their financial ratings. We have been informed that no collateral is required for our public fund deposits. However, the Board of Depositories could alter this requirement in the future and adversely impact our liquidity. Our potential liquidity exposure if we must pledge collateral is approximately \$1.28 billion.

RESULTS OF OPERATIONS

Net income available to common shareholders for the three month period ended March 31, 2025 was \$37.52 million compared to \$29.46 million for the same period in 2024. Diluted net income per common share was \$1.52 for the three month period ended March 31, 2025, compared to \$1.19 earned for the same period in 2024. Return on average common shareholders' equity was 13.33% for the three months ended March 31, 2025, compared to 11.77% in 2024. The return on total average assets was 1.72% for the three months ended March 31, 2025, compared to 1.37% in 2024.

Net income increased for the three months ended March 31, 2025, compared to the first three months of 2024. Net interest income and noninterest income increased and the provision for credit losses decreased offset partially by an increase in noninterest expense. Details of the changes in the various components of net income are discussed further below.

NET INTEREST INCOME

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

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY INTEREST RATES AND INTEREST DIFFERENTIAL

	Three Months Ended								
	March 31, 2025			December 31, 2024			March 31, 2024		
(Dollars in thousands)	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate	Average Balance	Interest Income/Expense	Yield/Rate
ASSETS									
Investment securities available-for-sale:									
Taxable	\$ 1,488,005	\$ 8,153	2.22 %	\$ 1,548,340	\$ 7,621	1.96 %	\$ 1,576,579	\$ 6,079	1.55 %
Tax exempt ⁽¹⁾	31,172	349	4.54 %	31,676	350	4.40 %	31,515	327	4.17 %
Mortgages held for sale	2,409	39	6.57 %	3,159	52	6.55 %	1,830	34	7.47 %
Loans and leases, net of unearned discount ⁽¹⁾	6,798,952	113,596	6.78 %	6,676,421	113,852	6.78 %	6,504,069	109,249	6.76 %
Other investments	114,252	1,314	4.66 %	118,468	1,425	4.79 %	68,172	927	5.47 %
Total earning assets ⁽¹⁾	8,434,790	123,451	5.94 %	8,378,064	123,300	5.85 %	8,182,165	116,616	5.73 %
Cash and due from banks	64,009			74,243			61,889		
Allowance for loan and lease losses	(157,318)			(153,798)			(148,982)		
Other assets	514,797			525,955			557,072		
Total assets	\$ 8,856,278			\$ 8,824,464			\$ 8,652,144		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing deposits	\$ 5,745,134	\$ 39,846	2.81 %	\$ 5,506,501	\$ 40,221	2.91 %	\$ 5,394,854	\$ 39,744	2.96 %
Short-term borrowings:									
Securities sold under agreements to repurchase	58,232	104	0.72 %	67,697	176	1.03 %	47,973	47	0.39 %
Other short-term borrowings	18,450	128	2.81 %	169,133	2,031	4.78 %	234,672	3,055	5.24 %
Subordinated notes	58,764	1,014	7.00 %	58,764	1,041	7.05 %	58,764	1,061	7.26 %
Long-term debt and mandatorily redeemable securities	39,675	1,274	13.02 %	39,001	315	3.21 %	47,217	646	5.50 %
Total interest-bearing liabilities	5,920,255	42,366	2.90 %	5,841,096	43,784	2.98 %	5,783,480	44,553	3.10 %
Noninterest-bearing deposits	1,588,408			1,639,648			1,616,251		
Other liabilities	139,379			157,383			167,759		
Shareholders' equity	1,141,922			1,115,473			1,006,286		
Noncontrolling interests	66,314			70,864			78,368		
Total liabilities and equity	\$ 8,856,278			\$ 8,824,464			\$ 8,652,144		
Less: Fully tax-equivalent adjustments		(147)			(150)			(148)	
Net interest income/margin (GAAP-derived) ⁽¹⁾	\$ 80,938		3.89 %	\$ 79,366		3.77 %	\$ 71,915		3.54 %
Fully tax-equivalent adjustments		147			150			148	
Net interest income/margin - FTE ⁽¹⁾	\$ 81,085		3.90 %	\$ 79,516		3.78 %	\$ 72,063		3.54 %

(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, 2025 compared to the Quarter Ended March 31, 2024

The taxable-equivalent net interest income for the three months ended March 31, 2025 was \$81.09 million, an increase of 12.52% over the same period in 2024. The net interest margin on a fully taxable-equivalent basis was 3.90% for the three months ended March 31, 2025, compared to 3.54% for the three months ended March 31, 2024.

