Section 1: 10-Q (10-Q 1ST QUARTER 2020)

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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, 2020
OR

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

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

1st Source Corporation
(Exact name of registrant as specified in its charter)

Indiana	**35-1068133**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
100 North Michigan Street	
South Bend, IN	**46601**
(Address of principal executive offices)	(Zip Code)

(574) 235-2000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section13(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 17, 2020 — 25,535,634 shares

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

	March 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 72,756	$ 67,215
Federal funds sold and interest bearing deposits with other banks	49,543	16,150
Investment securities available-for-sale	1,057,169	1,040,583
Other investments	28,414	28,414
Mortgages held for sale	13,449	20,277
Loans and leases, net of unearned discount:		
Commercial and agricultural	1,166,462	1,132,791
Auto and light truck	577,757	588,807
Medium and heavy duty truck	278,076	294,824
Aircraft	773,132	784,040
Construction equipment	718,307	705,451
Commercial real estate	930,757	908,177
Residential real estate and home equity	545,606	532,003
Consumer	139,417	139,434
Total loans and leases	5,129,514	5,085,527
Reserve for loan and lease losses	(120,798)	(111,254)
Net loans and leases	5,008,716	4,974,273
Equipment owned under operating leases, net	101,238	111,684
Net premises and equipment	52,431	52,219
Goodwill and intangible assets	83,964	83,971
Accrued income and other assets	267,438	227,990
Total assets	$ 6,735,118	$ 6,622,776
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 1,219,327	$ 1,216,834
Interest-bearing deposits:		
Interest-bearing demand	1,591,419	1,677,200
Savings	840,606	814,794
Time	1,624,559	1,648,498
Total interest-bearing deposits	4,056,584	4,140,492
Total deposits	5,275,911	5,357,326
Short-term borrowings:		
Federal funds purchased and securities sold under agreements to repurchase	135,942	120,459
Other short-term borrowings	146,903	25,434
Total short-term borrowings	282,845	145,893
Long-term debt and mandatorily redeemable securities	81,877	71,639
Subordinated notes	58,764	58,764
Accrued expenses and other liabilities	158,419	140,518
Total liabilities	5,857,816	5,774,140
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, 2020 and December 31, 2019	436,538	436,538
Retained earnings	472,911	463,269
Cost of common stock in treasury (2,670,290 shares at March 31, 2020 and 2,696,200 shares at December 31, 2019)	(76,203)	(76,702)
Accumulated other comprehensive income	17,651	5,172

Total shareholders' equity	850,897	828,277
Noncontrolling interests	$ 26,405	$ 20,359
Total equity	$ 877,302	$ 848,636
Total liabilities and equity	$ 6,735,118	$ 6,622,776

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

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Interest income:		
Loans and leases	$ 61,526	$ 62,683
Investment securities, taxable	5,550	5,515
Investment securities, tax-exempt	264	385
Other	346	438
Total interest income	67,686	69,021
Interest expense:		
Deposits	10,851	11,470
Short-term borrowings	254	931
Subordinated notes	884	928
Long-term debt and mandatorily redeemable securities	853	744
Total interest expense	12,842	14,073
Net interest income	54,844	54,948
Provision for loan and lease losses	11,353	4,918
Net interest income after provision for loan and lease losses	43,491	50,030
Noninterest income:		
Trust and wealth advisory	4,848	4,858
Service charges on deposit accounts	2,605	2,498
Debit card	3,373	3,220
Mortgage banking	2,336	936
Insurance commissions	1,881	2,174
Equipment rental	6,630	7,982
Gains on investment securities available-for-sale	280	—
Other	2,669	2,456
Total noninterest income	24,622	24,124
Noninterest expense:		
Salaries and employee benefits	24,401	23,495
Net occupancy	2,721	2,772
Furniture and equipment	6,407	6,024
Depreciation – leased equipment	5,427	6,524
Professional fees	1,442	1,598
Supplies and communication	1,634	1,493
FDIC and other insurance	288	645
Business development and marketing	1,359	949
Loan and lease collection and repossession	763	1,361
Other	2,093	343
Total noninterest expense	46,535	45,204
Income before income taxes	21,578	28,950
Income tax expense	5,160	6,754
Net income	16,418	22,196
Net (income) loss attributable to noncontrolling interests	(5)	—
Net income available to common shareholders	$ 16,413	$ 22,196
Per common share:		
Basic net income per common share	$ 0.64	$ 0.86
Diluted net income per common share	$ 0.64	$ 0.86
Cash dividends	$ 0.29	$ 0.27
Basic weighted average common shares outstanding	25,523,356	25,759,186
Diluted weighted average common shares outstanding	25,523,356	25,759,186

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

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net income	$ 16,418	$ 22,196
Other comprehensive income:		
Unrealized appreciation of available-for-sale securities	16,717	9,573
Reclassification adjustment for realized gains included in net income	(280)	—
Income tax effect	(3,958)	(2,305)
Other comprehensive income, net of tax	12,479	7,268
Comprehensive income	$ 28,897	$ 29,464
Comprehensive (income) loss attributable to noncontrolling interests	(5)	—
Comprehensive income available to common shareholders	$ 28,892	$ 29,464

The accompanying notes are a part of the 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, 2019	$ —	$ 436,538	$ 398,980	$ (62,760)	$ (10,676)	$ 762,082	$ 1,508	$ 763,590
Cumulative-effect adjustment	—	—	(301)	—	—	(301)	—	(301)
Balance at January 1, 2019, adjusted	—	436,538	398,679	(62,760)	(10,676)	761,781	1,508	763,289
Net income	—	—	22,196	—	—	22,196	—	22,196
Other comprehensive income	—	—	—	—	7,268	7,268	—	7,268
Issuance of 38,365 common shares under stock based compensation awards	—	—	533	882	—	1,415	—	1,415
Cost of 154,160 shares of common stock acquired for treasury	—	—	—	(7,258)	—	(7,258)	—	(7,258)
Common stock dividend ($0.27 per share)	—	—	(6,980)	—	—	(6,980)	—	(6,980)
Contributions from noncontrolling interests	—	—	—	—	—	—	1,171	1,171
Balance at March 31, 2019	$ —	$ 436,538	$ 414,428	$ (69,136)	$ (3,408)	$ 778,422	$ 2,679	781,101
Balance at January 1, 2020	$ —	$ 436,538	$ 463,269	$ (76,702)	$ 5,172	$ 828,277	$ 20,359	$ 848,636
Net income	—	—	16,413	—	—	16,413	5	16,418
Other comprehensive income	—	—	—	—	12,479	12,479	—	12,479
Issuance of 25,910 common shares under stock based compensation awards	—	—	638	499	—	1,137	—	1,137
Cost of 0 shares of common stock acquired for treasury	—	—	—	—	—	—	—	—
Common stock dividend ($0.29 per share)	—	—	(7,409)	—	—	(7,409)	—	(7,409)
Contributions from noncontrolling interests	—	—	—	—	—	—	6,140	6,140
Distributions to noncontrolling interests	—	—	—	—	—	—	(99)	(99)
Balance at March 31, 2020	$ —	$ 436,538	$ 472,911	$ (76,203)	$ 17,651	$ 850,897	$ 26,405	$ 877,302

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

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Operating activities:		
Net income	$ 16,418	$ 22,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses	11,353	4,918
Depreciation of premises and equipment	1,435	1,466
Depreciation of equipment owned and leased to others	5,427	6,524
Stock-based compensation	736	673
Amortization of investment securities premiums and accretion of discounts, net	717	824
Amortization of mortgage servicing rights	409	233
Amortization of right of use assets	704	785
Deferred income taxes	(2,941)	444
Gains on investment securities available-for-sale	(280)	—
Originations of loans held for sale, net of principal collected	(33,104)	(19,966)
Proceeds from the sales of loans held for sale	41,699	22,534
Net gain on sale of loans held for sale	(1,767)	(488)
Net gain on sale of other real estate and repossessions	(23)	(167)
Net gain on sale of premises and equipment	—	(1,288)
Change in interest receivable	(702)	(2,696)
Change in interest payable	(199)	2,427
Change in other assets	(826)	1,115
Change in other liabilities	(6,237)	(4,735)
Other	486	598
Net change in operating activities	33,305	35,397
Investing activities:		
Proceeds from sales of investment securities available-for-sale	5,578	—
Proceeds from maturities and paydowns of investment securities available-for-sale	121,353	28,840
Purchases of investment securities available-for-sale	(127,517)	(33,072)
Net change in partnership investments	(12,904)	(3,171)
Loans sold or participated to others	2,863	2,862
Proceeds from principal payments on direct finance leases	9,682	15,238
Net change in loans and leases	(59,609)	(121,297)
Net change in equipment owned under operating leases	5,019	(3,678)
Purchases of premises and equipment	(1,659)	(2,821)
Proceeds from disposal of premises and equipment	12	3,426
Proceeds from sales of other real estate and repossessions	764	4,044
Net change in investing activities	(56,418)	(109,629)
Financing activities:		
Net change in demand deposits and savings accounts	(57,476)	(95,505)
Net change in time deposits	(23,939)	97,274
Net change in short-term borrowings	136,952	56,044
Proceeds from issuance of long-term debt	10,000	—
Payments on long-term debt	(1,917)	(1,718)
Acquisition of treasury stock	—	(7,258)
Net change in noncontrolling interests	6,041	1,171
Cash dividends paid on common stock	(7,614)	(7,174)
Net change in financing activities	62,047	42,834
Net change in cash and cash equivalents	38,934	(31,398)
Cash and cash equivalents, beginning of year	83,365	99,079
Cash and cash equivalents, end of period	$ 122,299	$ 67,681
Supplemental Information:		

Non-cash transactions:				
Loans transferred to other real estate and repossessed assets	$	1,268	$	8,939
Common stock matching contribution to Employee Stock Ownership and Profit Sharing Plan		622		300
Right of use assets obtained in exchange for lease obligations		31		1,058

The accompanying notes are a part of the 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, 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 (2019 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, 2019 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements. Certain amounts in the prior period consolidated financial statements have been reclassified to conform to the current period presentation.

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

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

Direct financing leases are carried at the aggregate of lease payments plus estimated residual value of the leased property, net of unamortized deferred lease origination fees and costs and unearned income. Interest income on direct financing leases is recognized over the term of the lease to achieve a constant periodic rate of return on the outstanding investment. Effective January 1, 2019, as part of the new leasing standard, only those costs incurred as a direct result of closing a lease transaction can be capitalized. All existing deferrals will continue to be amortized over the estimated life of the lease while all new incremental direct costs will be expensed immediately.