During the three month period ended March 31, 2025, average earning assets increased \$252.63 million, up 3.09% over the comparable period in 2024. Average interest-bearing liabilities increased \$136.78 million or 2.36%. The yield on average earning assets increased 21 basis points to 5.94% from 5.73% at March 31, 2024, primarily due to higher loan and lease average balances and higher rates on investment securities. Total cost of average interest-bearing liabilities decreased 20 basis points to 2.90% from 3.10% as a result of lower rates on interest-bearing deposits and other short-term borrowings. The result to the tax-equivalent net interest margin, or the ratio of tax-equivalent net interest income to average earning assets, was an increase of 36 basis points.

The largest contributors to the improved yield on average earning assets for the three months ended March 31, 2025, compared to the three months ended March 31, 2024, was an increase in average loan and lease balances and higher rates on investments securities offset by lower rates on 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. The yield on loans and leases grew two basis points, mainly from higher net interest recoveries. Average loans and leases increased \$294.88 million or 4.53%, primarily in the commercial real estate, construction equipment, and renewable energy portfolios. Net interest recoveries positively contributed nine basis points to the yield on average loans and leases during the quarter and seven basis points to the average loans and leases yield during the prior year first quarter. Average investment securities decreased \$88.92 million or 5.53%, due to the expected redemption of securities used partially to pay down short-term borrowings. Average other investments, primarily held at the Federal Reserve Bank, increased \$46.08 million or 67.59%.

Average interest-bearing deposits increased \$350.28 million, or 6.49% for the first quarter of 2025 over the same period in 2024 primarily in time, savings, and interest-bearing demand deposits. The effective rate on average interest-bearing deposits decreased 15 basis points to 2.81% from 2.96%, primarily as a result of Fed rate cuts during the second half of 2024. Average noninterest-bearing deposits declined \$27.84 million or 1.72% for the first quarter of 2025 over the same period in 2024, largely due to greater utilization of excess funds by our business customers, and a heightened rate sensitivity in our customer base given the overall level of market yields.

Average short-term borrowings decreased \$205.96 million or 72.87% for the first quarter of 2025 compared to the same period in 2024. Interest on short-term borrowings decreased 315 basis points due to the maturity and pay off of \$100 million in borrowings from the Federal Reserve's Bank Term Funding Program and lower short-term FHLB borrowings. Interest on subordinated notes decreased 26 basis points during the first quarter of 2025 from the same period a year ago due to a variable rate decrease on one tranche. Average long-term debt and mandatorily redeemable securities balances decreased \$7.54 million or 15.97%, primarily from the maturity of long-term debt. Interest on long-term debt and mandatorily redeemable securities increased 752 basis points during the first quarter of 2025 from the same period in 2024, primarily due to higher imputed interest on mandatorily redeemable securities from a larger increase in book value per share during the quarter compared to the previous year's first quarter. Mandatorily redeemable securities are issued under the terms of one of our executive incentive compensation plans and are settled based on book value per share with changes from the previous reporting date recorded as interest expense.

Reconciliation of Non-GAAP Financial Measures

The accounting and reporting policies of 1st Source conform to generally accepted accounting principles ("GAAP") in the United States and prevailing practices in the banking industry. However, certain non-GAAP performance measures are used by management to evaluate and measure the Company's performance. These include taxable-equivalent net interest income (including its individual components) and net interest margin (including its individual components). Management believes that these measures provide users of the Company's financial information a more meaningful view of the performance of the interest-earning assets and interest-bearing liabilities.

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

		Three Months Ended		
		March 31, 2025	December 31, 2024	March 31, 2024
<i>(Dollars in thousands)</i>				
Calculation of Net Interest Margin				
(A)	Interest income (GAAP)	\$ 123,304	\$ 123,150	\$ 116,468
	Fully tax-equivalent adjustments:			
(B)	- Loans and leases	75	78	81
(C)	- Tax-exempt investment securities	72	72	67
(D)	Interest income - FTE (A+B+C)	123,451	123,300	116,616
(E)	Interest expense (GAAP)	42,366	43,784	44,553
(F)	Net interest income (GAAP) (A-E)	80,938	79,366	71,915
(G)	Net interest income - FTE (D-E)	81,085	79,516	72,063
(H)	Annualization factor	4.056	3.978	4.022
(I)	Total earning assets	\$ 8,434,790	\$ 8,378,064	\$ 8,182,165
	Net interest margin (GAAP-derived) (F*H)/I	3.89 %	3.77 %	3.54 %
	Net interest margin - FTE (G*H)/I	3.90 %	3.78 %	3.54 %

PROVISION AND ALLOWANCE FOR CREDIT LOSSES

The provision for credit losses for the three months ended March 31, 2025, was \$3.27 million compared to \$7.48 million during the three months ended March 31, 2024. Net charge-offs of \$0.18 million or 0.01% of average loans and leases were recorded for the first quarter of 2025, compared to net charge-offs of \$6.12 million or 0.38% of average loans and leases for the same quarter a year ago. Net charge-offs recognized during the quarter were modest, principally distributed between the construction equipment, consumer, and commercial and agricultural portfolios and largely offset by net recoveries in our auto and light truck and aircraft portfolios.

The provision for credit losses for the three months ended March 31, 2025, was driven by an accretive change in the forecast adjustment due to a weakened forward economic outlook with increased uncertainty and downside risks, partially offset by a decline in special attention outstandings which carry higher reserves, most notably in the auto and light truck portfolio due to defleeting activity. Risks include an unpredictable trade environment, a weakened domestic GDP outlook, heightened geopolitical instability, continued tight credit conditions, limited softening in the labor market, and continued elevated levels of inflation and interest rates. We remain concerned about the potential risks in our small business portfolio, as domestic trade proposals increase the potential for pricing instability and shifting demand dynamics which may impact our customers. Clients in our auto and light truck portfolio are experiencing softening rental rates and pockets of excess fleet inventory. The potential for pricing volatility may impact clients in multiple portfolios which operate under long-term contracts that can often lack adequate cost escalators. Consumers remain under stress and economic imbalances are prevalent as rising consumer costs have tended to outpace income growth. Impairment reserves for assets individually evaluated total \$0.64 million this quarter, consisting of accounts in our aircraft, construction equipment, and auto and light truck portfolios.

We continually evaluate risks which may impact our loan portfolios. Such risks include a weakened economic outlook and increased uncertainty fueled by proposed significant changes in domestic trade policy, ongoing conflicts around the world with the potential to impact commodity prices and shipping routes, and the Federal Reserve's challenge of maintaining full employment, while balancing inflation and interest rate concerns in an effort to maintain overall economic stability. The possibility for a downside economic scenario is heightened as disruptive trade policy, geopolitical uncertainty, and fragile growth prospects raise the potential for adverse impacts in the domestic and global economies. The potential for trade disruption increases asset price volatility and higher interest rates apply downward pressure to asset values which collateralize our loans. Credit market conditions remain tightened, and uncertainty has increased. The growth outlook in the U.S. has weakened and is susceptible to disruption caused by global conflicts and an environment of heightened instability. Our domestic political environment is fraught with uncompromising partisanship. Political discord and corruption scandals are also an ever-present threat in our Latin American markets. Globally, there is an ongoing threat of terrorism.

Our aircraft portfolio exhibits collateral concentration and contains \$299 million of foreign exposure at March 31, 2025, the majority of which is in Mexico and Brazil. We review political and economic data for these countries on a regular basis to assess the impact the environment may have on our customers. We have recognized minimal credit losses in recent years in the aircraft portfolio. However, historically, we have experienced brief periods of volatile and unanticipated losses in both the foreign and domestic aircraft segments. Losses have been primarily attributable to unexpected declines in the value of specific aircraft collateral at a time when the borrower is experiencing financial difficulties. We review and assess aircraft values on an ongoing basis and use a tiered approach to establish advance rates and amortization schedules to limit collateral exposure. We continually monitor individual customer performance and assess risks in the overall portfolio.

On March 31, 2025, 30 day and over loan and lease delinquency as a percentage of loan and lease balances was 0.09%, compared to 0.08% on March 31, 2024. The allowance for loan and lease losses as a percentage of loans and leases outstanding at the end of the period was 2.29% compared to 2.26% one year ago. A summary of loan and lease loss experience during the three months ended March 31, 2025 and 2024 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, 2025	December 31, 2024	March 31, 2024
Loans and leases past due 90 days or more	\$ 122	\$ 106	\$ 26
Nonaccrual loans and leases	40,540	30,613	22,097
Other real estate	—	460	—
Repossessions	2,410	155	308
Total nonperforming assets	\$ 43,072	\$ 31,334	\$ 22,431
Nonperforming assets to loans and leases, net of unearned discount	0.63 %	0.46 %	0.34 %

Nonperforming assets totaled \$43.07 million at March 31, 2025, an increase of 37.46% from the \$31.33 million reported at December 31, 2024, and a 92.02% increase from the \$22.43 million reported at March 31, 2024. The increase in nonperforming assets during the first three months of 2025 was primarily related to higher nonaccrual loans and leases and repossessions. The increase in nonperforming assets as of March 31, 2025 from March 31, 2024, was also related to an increase in nonaccrual loans and leases and repossessions. There were no properties held in other real estate as of March 31, 2025.