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 reserve 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.

A loan or lease is considered impaired, based on current information and events, if it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan or lease agreement. Interest on impaired loans and leases, which are not classified as nonaccrual, is recognized on the accrual basis. The Company evaluates loans and leases exceeding $100,000 for impairment and establishes a specific reserve as a component of the reserve for loan and lease losses when it is probable all amounts due will not be collected pursuant to the contractual terms of the loan or lease and the recorded investment in the loan or lease exceeds its fair value.

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

When the Company modifies loans and leases in a TDR, it evaluates any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, or uses the current fair value of the collateral, less selling costs for collateral dependent loans. If the Company determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through a reserve for loan and lease losses estimate or a charge-off to the reserve for loan and lease losses. In periods subsequent to modification, the Company evaluates all TDRs, including those that have payment defaults, for possible impairment and recognizes impairment through the reserve for loan and lease losses.

Note 2 — Recent Accounting Pronouncements

Reference Rate Reform: In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 *"Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting."* These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is implementing a transition plan to identify and modify its loans and other financial instruments with attributes that are either directly or indirectly influenced by LIBOR. The Company is assessing ASU 2020-04 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

Partnership Investments and Derivatives: In January 2020, the FASB issued ASU No. 2020-01 *"Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815."* These amendments, among other things, clarify that a company should consider observable transactions that require a company to either apply or discontinue the equity method of accounting under Topic 323, Investments-Equity Method and Joint Ventures, for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method. The amendments also clarify that, when determining the accounting for certain forward contracts and purchased options a company should not consider, whether upon settlement or exercise, if the underlying securities would be accounted for under the equity method or fair value option. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is permitted, including early adoption in an interim period. An entity should apply ASU 2020-01 prospectively at the beginning of the interim period that includes the adoption date. The Company is assessing ASU 2020-01 and its impact on its accounting and disclosures.

Income Taxes: In December 2019, the FASB issued ASU 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes." These amendments remove specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: exception to the incremental approach for intraperiod tax allocation; exceptions to accounting for basis differences where there are ownership changes in foreign investments; and exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. It also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for: franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacts changes in tax laws in interim periods. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Company is assessing ASU 2019-12 and its impact on its accounting and disclosure.

Measurement of Credit Losses on Financial Instruments: In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments (CECL)."* The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the financial assets.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security.

The FASB issued additional ASUs containing clarifying guidance, transition relief provisions and minor updates to the original ASU. These include ASU 2018-19 (issued November 2018), ASU 2019-04 (issued April 2019), ASU 2019-05 (issued May 2019), ASU 2019-10 (issued November 2019), ASU 2019-11 (issued November 2019), ASU 2020-02 (issued February 2020) and ASU 2020-03 (issued March 2020). ASU 2016-13 and subsequent ASUs are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. This amendment is required to be adopted using a modified retrospective approach with a cumulative-effect adjustment to beginning retained earnings, as of the beginning of the first reporting period in which the guidance is effective.

As previously disclosed, the Company formed a cross-functional team to work through its implementation plan. The Company's cross-functional team is substantially complete with the assessment and documentation of processes, internal controls, data and model validation testing, parallel testing, qualitative factors and forecast periods as well as model development. The Company implemented a third-party software solution to assist in the application of the new standard including portfolio segmentation according to shared risk characteristics and modeling methodologies. The Company had finalized the formal review and approval process and the results of its CECL estimate as of year-end but has elected to delay its adoption of ASU 2016-13, as provided by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, until the date on which the national emergency related to the COVID-19 outbreak is terminated or December 31, 2020, whichever occurs first. Upon adoption of ASU 2016-13, the Company will recognize a one-time cumulative effect adjustment through retained earnings of $2.58 million to increase its allowance for credit losses and $0.78 million to increase the unfunded loan commitment liability as of January 1, 2020. As of March 31, 2020, the Company estimates an additional increase to its allowance for credit losses of between $2 million and $10 million which will be recognized through earnings after adoption.

Upon adopting ASU 2016-13, the Company will not record an allowance as of January 1, 2020 with respect to its available-for-sale debt securities as the majority of these securities are government agency-backed securities for which the risk of loss is minimal. The adoption of ASU 2016-13 is not expected to have a significant impact on the Company's regulatory capital ratios.

Note 3 — Investment Securities Available-For-Sale

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2020				
U.S. Treasury and Federal agencies securities	$ 525,959	$ 11,488	$ (26)	$ 537,421
U.S. States and political subdivisions securities	79,724	1,370	(80)	81,014
Mortgage-backed securities — Federal agencies	382,200	10,483	(374)	392,309
Corporate debt securities	45,337	593	(205)	45,725
Foreign government and other securities	700	—	—	700
Total debt securities available-for-sale	$ 1,033,920	$ 23,934	$ (685)	$ 1,057,169
December 31, 2019				
U.S. Treasury and Federal agencies securities	$ 524,896	$ 2,538	$ (470)	$ 526,964
U.S. States and political subdivisions securities	83,566	1,048	(109)	84,505
Mortgage-backed securities — Federal agencies	372,458	3,948	(1,017)	375,389
Corporate debt securities	52,151	890	(16)	53,025
Foreign government and other securities	700	—	—	700
Total debt securities available-for-sale	$ 1,033,771	$ 8,424	$ (1,612)	$ 1,040,583

At March 31, 2020 and December 31, 2019, the residential mortgage-backed securities held by the Company consisted primarily of GNMA, FNMA and FHLMC pass-through certificates which are guaranteed by those respective agencies of the United States government (Government Sponsored Enterprise, GSEs).

The following table shows the contractual maturities of investments in debt securities available-for-sale at March 31, 2020. Expected maturities will differ from contractual maturities, because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 168,808	$ 170,311
Due after one year through five years	462,563	473,762
Due after five years through ten years	19,769	20,253
Due after ten years	580	534
Mortgage-backed securities	382,200	392,309
Total debt securities available-for-sale	$ 1,033,920	$ 1,057,169

The following table summarizes gross unrealized losses and fair value by investment category and age. At March 31, 2020, the Company's available-for-sale securities portfolio consisted of 609 securities, 70 of which were in an unrealized loss position.

	Less than 12 Months		12 months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2020						
U.S. Treasury and Federal agencies securities	$ 25,129	$ (26)	$ —	$ —	$ 25,129	$ (26)
U.S. States and political subdivisions securities	2,337	(80)	—	—	2,337	(80)
Mortgage-backed securities - Federal agencies	13,989	(101)	16,447	(273)	30,436	(374)
Corporate debt securities	12,530	(179)	3,059	(26)	15,589	(205)
Foreign government and other securities	500	—	—	—	500	—
Total debt securities available-for-sale	$ 54,485	$ (386)	$ 19,506	$ (299)	$ 73,991	$ (685)
December 31, 2019						
U.S. Treasury and Federal agencies securities	$ 87,352	$ (171)	$ 69,053	$ (299)	$ 156,405	$ (470)
U.S. States and political subdivisions securities	9,283	(107)	1,042	(2)	10,325	(109)
Mortgage-backed securities - Federal agencies	81,951	(383)	51,165	(634)	133,116	(1,017)
Corporate debt securities	—	—	8,091	(16)	8,091	(16)
Foreign government and other securities	—	—	—	—	—	—
Total debt securities available-for-sale	$ 178,586	$ (661)	$ 129,351	$ (951)	$ 307,937	$ (1,612)

The initial indication of potential other-than-temporary-impairment (OTTI) for debt securities is a decline in fair value below amortized cost. Quarterly, the impaired securities are analyzed on a qualitative and quantitative basis in determining OTTI. Declines in the fair value of debt securities available-for-sale below their cost that are deemed to be other-than-temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of impairment related to other factors is recognized in other comprehensive income. In estimating OTTI losses, the Company considers among other things, (i) the length of time and the extent to which fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, and (iii) whether it is more likely than not that the Company will not have to sell any such securities before a recovery of cost.

At March 31, 2020, the Company does not have the intent to sell any of the debt securities available-for-sale in the table above and believes that it is more likely than not, that it will not have to sell any such securities before an anticipated recovery of cost. Primarily the unrealized losses on debt securities are due to increases in market rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover on all debt securities as they approach their maturity date or re-pricing date or if market yields for such investments decline. The Company does not believe any of the securities are impaired due to reasons of credit quality.

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

	Three Months Ended March 31,	
(Dollars in thousands)	2020	2019
Gross realized gains	$ 280	$ —
Gross realized losses	—	—
OTTI losses	—	—
Net realized gains (losses)	$ 280	$ —

At March 31, 2020 and December 31, 2019, investment securities available-for-sale with carrying values of $336.38 million and $281.38 million, respectively, were pledged as collateral for security repurchase agreements and for other purposes.

Note 4 — Loan and Lease Financings

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

All loans and leases, except residential real estate and home equity loans and consumer loans, are assigned credit quality grades on a scale from 1 to 12 with grade 1 representing superior credit quality. The criteria used to assign grades to extensions of credit that exhibit potential problems or well-defined weaknesses are primarily based upon the degree of risk and the likelihood of orderly repayment, and their effect on the Company's safety and soundness. Loans or leases graded 7 or weaker are considered "special attention" credits and, as such, relationships in excess of $100,000 are reviewed quarterly as part of management's evaluation of the appropriateness of the reserve 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).

The following table shows the credit quality grades of the recorded investment in loans and leases, segregated by class.

	Credit Quality Grades		
(Dollars in thousands)	1-6	7-12	Total
March 31, 2020			
Commercial and agricultural	$ 1,110,313	$ 56,149	$ 1,166,462
Auto and light truck	559,395	18,362	577,757
Medium and heavy duty truck	277,056	1,020	278,076
Aircraft	751,689	21,443	773,132
Construction equipment	670,176	48,131	718,307
Commercial real estate	905,605	25,152	930,757
Total	$ 4,274,234	$ 170,257	$ 4,444,491
December 31, 2019			
Commercial and agricultural	$ 1,080,933	$ 51,858	$ 1,132,791
Auto and light truck	569,234	19,573	588,807
Medium and heavy duty truck	293,736	1,088	294,824
Aircraft	764,564	19,476	784,040
Construction equipment	668,076	37,375	705,451
Commercial real estate	888,154	20,023	908,177
Total	$ 4,264,697	$ 149,393	$ 4,414,090

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. The following table shows the recorded investment in residential real estate and home equity and consumer loans by performing or nonperforming status. Nonperforming loans are those loans which are on nonaccrual status or are 90 days or more past due.