The increase in nonaccrual loans and leases at March 31, 2025 from December 31, 2024, was predominantly in our auto and light truck portfolio as a large account was transferred to nonaccrual status during the quarter along with modest increases in our aircraft and commercial and agricultural portfolios. A summary of nonaccrual loans and leases and past due aging for the period ended March 31, 2025, and December 31, 2024, is located in Note 4 of the Consolidated Financial Statements.

Repossessions consisted primarily of a loan relationship in the construction equipment portfolio, coupled with minimal amounts in our auto and light truck, commercial and agricultural, and consumer portfolios at March 31, 2025. At the time of repossession, the recorded amount of the loan or lease is written down to the fair value of the equipment or vehicle by a charge to the allowance for loan and lease losses or other income, if a positive adjustment, unless the equipment is in the process of immediate sale. Any subsequent fair value write-downs or write-ups, to the extent of previous write-downs, are included in noninterest expense.

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

<i>(Dollars in thousands)</i>	March 31, 2025	December 31, 2024	March 31, 2024
Commercial and agricultural	\$ 10	\$ —	\$ —
Renewable energy	—	—	—
Auto and light truck	221	—	70
Medium and heavy duty truck	—	—	—
Aircraft	—	—	—
Construction equipment	2,134	594	191
Commercial real estate	—	—	—
Residential real estate and home equity	—	—	—
Consumer	45	21	47
Total	\$ 2,410	\$ 615	\$ 308

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 March 31,			
	2025	2024	\$ Change	% Change
Noninterest income:				
Trust and wealth advisory	\$ 6,666	\$ 6,287	379	6.03 %
Service charges on deposit accounts	3,071	3,070	1	0.03 %
Debit card	4,149	4,201	(52)	(1.24)%
Mortgage banking	853	950	(97)	(10.21)%
Insurance commissions	2,440	1,776	664	37.39 %
Equipment rental	899	1,671	(772)	(46.20)%
Other	5,025	4,201	824	19.61 %
Total noninterest income	\$ 23,103	\$ 22,156	947	4.27 %

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, 2025, compared with the same period a year ago. Trust and wealth advisory fees are largely based 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, 2025, December 31, 2024, and March 31, 2024, was \$5.93 billion, \$5.97 billion, and \$5.71 billion, respectively. Negative equity market returns during the first quarter of 2025 resulted in a decrease in assets under management compared to December 31, 2024.

Service charges on deposit accounts remained flat for the comparable period in 2024.

Debit card income decreased during the three months ended March 31, 2025, compared to the same period a year ago. The decrease during the first quarter was due to shifts in both client transaction behavior and the networks over which those merchants are routing transactions.

Mortgage banking income decreased during the three months ended March 31, 2025, compared to the same period in 2024. The decrease was primarily a result of lower production of loans originated for the secondary market along with a reduction in servicing fees resulting from fewer loans being serviced for others.

Insurance commissions increased during the three months ended March 31, 2025, 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, 2025, over the comparable period in 2024. The decline was the result of a reduction in the average equipment rental portfolio by 47.28% over the same period a year ago, due to changing customer preferences and competitive pricing pressures for new business.

Other income increased for the three months ended March 31, 2025, compared to the same period in 2024. The increase was primarily the result of increased partnership investment gains on sale of renewable energy tax equity investments, customer interest rate swap fees, and higher brokerage and commission fees.

NONINTEREST EXPENSE

The following table shows the details of noninterest expense.

<i>(Dollars in thousands)</i>	Three Months Ended March 31,			
	2025	2024	\$ Change	% Change
Noninterest expense:				
Salaries and employee benefits	\$ 32,115	\$ 29,572	\$ 2,543	8.60 %
Net occupancy	3,224	2,996	228	7.61 %
Furniture and equipment	1,347	1,149	198	17.23 %
Data processing	7,291	6,500	791	12.17 %
Depreciation – leased equipment	718	1,288	(570)	(44.25)%
Professional fees	1,668	1,345	323	24.01 %
FDIC and other insurance	1,440	1,657	(217)	(13.10)%
Business development and marketing	1,925	1,744	181	10.38 %
Other	3,348	2,453	895	36.49 %
Total noninterest expense	\$ 53,076	\$ 48,704	\$ 4,372	8.98 %

Salaries and employee benefits increased during the three months ended March 31, 2025, compared to the same period in 2024. Higher base salaries were a result of normal merit increases, increased incentive compensation as well as higher group insurance costs.