(Dollars in thousands)	Performing	Nonperforming	Total
March 31, 2020			
Residential real estate and home equity	$ 543,513	$ 2,093	$ 545,606
Consumer	138,986	431	139,417
Total	$ 682,499	$ 2,524	$ 685,023
December 31, 2019			
Residential real estate and home equity	$ 529,557	$ 2,446	$ 532,003
Consumer	138,951	483	139,434
Total	$ 668,508	$ 2,929	$ 671,437

The following table shows the recorded investment of loans and leases, segregated by class, with delinquency aging and nonaccrual status.

(Dollars in thousands)	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, 2020							
Commercial and agricultural	$ 1,163,169	$ 50	$ —	$ —	$ 1,163,219	$ 3,243	$ 1,166,462
Auto and light truck	575,110	1,684	110	—	576,904	853	577,757
Medium and heavy duty truck	277,042	14	—	—	277,056	1,020	278,076
Aircraft	765,861	2,135	3,130	—	771,126	2,006	773,132
Construction equipment	699,932	2,557	338	—	702,827	15,480	718,307
Commercial real estate	929,323	67	—	—	929,390	1,367	930,757
Residential real estate and home equity	542,382	1,086	45	162	543,675	1,931	545,606
Consumer	138,346	531	109	30	139,016	401	139,417
Total	$ 5,091,165	$ 8,124	$ 3,732	$ 192	$ 5,103,213	$ 26,301	$ 5,129,514
December 31, 2019							
Commercial and agricultural	$ 1,131,704	$ 118	$ —	$ —	$ 1,131,822	$ 969	$ 1,132,791
Auto and light truck	586,212	1,268	77	—	587,557	1,250	588,807
Medium and heavy duty truck	293,736	14	—	—	293,750	1,074	294,824
Aircraft	772,846	7,026	3,293	—	783,165	875	784,040
Construction equipment	702,671	819	609	—	704,099	1,352	705,451
Commercial real estate	906,468	58	—	—	906,526	1,651	908,177
Residential real estate and home equity	528,844	561	152	257	529,814	2,189	532,003
Consumer	138,132	632	187	54	139,005	429	139,434
Total	$ 5,060,613	$ 10,496	$ 4,318	$ 311	$ 5,075,738	$ 9,789	$ 5,085,527

The following table shows impaired loans and leases, segregated by class, and the corresponding reserve for impaired loan and lease losses.

(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Reserve
March 31, 2020			
With no related reserve recorded:			
Commercial and agricultural	$ 208	$ 208	$ —
Auto and light truck	158	158	—
Medium and heavy duty truck	1,008	1,008	—
Aircraft	1,965	1,965	—
Construction equipment	1,057	1,057	—
Commercial real estate	1,209	1,209	—
Residential real estate and home equity	—	—	—
Consumer	—	—	—
Total with no related reserve recorded	5,605	5,605	—
With a reserve recorded:			
Commercial and agricultural	2,678	2,678	711
Auto and light truck	500	500	73
Medium and heavy duty truck	—	—	—
Aircraft	—	—	—
Construction equipment	14,341	14,341	8,318
Commercial real estate	—	—	—
Residential real estate and home equity	335	337	115
Consumer	—	—	—
Total with a reserve recorded	17,854	17,856	9,217
Total impaired loans	$ 23,459	$ 23,461	$ 9,217
December 31, 2019			
With no related reserve recorded:			
Commercial and agricultural	$ 218	$ 218	$ —
Auto and light truck	853	853	—
Medium and heavy duty truck	1,074	1,074	—
Aircraft	875	875	—
Construction equipment	615	615	—
Commercial real estate	1,487	1,487	—
Residential real estate and home equity	—	—	—
Consumer	—	—	—
Total with no related reserve recorded	5,122	5,122	—
With a reserve recorded:			
Commercial and agricultural	10,366	10,366	3,003
Auto and light truck	278	278	30
Medium and heavy duty truck	—	—	—
Aircraft	—	—	—
Construction equipment	736	736	75
Commercial real estate	—	—	—
Residential real estate and home equity	337	339	117
Consumer	—	—	—
Total with a reserve recorded	11,717	11,719	3,225
Total impaired loans	$ 16,839	$ 16,841	$ 3,225

The following table shows average recorded investment and interest income recognized on impaired loans and leases, segregated by class.

	Three Months Ended March 31,			
	2020		2019	
(Dollars in thousands)	Average Recorded Investment	Interest Income	Average Recorded Investment	Interest Income
Commercial and agricultural	$ 7,807	$ 102	$ 2,821	$ —
Auto and light truck	743	—	5,003	—
Medium and heavy duty truck	1,025	—	54	—
Aircraft	1,781	—	5,445	—
Construction equipment	7,778	4	1,929	—
Commercial real estate	1,372	—	1,859	—
Residential real estate and home equity	336	4	343	5
Consumer	—	—	—	—
Total	$ 20,842	$ 110	$ 17,454	$ 5

There were no loan and lease modifications classified as a troubled debt restructuring (TDR) during the three months ended March 31, 2020 and 2019. The classification between nonperforming and performing is determined at the time of modification. Modification programs focus on extending maturity dates or modifying payment patterns with most TDRs experiencing a combination of concessions. Modifications do not result in the contractual forgiveness of principal or interest. There were no modifications during the three months ended March 31, 2020 and 2019 that resulted in an interest rate below market rate. Consequently, the financial impact of the modification was immaterial.

There was one TDR which had a payment default within the twelve months following modification during the three months ended March 31, 2020 and no TDRs which had payment defaults within the twelve months following modification during the three months ended March 31, 2019. Default occurs when a loan or lease is 90 days or more past due under the modified terms or transferred to nonaccrual.

The following table shows the recorded investment of loans and leases classified as troubled debt restructurings as of March 31, 2020 and December 31, 2019.

(Dollars in thousands)	March 31, 2020	December 31, 2019
Performing TDRs	$ 335	$ 10,238
Nonperforming TDRs	480	486
Total TDRs	$ 815	$ 10,724

Note 5 — Reserve for Loan and Lease Losses

The reserve for loan and lease loss methodology has been consistently applied for several years, with enhancements instituted periodically. Reserve ratios are reviewed quarterly and revised periodically to reflect recent loss history and to incorporate current risks and trends which may not be recognized in historical data. As the historical charge-off analysis is updated, the Company reviews the look-back periods for each business loan portfolio. Furthermore, a thorough analysis of charge-offs, non-performing asset levels, special attention outstandings and delinquency is performed in order to review portfolio trends and other factors, including specific industry risks and economic conditions, which may have an impact on the reserves and reserve ratios applied to various portfolios. The Company adjusts the calculated historical based ratio as a result of the analysis of environmental factors, principally economic risk and concentration risk. Key economic factors affecting the portfolios are growth in gross domestic product, unemployment rates, housing market trends, commodity prices, inflation and global economic and political issues. Concentration risk is impacted primarily by geographic concentration in Northern Indiana and Southwestern Lower Michigan in the business banking and commercial real estate portfolios and by collateral concentration in the specialty finance portfolios and exposure to foreign markets by geographic risk.

The reserve for loan and lease losses is maintained at a level believed to be appropriate by the Company to absorb probable losses inherent in the loan and lease portfolio. The determination of the reserve requires significant judgment reflecting the Company's best estimate of probable loan and lease losses related to specifically identified impaired loans and leases as well as probable losses in the remainder of the various loan and lease portfolios. For purposes of determining the reserve, the Company has segmented loans and leases into classes based on the associated risk within these segments. The Company has determined that eight classes exist within the loan and lease portfolio. The methodology for assessing the appropriateness of the reserve consists of several key elements, which include: specific reserves for impaired loans, formula reserves for each business lending division portfolio including percentage allocations for special attention loans and leases not deemed impaired, and reserves for pooled homogeneous loans and leases. The Company's evaluation is based upon a continuing review of these portfolios, estimates of customer performance, collateral values and dispositions, and assessments of economic and geopolitical events, all of which are subject to judgment and will change.

The following table shows the changes in the reserve for loan and lease losses, segregated by class, for the three months ended March 31, 2020 and 2019.

(Dollars in thousands)	**Commercial and agricultural loans**	**Auto and light truck**	**Medium and heavy duty truck**	**Aircraft**	**Construction equipment**	**Commercial real estate**	**Residential real estate and home equity**	**Consumer loans**	**Total**
March 31, 2020									
Balance, beginning of period	$ 23,671	$ 14,400	$ 4,612	$ 31,058	$ 14,120	$ 18,350	$ 3,609	$ 1,434	$ 111,254
Charge-offs	529	34	—	586	1,432	1	13	243	2,838
Recoveries	166	82	—	448	211	15	27	80	1,029
Net charge-offs (recoveries)	363	(48)	—	138	1,221	(14)	(14)	163	1,809
Provision (recovery of provision)	(129)	1,023	(256)	(851)	9,794	1,224	285	263	11,353
Balance, end of period	$ 23,179	$ 15,471	$ 4,356	$ 30,069	$ 22,693	$ 19,588	$ 3,908	$ 1,534	$ 120,798
March 31, 2019									
Balance, beginning of period	$ 17,063	$ 14,689	$ 4,303	$ 33,047	$ 10,922	$ 15,705	$ 3,425	$ 1,315	$ 100,469
Charge-offs	79	409	—	3,000	195	—	21	250	3,954
Recoveries	34	9	—	185	104	9	3	75	419
Net charge-offs (recoveries)	45	400	—	2,815	91	(9)	18	175	3,535
Provision (recovery of provision)	1,289	(30)	106	3,208	52	120	(21)	194	4,918
Balance, end of period	$ 18,307	$ 14,259	$ 4,409	$ 33,440	$ 10,883	$ 15,834	$ 3,386	$ 1,334	$ 101,852

The following table shows the reserve for loan and lease losses and recorded investment in loans and leases, segregated by class, separated between individually and collectively evaluated for impairment as of March 31, 2020 and December 31, 2019.

(Dollars in thousands)	Commercial and agricultural loans	Auto and light truck	Medium and heavy duty truck	Aircraft	Construction equipment	Commercial real estate	Residential real estate and home equity	Consumer loans	Total
March 31, 2020									
Reserve for loan and lease losses									
Ending balance, individually evaluated for impairment	$ 711	$ 73	$ —	$ —	$ 8,318	$ —	$ 115	$ —	$ 9,217
Ending balance, collectively evaluated for impairment	22,468	15,398	4,356	30,069	14,375	19,588	3,793	1,534	111,581
Total reserve for loan and lease losses	$ 23,179	$ 15,471	$ 4,356	$ 30,069	$ 22,693	$ 19,588	$ 3,908	$ 1,534	$ 120,798
Recorded investment in loans									
Ending balance, individually evaluated for impairment	$ 2,886	$ 658	$ 1,008	$ 1,965	$ 15,398	$ 1,209	$ 335	$ —	$ 23,459
Ending balance, collectively evaluated for impairment	1,163,576	577,099	277,068	771,167	702,909	929,548	545,271	139,417	5,106,055
Total recorded investment in loans	$ 1,166,462	$ 577,757	$ 278,076	$ 773,132	$ 718,307	$ 930,757	$ 545,606	$ 139,417	$ 5,129,514
December 31, 2019									
Reserve for loan and lease losses									
Ending balance, individually evaluated for impairment	$ 3,003	$ 30	$ —	$ —	$ 75	$ —	$ 117	$ —	$ 3,225
Ending balance, collectively evaluated for impairment	20,668	14,370	4,612	31,058	14,045	18,350	3,492	1,434	108,029
Total reserve for loan and lease losses	$ 23,671	$ 14,400	$ 4,612	$ 31,058	$ 14,120	$ 18,350	$ 3,609	$ 1,434	$ 111,254
Recorded investment in loans									
Ending balance, individually evaluated for impairment	$ 10,584	$ 1,131	$ 1,074	$ 875	$ 1,351	$ 1,487	$ 337	$ —	$ 16,839
Ending balance, collectively evaluated for impairment	1,122,207	587,676	293,750	783,165	704,100	906,690	531,666	139,434	5,068,688
Total recorded investment in loans	$ 1,132,791	$ 588,807	$ 294,824	$ 784,040	$ 705,451	$ 908,177	$ 532,003	$ 139,434	$ 5,085,527

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, auto and light truck, medium and heavy duty truck, aircraft, and construction equipment on the Consolidated Statements of Financial Condition. The Company also finances various types of construction equipment, medium and heavy duty trucks, automobiles and other equipment under leases classified as operating leases, which are included in Equipment Owned Under Operating Leases, net, on the Consolidated Statements of Financial Condition.

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

	Three Months Ended March 31,	
(Dollars in thousands)	2020	2019
Direct finance leases:		
Interest income on lease receivable	$ 2,333	$ 2,778
Operating leases:		
Income related to lease payments	$ 6,630	$ 7,982
Depreciation expense	5,427	6,524

Income related to reimbursements from lessees for personal property tax on operating leased equipment for the three ended March 31, 2020 and 2019 was $0.25 million and $0.24 million, respectively. Expense related to personal property tax payments on operating leased equipment for the three months ended March 31, 2020 and 2019 was $0.25 million and $0.24 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 $745.39 million and $740.91 million at March 31, 2020 and December 31, 2019, 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.

	Three Months Ended March 31,	
(Dollars in thousands)	**2020**	**2019**
Mortgage servicing rights:		
Balance at beginning of period	$ 4,200	$ 4,283
Additions	362	197
Amortization	(409)	(233)
Sales	—	—
Carrying value before valuation allowance at end of period	4,153	4,247
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	$ 4,153	$ 4,247
Fair value of mortgage servicing rights at end of period	$ 4,538	$ 6,677

At March 31, 2020 and 2019, the fair value of MSRs exceeded the carrying value reported in the Consolidated Statements of Financial Condition by $0.39 million and $2.43 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 $0.69 million and $0.62 million for the three months ended March 31, 2020 and 2019, respectively. Mortgage loan contractual servicing fees are included in Mortgage Banking on the Consolidated Statements of Income.

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

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

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

(Dollars in thousands)	**March 31, 2020**	**December 31, 2019**
Amounts of commitments:		
Loan commitments to extend credit	$ 1,053,202	$ 1,095,054
Standby letters of credit	$ 26,148	$ 27,549
Commercial and similar letters of credit	$ 3,207	$ 2,332

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

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

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

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

Note 9 — Derivative Financial Instruments

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

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

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

		Asset derivatives		Liability derivatives	
(Dollars in thousands)	Notional or contractual amount	Statement of Financial Condition classification	Fair value	Statement of Financial Condition classification	Fair value
March 31, 2020					
Interest rate swap contracts	$ 1,073,560	Other assets	$ 52,485	Other liabilities	$ 53,382
Loan commitments	73,794	Mortgages held for sale	1,381	N/A	—
Forward contracts - mortgage loan	29,637	N/A	—	Mortgages held for sale	358
Total	$ 1,176,991		$ 53,866		$ 53,740
December 31, 2019					
Interest rate swap contracts	$ 1,074,809	Other assets	$ 21,975	Other liabilities	$ 22,352
Loan commitments	9,950	Mortgages held for sale	185	N/A	—
Forward contracts - mortgage loan	23,632	N/A	—	Mortgages held for sale	38
Total	$ 1,108,391		$ 22,160		$ 22,390

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, 2020	Gain (loss) Three Months Ended March 31, 2019
Interest rate swap contracts	Other expense	$ (519)	$ (57)
Interest rate swap contracts	Other income	91	279
Loan commitments	Mortgage banking	1,196	77
Forward contracts - mortgage loan	Mortgage banking	(320)	10
Total		$ 448	$ 309

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

				Gross Amounts Not Offset in the Statement of Financial Condition		
(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	Financial Instruments	Cash Collateral Received	Net Amount
March 31, 2020						
Interest rate swaps	$ 53,595	$ 1,110	$ 52,485	$ —	$ —	$ 52,485
December 31, 2019						
Interest rate swaps	$ 22,279	$ 304	$ 21,975	$ —	$ —	$ 21,975

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

				Gross Amounts Not Offset in the Statement of Financial Condition		
(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	Financial Instruments	Cash Collateral Pledged	Net Amount
March 31, 2020						
Interest rate swaps	$ 54,492	$ 1,110	$ 53,382	$ 53,114	$ —	$ 268
Repurchase agreements	135,942	—	135,942	135,942	—	—
Total	$ 190,434	$ 1,110	$ 189,324	$ 189,056	$ —	$ 268
December 31, 2019						
Interest rate swaps	$ 22,656	$ 304	$ 22,352	$ 23,482	$ —	$ (1,130)
Repurchase agreements	120,459	—	120,459	120,459	—	—
Total	$ 143,115	$ 304	$ 142,811	$ 143,941	$ —	$ (1,130)

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, 2020 and December 31, 2019, repurchase agreements had a remaining contractual maturity of $133.79 million and $119.45 million in overnight and $2.15 million and $1.01 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 income tax credits related to its affordable housing and community development tax-advantaged investments in tax expense of $0.43 million and $0.35 million for the three months ended March 31, 2020 and 2019, respectively. The Company also recognized $2.24 million and $1.60 million of investment tax credits for the three months ended March 31, 2020 and 2019, respectively.

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

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

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

(Dollars in thousands)	**March 31, 2020**	**December 31, 2019**
Investment carrying amount	$ 18,075	$ 19,843
Unfunded capital and other commitments	11,969	17,420
Maximum exposure to loss	41,269	37,904

The Company is required to consolidate VIEs in which it has concluded it has significant involvement in and the ability to direct the activities that impact the entity's economic performance. The Company is the managing general partner of entities to which it shares interest in tax-advantaged investments with third parties. At March 31, 2020 and December 31, 2019, approximately $53.10 million and $41.24 million of the Company's assets and $23.83 million and $18.68 million of its liabilities included on the Consolidated Statements of Financial Condition were related to tax-advantaged investment VIEs which the Company has consolidated, respectively. The assets of the consolidated VIEs are reported in Other Assets, the liabilities are reported in Other Liabilities and the non-controlling interest is reported in Equity on the Consolidated Statements of Financial Condition. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIE do not have recourse to the general credit of the Company. The Company's exposure to the consolidated VIE is generally limited to the carrying value of its variable interest plus any related tax credits previously recognized.

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

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

The following table shows subordinated notes at March 31, 2020.

(Dollars in thousands)	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	2.22 %	9/15/2037
Total	$ 58,764		

(1) Fixed rate through life of debt.
(2) 3-Month LIBOR +1.48% through remaining life of debt.

Note 11 — Earnings Per Share

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

Stock options, where the exercise price was greater than the average market price of the common shares, were excluded from the computation of diluted earnings per common share because the result would have been antidilutive. There were no stock options outstanding as of March 31, 2020 and 2019.

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)	2020	2019
Distributed earnings allocated to common stock	$ 7,399	$ 6,966
Undistributed earnings allocated to common stock	8,941	15,102
Net earnings allocated to common stock	16,340	22,068
Net earnings allocated to participating securities	73	128
Net income allocated to common stock and participating securities	$ 16,413	$ 22,196
Weighted average shares outstanding for basic earnings per common share	25,523,356	25,759,186
Dilutive effect of stock compensation	—	—
Weighted average shares outstanding for diluted earnings per common share	25,523,356	25,759,186
Basic earnings per common share	$ 0.64	$ 0.86
Diluted earnings per common share	$ 0.64	$ 0.86

Note 12 — Stock Based Compensation

As of March 31, 2020, 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, 2019. These plans include three executive stock award plans, the Executive Incentive Plan, the Restricted Stock Award Plan, the Strategic Deployment Incentive Plan; and the Employee Stock Purchase Plan. The 2011 Stock Option Plan was approved by the shareholders on April 21, 2011 but the Company had not made any grants through March 31, 2020.

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, 2020 and 2019. As of March 31, 2020 and 2019 there were no outstanding stock options. There were no stock options exercised during the three months ended March 31, 2020 and 2019. All shares issued in connection with stock option exercises are issued from available treasury stock.

As of March 31, 2020, there was $8.12 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 3.73 years.

Note 13 — Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended March 31,		
(Dollars in thousands)	**2020**	**2019**	**Affected Line Item in the Statements of Income**
Realized gains included in net income	$ 280	$ —	Gains on investment securities available-for-sale
	280	—	Income before income taxes
Tax effect	(67)	—	Income tax expense
Net of tax	$ 213	$ —	Net income

Note 14 — Income Taxes

The total amount of unrecognized tax benefits that would affect the effective tax rate if recognized was zero at March 31, 2020 and December 31, 2019. Interest and penalties are recognized through the income tax provision. For the three months ended March 31, 2020 and 2019, the Company recognized no interest or penalties. There were no accrued interest and penalties at March 31, 2020 and December 31, 2019.