Net occupancy expense increased during the three months ended March 31, 2025, compared to the same period in 2024. The increase was primarily due to increased snow removal costs due to seasonal weather, higher depreciation and increased premises repairs.

Furniture and equipment expenses, including depreciation, increased during the first quarter of 2025 compared to the same period a year ago. The increase in the quarter was primarily due to an increase in equipment repairs and higher equipment depreciation.

Data processing expense grew during the three months ended March 31, 2025, compared to the same period a year ago due primarily to higher computer processing charges and software maintenance expense on technology projects.

Depreciation on leased equipment decreased for the three months ended March 31, 2025, compared to the same period in 2024. Depreciation on leased equipment correlates with the decrease in equipment rental income.

Professional fees were higher during the three months ended March 31, 2025, compared to the same period a year ago. The increase was primarily due to an increase in audit and legal fees.

FDIC and other insurance was lower during the first quarter of 2025 compared to the same period in 2024. The decrease for the quarter was the result of lower blanket bond insurance premiums due to a more cost effective policy renewal.

Business development and marketing expense was higher during the first quarter of 2025 compared to the same period a year ago. The increase during the quarter were related to an increase in business development, entertainment, travel opportunities, and marketing promotions.

Other expenses were higher during the three months ended March 31, 2025, compared to the same period in 2024. The increases were primarily the result of fewer gains related to the sale of fixed assets and off-lease equipment, increased fraud losses due to a recovery of check fraud losses during the first quarter last year, and higher employment and relocation costs.

INCOME TAXES

The provision for income taxes for the three month period ended March 31, 2025 was \$10.18 million compared to \$8.43 million for the same period in 2024. The effective tax rate was 21.34% and 22.24% for the quarter ended March 31, 2025 and 2024, respectively. The decrease in the quarterly effective tax rate was due to a one-time \$0.74 million after-tax interest payment on federal tax refunds from tax credit carrybacks which lowered the effective tax rate by 155 basis points.

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, 2024. For information regarding our market risk, refer to 1st Source's Annual Report on [Form 10-K](#) for the year ended December 31, 2024.

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, 2025, 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 2025 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION**ITEM 1. Legal Proceedings.**

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

ITEM 1A. Risk Factors.

There have been no material changes in risks faced by 1st Source since December 31, 2024. For information regarding our risk factors, refer to 1st Source's Annual Report on [Form 10-K](#) for the year ended December 31, 2024.

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*	Maximum Number (or Approximate Dollar Value) of Shares that may yet be Purchased Under the Plans or Programs
January 01 - 31, 2025	—	\$ —	—	997,003
February 01 - 28, 2025	—	—	—	997,003
March 01 - 31, 2025	7,554	60.20	7,554	989,449

*1st Source maintains a stock repurchase plan that was authorized by the Board of Directors on October 19, 2023. Under the terms of the plan, 1st Source may repurchase up to 1,000,000 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 10,551 shares.

ITEM 3. Defaults Upon Senior Securities.

None

ITEM 4. Mine Safety Disclosures.

None

ITEM 5. Other Information.

During the three months ended March 31, 2025, there were no “Rule 10b5-1 trading plans” or “non-Rule 10b5-1 trading arrangements” adopted, modified or terminated by any director or officer of the Company (as each term is defined in Item 408(a) of Regulation S-K).

ITEM 6. Exhibits.

The following exhibits are filed with this report:

31.1	Certification of Chief Executive Officer required by Rule 13a-14(a).
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a).
32.1	Certification pursuant to 18 U.S.C. Section 1350 of Chief Executive Officer.
32.2	Certification pursuant to 18 U.S.C. Section 1350 of Chief Financial Officer.
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 24, 2025</u>	<u>/s/ CHRISTOPHER J. MURPHY III</u> Christopher J. Murphy III Chairman of the Board and CEO
DATE	<u>April 24, 2025</u>	<u>/s/ BRETT A. BAUER</u> Brett A. Bauer Treasurer and Chief Financial Officer 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 24, 2025

/s/ CHRISTOPHER J. MURPHY III

Christopher J. Murphy III
Chief Executive Officer

CERTIFICATION

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

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

Date: April 24, 2025

/s/ BRETT A. BAUER

Brett A. Bauer
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, 2025, 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 24, 2025

/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, 2025, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brett A. Bauer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: April 24, 2025

/s/ BRETT A. BAUER

Brett A. Bauer
Chief Financial Officer