Tax years that remain open and subject to audit include the federal 2016-2019 years and the Indiana 2016-2019 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 by either selling corresponding forward contracts on agency securities (free-standing derivatives) or obtaining best-efforts forward sales commitments with an investor to sell the loans at an agreed-upon price at the time the interest rate locks are issued to customers. The Company believes the election for mortgages held for sale will reduce certain timing differences and better match changes in the value of these assets with changes in the value of derivatives or best-best efforts forward sales commitments. At March 31, 2020 and December 31, 2019, 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.

(Dollars in thousands)	Fair value carrying amount	Aggregate unpaid principal	Excess of fair value carrying amount over (under) unpaid principal	
March 31, 2020				
Mortgages held for sale reported at fair value	$ 13,449	$ 12,094	$ 1,355	(1)
December 31, 2019				
Mortgages held for sale reported at fair value	$ 20,277	$ 19,890	$ 387	(1)

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

Financial Instruments on Recurring Basis:

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

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

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

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

- U.S. treasuries are priced using the market approach and utilizing live data feeds from active market exchanges for identical securities.
- Government-sponsored agency debt securities and corporate bonds are primarily priced using available market information through processes such as benchmark curves, market valuations of like securities, sector groupings and matrix pricing.
- Other government-sponsored agency securities, mortgage-backed securities and some of the actively traded REMICs and CMOs, are primarily priced using available market information including benchmark yields, prepayment speeds, spreads and volatility of similar securities.

- State and political subdivisions are largely grouped by characteristics, i.e., geographical data and source of revenue in trade dissemination systems. Since some securities are not traded daily and due to other grouping limitations, active market quotes are often obtained using benchmarking for like securities. Local direct placement municipal securities, with very little market activity, are priced using an appropriate market yield curve, which includes a credit spread assumption.

Mortgages held for sale and the related loan commitments and forward contracts (hedges) are valued using a market value approach and utilizing an appropriate current market yield and a loan commitment closing rate based on historical analysis.

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

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

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
March 31, 2020				
Assets:				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	$ 82,813	$ 454,608	$ —	$ 537,421
U.S. States and political subdivisions securities	—	75,719	5,295	81,014
Mortgage-backed securities — Federal agencies	—	392,309	—	392,309
Corporate debt securities	—	45,725	—	45,725
Foreign government and other securities	—	700	—	700
Total debt securities available-for-sale	82,813	969,061	5,295	1,057,169
Mortgages held for sale	—	13,449	—	13,449
Accrued income and other assets (interest rate swap agreements)	—	52,485	—	52,485
Total	$ 82,813	$ 1,034,995	$ 5,295	$ 1,123,103
Liabilities:				
Accrued expenses and other liabilities (interest rate swap agreements)	$ —	$ 53,382	$ —	$ 53,382
Total	$ —	$ 53,382	$ —	$ 53,382
December 31, 2019				
Assets:				
Investment securities available-for-sale:				
U.S. Treasury and Federal agencies securities	$ 80,393	$ 446,571	$ —	$ 526,964
U.S. States and political subdivisions securities	—	82,213	2,292	84,505
Mortgage-backed securities — Federal agencies	—	375,389	—	375,389
Corporate debt securities	—	53,025	—	53,025
Foreign government and other securities	—	700	—	700
Total debt securities available-for-sale	80,393	957,898	2,292	1,040,583
Mortgages held for sale	—	20,277	—	20,277
Accrued income and other assets (interest rate swap agreements)	—	21,975	—	21,975
Total	$ 80,393	$ 1,000,150	$ 2,292	$ 1,082,835
Liabilities:				
Accrued expenses and other liabilities (interest rate swap agreements)	$ —	$ 22,352	$ —	$ 22,352
Total	$ —	$ 22,352	$ —	$ 22,352

The following table shows changes in Level 3 assets measured at fair value on a recurring basis for the quarter ended March 31, 2020 and 2019.

(Dollars in thousands)		U.S. States and political subdivisions securities
Beginning balance January 1, 2020	$	2,292
Total gains or losses (realized/unrealized):		
Included in earnings		—
Included in other comprehensive income		(17)
Purchases		3,100
Issuances		—
Sales		—
Settlements		—
Maturities		(80)
Transfers into Level 3		—
Transfers out of Level 3		—
Ending balance March 31, 2020	$	5,295
Beginning balance January 1, 2019	$	1,025
Total gains or losses (realized/unrealized):		
Included in earnings		—
Included in other comprehensive income		19
Purchases		4,100
Issuances		—
Sales		—
Settlements		—
Maturities		(80)
Transfers into Level 3		—
Transfers out of Level 3		—
Ending balance March 31, 2019	$	5,064

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, 2020 or 2019.

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

(Dollars in thousands)		Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs	Weighted Average
March 31, 2020						
Debt securities available-for sale						
Direct placement municipal securities	$	5,295	Discounted cash flows	Credit spread assumption	0.95% - 3.24%	1.69 %
December 31, 2019						
Debt securities available-for sale						
Direct placement municipal securities	$	2,292	Discounted cash flows	Credit spread assumption	0.12% - 2.85%	

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.

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 a reserve for loan loss has been established based on the fair value of collateral require classification in the fair value hierarchy. As a result, only a portion of the Company’s impaired loans are classified in the fair value hierarchy.

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

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

For assets measured at fair value on a nonrecurring basis the following represents impairment charges (recoveries) recognized on these assets during the quarter ended March 31, 2020: impaired loans - $1.28 million; mortgage servicing rights - $0.00 million; repossessions - $0.29 million; and other real estate - $0.00 million.

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

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
March 31, 2020				
Impaired loans - collateral based	$ —	$ —	$ 8,639	$ 8,639
Accrued income and other assets (mortgage servicing rights)	—	—	4,153	4,153
Accrued income and other assets (repossessions)	—	—	9,020	9,020
Accrued income and other assets (other real estate)	—	—	362	362
Total	$ —	$ —	$ 22,174	$ 22,174
December 31, 2019				
Impaired loans - collateral based	$ —	$ —	$ 8,492	$ 8,492
Accrued income and other assets (mortgage servicing rights)	—	—	4,200	4,200
Accrued income and other assets (repossessions)	—	—	8,623	8,623
Accrued income and other assets (other real estate)	—	—	522	522
Total	$ —	$ —	$ 21,837	$ 21,837

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

(Dollars in thousands)	Carrying Value	Fair Value	Valuation Methodology	Unobservable Inputs	Range of Inputs	Weighted Average
March 31, 2020						
Impaired loans	$ 8,639	$ 8,639	Collateral based measurements including appraisals, trade publications, and auction values	Discount for lack of marketability and current conditions	10% - 60%	22 %
Mortgage servicing rights	4,153	4,538	Discounted cash flows	Constant prepayment rate (CPR)	13.3% - 23.9%	17.6 %
				Discount rate	9.0% - 11.9%	9.3 %
Repossessions	9,020	9,508	Appraisals, trade publications and auction values	Discount for lack of marketability	3% - 19%	5 %
Other real estate	362	383	Appraisals	Discount for lack of marketability	0% - 6%	5 %
December 31, 2019						
Impaired loans	$ 8,492	$ 8,492	Collateral based measurements including appraisals, trade publications, and auction values	Discount for lack of marketability and current conditions	0% - 90%	
Mortgage servicing rights	4,200	5,986	Discounted cash flows	Constant prepayment rate (CPR)	10.2% - 28.1%	
				Discount rate	9.3% - 12.1%	
Repossessions	8,623	9,211	Appraisals, trade publications and auction values	Discount for lack of marketability	3% - 25%	
Other real estate	522	564	Appraisals	Discount for lack of marketability	0% - 11%	

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

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

(Dollars in thousands)	Carrying or Contract Value	Fair Value	Level 1	Level 2	Level 3
March 31, 2020					
Assets:					
Cash and due from banks	$ 72,756	$ 72,756	$ 72,756	$ —	$ —
Federal funds sold and interest bearing deposits with other banks	49,543	49,543	49,543	—	—
Investment securities, available-for-sale	1,057,169	1,057,169	82,813	969,061	5,295
Other investments	28,414	28,414	28,414	—	—
Mortgages held for sale	13,449	13,449	—	13,449	—
Loans and leases, net of reserve for loan and lease losses	5,008,716	5,052,121	—	—	5,052,121
Mortgage servicing rights	4,153	4,538	—	—	4,538
Accrued interest receivable	19,827	19,827	—	19,827	—
Interest rate swaps	52,485	52,485	—	52,485	—
Liabilities:					
Deposits	$ 5,275,911	$ 5,290,109	$ 3,651,352	$ 1,638,757	$ —
Short-term borrowings	282,845	282,845	135,154	147,691	—
Long-term debt and mandatorily redeemable securities	81,877	82,393	—	82,393	—
Subordinated notes	58,764	49,893	—	49,893	—
Accrued interest payable	13,719	13,719	—	13,719	—
Interest rate swaps	53,382	53,382	—	53,382	—
Off-balance-sheet instruments *	—	283	—	283	—
December 31, 2019					
Assets:					
Cash and due from banks	$ 67,215	$ 67,215	$ 67,215	$ —	$ —
Federal funds sold and interest bearing deposits with other banks	16,150	16,150	16,150	—	—
Investment securities, available-for-sale	1,040,583	1,040,583	80,393	957,898	2,292
Other investments	28,414	28,414	28,414	—	—
Mortgages held for sale	20,277	20,277	—	20,277	—
Loans and leases, net of reserve for loan and lease losses	4,974,273	4,992,684	—	—	4,992,684
Mortgage servicing rights	4,200	5,986	—	—	5,986
Accrued interest receivable	19,125	19,125	—	19,125	—
Interest rate swaps	21,975	21,975	—	21,975	—
Liabilities:					
Deposits	$ 5,357,326	$ 5,362,633	$ 3,708,828	$ 1,653,805	$ —
Short-term borrowings	145,893	145,893	120,891	25,002	—
Long-term debt and mandatorily redeemable securities	71,639	71,084	—	71,084	—
Subordinated notes	58,764	61,469	—	61,469	—
Accrued interest payable	13,918	13,918	—	13,918	—
Interest rate swaps	22,352	22,352	—	22,352	—
Off-balance-sheet instruments *	—	281	—	281	—

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

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

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

ITEM 2.

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

The following management's discussion and analysis is presented to provide information concerning 1st Source Corporation and its subsidiaries' (collectively referred to as "the Company", "we", and "our") financial condition as of March 31, 2020, as compared to December 31, 2019, and the results of operations for the three months ended March 31, 2020 and 2019. 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 2019 Annual Report.

Except for historical information contained herein, the matters discussed in this document express "forward-looking statements." Generally, the words "believe," "contemplate," "seek," "plan," "possible," "assume," "expect," "intend," "targeted," "continue," "remain," "estimate," "anticipate," "project," "will," "should," "indicate," "would," "may" and other similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying such statements. Those statements, including statements, projections, estimates or assumptions concerning future events or performance, and other statements that are other than statements of historical fact, are subject to material risks and uncertainties. We caution readers not to place undue reliance on any forward-looking statements, which speak only as of the date made. We may make other written or oral forward-looking statements from time to time. Readers are advised that various important factors could cause our actual results or circumstances for future periods to differ materially from those anticipated or projected in such forward-looking statements. Such factors include, but are not limited to, changes in law, regulations or GAAP; our competitive position within the markets we serve; increasing consolidation within the banking industry; unforeseen changes in interest rates; unforeseen changes in loan prepayment assumptions; unforeseen downturns in or major events affecting the local, regional or national economies or the industries in which we have credit concentrations; more recently, potential impacts of the COVID-19 pandemic; and other matters discussed in our filings with the SEC, including our Annual Report on Form 10-K for 2019, 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, 2020 were $6.74 billion, an increase of $112.34 million or 1.70% from December 31, 2019. Total investment securities, available-for-sale were $1.06 billion, an increase of $16.59 million or 1.59% from December 31, 2019. Federal funds sold and interest bearing deposits with other banks were $49.54 million, an increase of $33.39 million or 206.77% from December 31, 2019.

Total loans and leases were $5.13 billion, an increase of $43.99 million or 0.86% from December 31, 2019. Our foreign loan and lease outstandings, all denominated in U.S. dollars were $176.94 million and $184.24 million as of March 31, 2020 and December 31, 2019, respectively. Foreign loans and leases are in aircraft financing. Loan and lease outstandings to borrowers in Brazil and Mexico were $54.73 million and $102.41 million as of March 31, 2020, respectively, compared to $58.29 million and $111.91 million as of December 31, 2019, respectively. As of March 31, 2020 and December 31, 2019 there was not a significant concentration in any other country. Solar loan and lease outstandings were $178.35 million as of March 31, 2020, an increase of $14.75 million or 9.02% from the $163.60 million at December 31, 2019. Solar loan and lease outstandings are included in commercial and agricultural loans. Equipment owned under operating leases was $101.24 million, a decrease of $10.45 million, or 9.35% compared to December 31, 2019.

Total deposits were $5.28 billion, a decrease of $81.42 million or 1.52% from the end of 2019. Short-term borrowings were $282.85 million, an increase of $136.95 million or 93.87% from December 31, 2019. Long-term debt and mandatorily redeemable securities were $81.88 million, an increase of $10.24 million or 14.29% from December 31, 2019.

The following table shows accrued income and other assets.

(Dollars in thousands)	March 31, 2020	December 31, 2019
Accrued income and other assets:		
Bank owned life insurance cash surrender value	$ 69,280	$ 68,774
Operating lease right of use assets	23,451	24,147
Accrued interest receivable	19,827	19,125
Mortgage servicing rights	4,153	4,200
Other real estate	362	522
Repossessions	9,020	8,623
Partnership investments carrying amount	71,178	61,083
All other assets	70,167	41,516
Total accrued income and other assets	$ 267,438	$ 227,990

CORONAVIRUS (COVID-19) IMPACT

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

Loan and lease modifications

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

	Principal-only Deferrals		Principal and Interest Deferrals			
(Dollars in millions)	90 Days or Less	91 Days - 180 Days	90 Days or Less	91 Days - 180 Days	Total Coronavirus Modifications	Recorded Investment at March 31, 2020
Auto and light truck rental	$ 86	$ —	$ 28	$ —	$ 114	$ 427
Specialty vehicle [(1)]	2	—	51	—	53	151
Medium and heavy duty truck	12	7	3	—	22	278
Aircraft	43	16	13	—	72	773
Construction	78	4	12	20	114	718
Commercial	48	30	17	24	119	2,097
Total	$ 269	$ 57	$ 124	$ 44	$ 494	$ 4,444

(1) Includes motor coaches, shuttle buses, step vans, work trucks and funeral cars.

Paycheck Protection Program (PPP) and Liquidity

As part of the CARES Act, approved by the President on March 27, 2020, the Small Business Administration (SBA) has been authorized to guarantee loans under the PPP through June 30, 2020 for small businesses who meet the necessary eligibility requirements in order to keep their workers on the payroll. We began accepting applications on April 3, 2020. As of mid-April, we had processed 2,061 PPP loans totaling $554 million. PPP loans are fully guaranteed by the SBA and as such do not represent a credit risk.

On April 9, 2020, the FDIC, Federal Reserve and OCC created the Paycheck Protection Program Liquidity Facility (PPPLF) to bolster the effectiveness of the PPP by providing liquidity to and neutralizing the regulatory capital effects on participating financial institutions. We intend to utilize the liquidity relief offered by the PPPLF to the extent needed and as such do not expect our participation in the PPP to have a negative impact on our liquidity position, capital resources, financial condition or results of operations.

Asset impairment

At this time, we do not believe there exists any impairment to our goodwill and intangible assets, long-lived assets, MSRs, right of use assets, or available-for-sale investment securities due to the COVID-19 pandemic. Our MSRs have experienced a decrease in their fair value as of March 31, 2020 and we will continue to evaluate MSRs at each reporting date to determine whether a valuation allowance is appropriate. It is uncertain whether prolonged effects of the COVID-19 pandemic will result in future impairment charges related to any of the aforementioned assets.

Risks

See Part II Other Information, Item 1A, Risk Factors for more information.

Reserve for loan and lease losses

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

CAPITAL

As of March 31, 2020, total shareholders' equity was $850.90 million, up $22.62 million, or 2.73% from the $828.28 million at December 31, 2019. In addition to net income of $16.41 million, other significant changes in shareholders' equity during the first three months of 2020 included $7.41 million of dividends paid. The accumulated other comprehensive income component of shareholders' equity totaled $17.65 million at March 31, 2020, compared to $5.17 million at December 31, 2019. Our shareholders' equity-to-assets ratio was 12.63% as of March 31, 2020, compared to 12.51% at December 31, 2019. Book value per common share rose to $33.32 at March 31, 2020, from $32.47 at December 31, 2019.

We declared and paid cash dividends per common share of $0.29 during the first quarter of 2020. The trailing four quarters dividend payout ratio, representing cash dividends per common share divided by diluted earnings per common share, was 33.43%. 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, 2020, are presented in the table below.

	Actual		Minimum Capital Adequacy		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets):								
1st Source Corporation	$ 912,548	15.23 %	$ 479,457	8.00 %	$ 629,288	10.50 %	$ 599,322	10.00 %
1st Source Bank	830,076	13.84	479,812	8.00	629,753	10.50	599,765	10.00
Tier 1 Capital (to Risk-Weighted Assets):								
1st Source Corporation	837,026	13.97	359,593	6.00	509,423	8.50	479,457	8.00
1st Source Bank	754,499	12.58	359,859	6.00	509,800	8.50	479,812	8.00
Common Equity Tier 1 Capital (to Risk-Weighted Assets):								
1st Source Corporation	753,621	12.57	269,695	4.50	419,525	7.00	389,559	6.50
1st Source Bank	728,094	12.14	269,894	4.50	419,835	7.00	389,847	6.50
Tier 1 Capital (to Average Assets):								
1st Source Corporation	837,026	12.82	261,190	4.00	N/A	N/A	326,488	5.00
1st Source Bank	754,499	11.56	261,168	4.00	N/A	N/A	326,460	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 have borrowing sources available to supplement deposits and meet our funding needs. 1st Source Bank has established relationships with several banks to provide short term borrowings in the form of federal funds purchased. At March 31, 2020, we had no borrowings in the federal funds market. We could borrow $225.00 million in additional funds for a short time from these banks on a collective basis. As of March 31, 2020, we had $196.64 million outstanding in FHLB advances and could borrow an additional $401.88 million contingent on the FHLB activity-based stock ownership requirement. We also had no outstandings with the FRB and could borrow $543.27 million as of March 31, 2020.

Our loan to asset ratio was 76.16% at March 31, 2020 compared to 76.79% at December 31, 2019 and 77.22% at March 31, 2019. Cash and cash equivalents totaled $122.30 million at March 31, 2020 compared to $83.37 million at December 31, 2019 and $67.68 million at March 31, 2019. At March 31, 2020, the Consolidated Statements of Financial Condition was rate sensitive by $224.39 million more assets than liabilities scheduled to reprice within one year, or approximately 1.08%. 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 $657 million.

RESULTS OF OPERATIONS

Net income available to common shareholders for the three month period ended March 31, 2020 was $16.41 million, compared to $22.20 million for the same period in 2019. Diluted net income per common share was $0.64 for the three month period ended March 31, 2020, compared to $0.86 for the same period in 2019. Return on average common shareholders’ equity was 7.81% for the three months ended March 31, 2020, compared to 11.61% in 2019. The return on total average assets was 1.00% for the three months ended March 31, 2020, compared to 1.43% in 2019.

Net income decreased for the three months ended March 31, 2020 compared to the first three months of 2019. Noninterest income increased which was offset by an increase in the provision for loan and lease losses and 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, 2020			December 31, 2019			March 31, 2019		
(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	$ 973,421	$ 5,550	2.29 %	$ 982,839	$ 5,189	2.09 %	$ 909,422	$ 5,515	2.46 %
Tax-exempt (1)	57,219	325	2.28 %	62,078	365	2.33 %	78,171	472	2.45 %
Mortgages held for sale	11,294	96	3.42 %	21,489	192	3.54 %	8,826	101	4.64 %
Loans and leases, net of unearned discount (1)	5,098,397	61,520	4.85 %	5,046,639	63,159	4.97 %	4,858,183	62,677	5.23 %
Other investments	41,463	346	3.36 %	145,893	798	2.17 %	42,095	438	4.22 %
Total earning assets (1)	6,181,794	67,837	4.41 %	6,258,938	69,703	4.42 %	5,896,697	69,203	4.76 %
Cash and due from banks	65,407			73,438			63,886		
Reserve for loan and lease losses	(112,239)			(110,209)			(101,697)		
Other assets	476,159			486,308			431,500		
Total assets	$ 6,611,121			$ 6,708,475			$ 6,290,386		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing deposits	$ 4,076,270	$ 10,851	1.07 %	$ 4,170,250	$ 12,523	1.19 %	$ 3,934,921	$ 11,470	1.18 %
Short-term borrowings	202,545	254	0.50 %	183,244	170	0.37 %	251,379	931	1.50 %
Subordinated notes	58,764	884	6.05 %	58,764	907	6.12 %	58,764	928	6.40 %
Long-term debt and mandatorily redeemable securities	77,973	853	4.40 %	71,428	647	3.59 %	70,481	744	4.28 %
Total interest-bearing liabilities	4,415,552	12,842	1.17 %	4,483,686	14,247	1.26 %	4,315,545	14,073	1.32 %
Noninterest-bearing deposits	1,196,106			1,244,173			1,124,441		
Other liabilities	131,858			136,169			73,183		
Shareholders' equity	844,724			824,361			775,657		
Noncontrolling interests	22,881			20,086			1,560		
Total liabilities and equity	$ 6,611,121			$ 6,708,475			$ 6,290,386		
Less: Fully tax-equivalent adjustments		(151)			(160)			(182)	
Net interest income/margin (GAAP-derived) (1)		$ 54,844	3.57 %		$ 55,296	3.51 %		$ 54,948	3.78 %
Fully tax-equivalent adjustments		151			160			182	
Net interest income/margin - FTE (1)		$ 54,995	3.58 %		$ 55,456	3.52 %		$ 55,130	3.79 %

(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, 2020 compared to the Quarter Ended March 31, 2019

The taxable-equivalent net interest income for the three months ended March 31, 2020 was $55.00 million, a decrease of 0.24% over the same period in 2019. The net interest margin on a fully taxable-equivalent basis was 3.58% for the three months ended March 31, 2020, compared to 3.79% for the three months ended March 31, 2019.

During the three month period ended March 31, 2020, average earning assets increased $285.10 million, up 4.83% over the comparable period in 2019. Average interest-bearing liabilities increased $100.01 million or 2.32%. The yield on average earning assets decreased 35 basis points to 4.41% from 4.76% primarily due to lower rates on loans and leases and investment securities. Total cost of average interest-bearing liabilities decreased 15 basis points to 1.17% from 1.32% as a result of a lower interest rate environment during 2020. The result to the net interest margin, or the ratio of net interest income to average earning assets, was a decrease of 21 basis points.

The largest contributor to the reduced yield on average earning assets for the three months ended March 31, 2020, compared to the three months ended March 31, 2019, was a decrease in yields on net loans and leases of 38 basis points primarily due to market conditions as a result of several Federal Reserve interest rate decreases during the second half of 2019 and first three months of 2020. The yield on net loans and leases was also positively impacted by one basis point due to net interest recoveries of $0.09 million in the first quarter of 2020 vs. net interest recoveries of $0.08 million in the first quarter of 2019. Average net loans and leases increased $240.21 million or 4.94% with the largest increases occurring within the construction equipment and commercial real estate portfolios as a result of market demand. Total average investment securities increased $43.05 million or 4.36%. Average mortgages held for sale increased $2.47 million or 27.96%. Average other investments, which include federal funds sold, time deposits with other banks, Federal Reserve Bank excess balances, Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock and commercial paper decreased $0.63 million or 1.50% from the first quarter of 2019.

Average interest-bearing deposits increased $141.35 million or 3.59% for the first quarter of 2020 over the same period in 2019 primarily due to organic customer growth. The effective rate paid on average interest-bearing deposits decreased 11 basis points to 1.07% from 1.18%. The decrease in the average cost of interest-bearing deposits was primarily the result of lower rates and a shift in the deposit mix from the first quarter of 2019.

Average short-term borrowings decreased $48.83 million or 19.43% for the first quarter of 2020 compared to the same period in 2019. Interest paid on short-term borrowings decreased 100 basis points. Interest paid on subordinated notes decreased 35 basis points during the first quarter of 2020 from the same period a year ago due to a variable rate on one traunche. Average long-term debt and mandatorily redeemable securities balances increased $7.49 million or 10.63%. Interest paid on long-term debt and mandatorily redeemable securities increased 12 basis points during the first quarter of 2020 from the same period in 2019 primarily due to higher rates on mandatorily redeemable securities.

Reconciliation of Non-GAAP Financial Measures

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

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

		Three Months Ended		
(Dollars in thousands)		**March 31, 2020**	**December 31, 2019**	**March 31, 2019**
Calculation of Net Interest Margin				
(A)	Interest income (GAAP)	$ 67,686	$ 69,543	$ 69,021
	Fully tax-equivalent adjustments:			
(B)	- Loans and leases	90	92	95
(C)	- Tax-exempt investment securities	61	68	87
(D)	Interest income - FTE (A+B+C)	67,837	69,703	69,203
(E)	Interest expense (GAAP)	12,842	14,247	14,073
(F)	Net interest income (GAAP) (A–E)	54,844	55,296	54,948
(G)	Net interest income - FTE (D–E)	54,995	55,456	55,130
(H)	Annualization factor	4.022	3.967	4.056
(I)	Total earning assets	$ 6,181,794	$ 6,258,938	$ 5,896,697
	Net interest margin (GAAP-derived) (F*H)/I	3.57 %	3.51 %	3.78 %
	Net interest margin - FTE (G*H)/I	3.58 %	3.52 %	3.79 %

PROVISION AND RESERVE FOR LOAN AND LEASE LOSSES

The provision for loan and lease losses for the three months ended March 31, 2020 was $11.35 million compared to a provision for loan and lease losses in the three months ended March 31, 2019 of $4.92 million. Net charge-offs of $1.81 million or 0.14% of average loans and leases were recorded for the first quarter 2020, compared to net charge-offs of $3.54 million or 0.30% of average loans and leases for the same quarter a year ago.

The provision for the three months ended March 31, 2020 was principally driven by increases in special attention outstandings and exposures in special attention credits. In addition, increased uncertainty in the loan portfolio and in specific portfolio segments related to COVID-19 concerns and a charge-off in the construction equipment portfolio contributed to the higher provision, as well as to support loan growth during the quarter. Loan outstandings went up by $44 million in the first quarter. There were 29 accounts greater than $100,000 downgraded to special attention this quarter compared to 40 accounts for all of 2019. The largest was unrelated to COVID-19, a construction equipment relationship for which we also have a sizeable impairment. COVID-19 related downgrades to special attention included a total of 26 accounts aggregating $12.33 million, of which 15 accounts aggregating $11.88 million were greater than $100,000. Most of these customers were granted payment deferrals. The initial wave of customers experiencing difficulties related to shutdowns imposed to reduce the spread of the coronavirus were primarily in the transportation and hospitality industries.

We continue to evaluate risks which may impact our loan portfolios. As a result of the coronavirus pandemic and resultant business shutdowns and unemployment spikes, we reviewed our loan portfolio segments, assessing the likely impact of COVID-19 on each segment and established specific qualitative adjustment factors. We remain concerned that geopolitical events, particularly in the aftermath of the pandemic, will have the potential to further negatively impact the U.S. economy. Current concerns include slower growth projections for world economies and the sharp decline in global trade growth exacerbated by trade supply concerns raised during the pandemic and ongoing tariff disputes, particularly between China and the U.S. Political uncertainty continues in Latin America, with ongoing corruption scandals, fueling U.S. border concerns. Concerns continue to be heightened globally due to actual and potential terrorist attacks.

Another area of concern continues to be our aircraft portfolio where we have a collateral concentration and $177 million in foreign exposure. The majority of our foreign exposure is in Mexico and Brazil. As we ended 2019, the Brazilian economy was on a path of gradual improvement and Mexico’s economy, although stronger, was beginning to exhibit some weaknesses. Now, in light of the pandemic, both are projected to contract in 2020. We continue to monitor individual customer performance and assess risks in the portfolio as a whole.

On March 31, 2020, 30 day and over loan and lease delinquencies as a percentage of loan and lease outstandings were 0.24%, compared to 0.31% on March 31, 2019. The reserve for loan and lease losses as a percentage of loans and leases outstanding at the end of the period was 2.35% compared to 2.07% one year ago. The increase in the reserve as a percent of loans and leases outstanding was primarily due to higher special attention loan outstanding balances and qualitative adjustment factors related to COVID-19 concerns. A summary of loan and lease loss experience during the three months ended March 31, 2020 and 2019 is located in Note 5 of the Consolidated Financial Statements.

A loan or lease is considered impaired, based on current information and events, if it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan or lease agreement. We evaluate loans and leases exceeding $100,000 for impairment and establish a specific reserve as a component of the reserve for loan and lease losses when it is probable all amounts due will not be collected pursuant to the contractual terms of the loan or lease and the recorded investment in the loan or lease exceeds its fair value. A summary of impaired loans as of March 31, 2020 and December 31, 2019 is reflected in Note 4 of the Consolidated Financial Statements.

Current Expected Credit Losses (CECL)

As permitted by the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act), we opted to delay adoption of CECL until the earlier of the end of the coronavirus national emergency or December 31, 2020. We will recognize a one-time cumulative effect adjustment through retained earnings of $2.58 million to increase the allowance for credit losses as of January 1, 2020. As of March 31, 2020, we estimate an additional increase to the allowance for credit losses of between $2 million and $10 million which will be recognized through earnings after adoption. We believe that as of March 31, 2020, a sizeable forecast adjustment is necessary as well as qualitative factor adjustments for portfolio segments most severely impacted by the COVID-19 business shutdowns. Given the shelter in place orders, resultant business shutdowns and skyrocketing unemployment, we project the next twelve-month period as the most adverse and applied a more severe forecast adjustment. Furthermore, we reviewed portfolio segments on a granular level, adjusting for greater loss potential in segments immediately impacted such as transportation and hospitality, as evidenced by deferral requests. Additionally, the forecast factor adjustment and the life of loan methodology have a more significant impact on longer duration portfolios.

NONPERFORMING ASSETS

The following table shows nonperforming assets.

(Dollars in thousands)		March 31, 2020		December 31, 2019		March 31, 2019
Loans and leases past due 90 days or more	$	191	$	309	$	178
Nonaccrual loans and leases		26,301		9,789		13,622
Other real estate		362		522		417
Repossessions		9,020		8,623		10,411
Equipment owned under operating leases		—		—		64
Total nonperforming assets	$	35,874	$	19,243	$	24,692

Nonperforming assets as a percentage of loans and leases were 0.68% at March 31, 2020, 0.37% at December 31, 2019, and 0.49% at March 31, 2019. Nonperforming assets totaled $35.87 million at March 31, 2020, an increase of 86.43% from the $19.24 million reported at December 31, 2019, and a 45.29% increase from the $24.69 million reported at March 31, 2019. The increase in nonperforming assets during the first three months of 2020 was related to higher nonaccrual loans and leases. The increase in nonperforming assets at March 31, 2020 from March 31, 2019 also occurred primarily in nonaccrual loans and leases.

The increase in nonaccrual loans and leases at March 31, 2020 from December 31, 2019 occurred primarily in the construction equipment, commercial and agricultural and aircraft portfolios. During the first quarter of 2020, one relationship of $14.95 million primarily within the construction equipment portfolio went into nonaccrual. The increase in nonaccrual loans and leases at March 31, 2020 from March 31, 2019 occurred primarily in the construction equipment, medium and heavy duty truck and aircraft portfolios offset by a decrease in the auto and light truck portfolio. A summary of nonaccrual loans and leases and past due aging for the period ended March 31, 2020 and December 31, 2019 is located in Note 4 of the Consolidated Financial Statements.

Other real estate is the result of foreclosing on real estate in the local market for which we have a current appraisal and are well secured. Other real estate increased over the past year due to current foreclosures outpacing sales of existing properties.

Repossessions consisted mainly of aircraft and auto and light trucks. 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 reserve for loan and lease losses or other income, if a positive adjustment, unless the equipment is in the process of immediate sale. Any subsequent fair value write-downs or write-ups, to the extent of previous write-downs, are included in noninterest expense.

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

(Dollars in thousands)		March 31, 2020		December 31, 2019		March 31, 2019
Commercial and agricultural	$	—	$	—	$	22
Auto and light truck		1,165		1,865		5,293
Medium and heavy duty truck		—		—		—
Aircraft		7,808		6,707		4,400
Construction equipment		35		35		603
Commercial real estate		303		303		—
Residential real estate and home equity		59		219		417
Consumer		12		16		93
Total	$	9,382	$	9,145	$	10,828

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.

	Three Months Ended March 31,			
(Dollars in thousands)	2020	2019	$ Change	% Change
Noninterest income:				
Trust and wealth advisory	$ 4,848	$ 4,858	(10)	(0.21)%
Service charges on deposit accounts	2,605	2,498	107	4.28 %
Debit card	3,373	3,220	153	4.75 %
Mortgage banking	2,336	936	1,400	NM
Insurance commissions	1,881	2,174	(293)	(13.48)%
Equipment rental	6,630	7,982	(1,352)	(16.94)%
Gains on investment securities available-for-sale	280	—	280	NM
Other	2,669	2,456	213	8.67 %
Total noninterest income	$ 24,622	$ 24,124	498	2.06 %

NM = Not Meaningful

Trust and wealth advisory fees (which include investment management fees, estate administration fees, mutual fund fees, annuity fees, and fiduciary fees) were flat during the three months ended March 31, 2020 compared with the same period a year ago. Trust and wealth advisory fees are largely based on the number and size of client relationships and the market value of assets under management. The market value of trust assets under management at March 31, 2020, December 31, 2019, and March 31, 2019 was $3.78 billion, $4.48 billion, and $4.18 billion, respectively. The decrease in assets under management as of March 31, 2020 was the result of market changes during the end of the quarter.

Service charges on deposit accounts increased for the three months ended March 31, 2020 over the comparable period in 2019. The increase in service charges on deposit accounts primarily reflects a higher volume of nonsufficient fund transactions and increased business deposit account fees.

Debit card income improved in the three months ended March 31, 2020 over the same period a year ago. The majority of the improvement in debit card income was the result of an increased volume of debit card transactions in 2020.

Mortgage banking income increased in the three months ended March 31, 2020 as compared to the same period in 2019. The increase was primarily caused by increased gains on a higher volume of loan sales as a result of more loans originated for the secondary market offset by higher mortgage servicing amortization expense.

Insurance commissions were lower during the three months ended March 31, 2020 over the same period a year ago. The decrease in insurance commissions was primarily due to a reduction in contingent commissions received.

Equipment rental income decreased for the three months ended March 31, 2020 over the comparable period in 2019. The decrease was the result of reduced leasing volume primarily in the construction equipment and auto and light truck portfolios resulting in the average equipment rental portfolio decreasing by 16.80% over the same period a year ago.

Gains on investment securities available-for-sale during the three months ended March 31, 2019 were primarily from the sale of corporate securities in managing portfolio risk.

Other income increased for the three months ended March 31, 2020 over the comparable periods in 2019. The increase was primarily a result of higher partnership investment gains and increased brokerage fees and commissions offset by lower customer swap fees.

NONINTEREST EXPENSE

The following table shows the details of noninterest expense.

(Dollars in thousands)	Three Months Ended March 31, 2020	2019	$ Change	% Change
Noninterest expense:				
Salaries and employee benefits	$ 24,401	$ 23,495	906	3.86 %
Net occupancy	2,721	2,772	(51)	(1.84)%
Furniture and equipment	6,407	6,024	383	6.36 %
Depreciation – leased equipment	5,427	6,524	(1,097)	(16.81)%
Professional fees	1,442	1,598	(156)	(9.76)%
Supplies and communication	1,634	1,493	141	9.44 %
FDIC and other insurance	288	645	(357)	(55.35)%
Business development and marketing	1,359	949	410	43.20 %
Loan and lease collection and repossession	763	1,361	(598)	(43.94)%
Other	2,093	343	1,750	NM
Total noninterest expense	$ 46,535	$ 45,204	1,331	2.94 %

NM = Not Meaningful

Salaries and employee benefits increased during the three months ended March 31, 2020 compared to the same period in 2019. The increase was mainly due to higher base salaries as a result of normal merit increases and a slight increase in staffing levels along with a rise in group insurance claims offset by a decrease in incentive compensation as compared to the same period in 2019.

Net occupancy expense decreased during the three months ended March 31, 2020 compared to the same period a year ago. The decrease for 2020 was primarily attributable to lower repair and utility expenses and reduced snow removal costs offset by higher building depreciation.

Furniture and equipment expense, including depreciation, increased during the three months ended March 31, 2020 compared to the same period a year ago. Furniture and equipment expense was higher in 2020 mainly due to higher computer processing charges and increased software maintenance costs offset by a reduction in equipment depreciation.

Depreciation on leased equipment decreased for the three months ended March 31, 2020 compared to the same period in 2019. Depreciation on leased equipment correlates with the decrease in equipment rental income.

Professional fees decreased during the first quarter of 2020 compared to the same period a year ago. The decrease was mainly due to lower legal fees and reduced utilization of consulting services offset by an increase in board of director fees.

Supplies and communication increased during the first quarter of 2020 compared to the same period a year ago. The increase resulted primarily from higher postage and shipping expenses.

FDIC and other insurance was lower during the three months ended March 31, 2020 compared to the same period in 2019. The decrease in 2020 was mainly due to $0.45 million in FDIC insurance premium credits received in the first quarter of 2020.

Business development and marketing expense increased during the first quarter of 2020 compared to the same period a year ago. The increase during the first quarter was due to higher marketing promotions compared to the first quarter of 2019.

Loan and lease collection and repossession expense decreased during the first quarter 2020 compared to the same period in 2019. The decrease was mainly due to fewer valuation adjustments on repossessed assets offset by reduced gains on the sale of repossessed assets.

Other expenses increased during the three months ended March 31, 2020 compared to the same period in 2019. During the first three months of 2020, reduced gains on the sale of fixed assets, a higher provision for interest rate swaps with customers and an increase in the provision for unfunded loan commitments were offset by higher gains on the sale of operating lease equipment.

INCOME TAXES

The provision for income taxes for the three month period ended March 31, 2020 was $5.16 million, compared to $6.75 million for the same period in 2019. The effective tax rate was 23.91% and 23.33% for the quarter ended March 31, 2020 and 2019, respectively. The effective tax rate was slightly higher in 2020 compared to 2019 due to higher combined state taxes in 2020.

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, 2019. For information regarding our market risk, refer to 1st Source's Annual Report on Form 10-K for the year ended December 31, 2019.

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, 2020, 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 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.

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

ITEM 1A. Risk Factors.

1st Source has made the following addition to the risk factors disclosed in Item 1A of Part 1 of its Annual Report on Form 10-K for the year ended December 31, 2019.

We may be adversely affected by the world-wide coronavirus (COVID-19) pandemic.

The coronavirus (COVID-19) outbreak may have an adverse impact on certain of our customers directly or indirectly. Entire industries within our loan and lease portfolio such as motor coach, shuttle bus and auto rental have been impacted due to reduced demand related to quarantines and travel restrictions. Other industries within our loan and lease portfolio or the communities we serve are likely to experience similar disruptions and economic hardships as the current coronavirus pandemic persists. In addition, such events could affect the stability of our deposit base, lead to mass layoffs and furloughs which could impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, result in lost revenue or cause us to incur additional expenses.

Additionally, the Federal Reserve has reduced interest rates substantially in an attempt to boost consumer spending due to the coronavirus pandemic which could have a sustained negative impact on our results of operations. The U.S. Congress has also passed a massive stimulus package (the "Coronavirus Aid, Relief, and Economic Security Act") intended to provide relief to consumers and small businesses however the effectiveness of this package could be disrupted by operational challenges in successfully implementing all of its provisions in a timely manner and could ultimately prove to be insufficient in scale.

Although we maintain contingency and disaster recovery plans for pandemic outbreaks, we created a dedicated executive COVID-19 response team that is closely monitoring developments and providing guidance for additional precautions and initiatives. We have established separate teams within departments to help ensure that infection will not spread across entire departments. We are encouraging virtual meetings and conference calls in place of in-person meetings, including our annual shareholder meeting which will be held virtually this year. Employees with health conditions putting them at higher risk of adverse effects from coronavirus infection are working remotely. Additionally, travel has been restricted. We are promoting social distancing, frequent hand washing and thorough disinfection of all surfaces. Our banking center lobbies have been closed except for advance appointments only. Banking center drive-ups, ATMs and online/mobile banking services continue to operate.

Even with precautions, the continued spread or prolonged impact of the coronavirus could negatively impact the availability of key personnel or significant numbers of our staff, who are necessary to conduct our business. Such a spread or outbreak could also impact the business and operations of third party service providers who perform critical services for our business. If the coronavirus spreads or the containment and mitigation response is unsuccessful for a prolonged period of time, we could experience a material adverse effect on our business, financial condition, and results of operations.

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, 2020	—	$ —	—	859,374
February 01 - 29, 2020	—	—	—	859,374
March 01 - 31, 2020	—	—	—	859,374

* 1st Source maintains a stock repurchase plan that was authorized by the Board of Directors on July 24, 2014. Under the terms of the plan, 1st Source may repurchase up to 2,000,000 shares of its common stock from time to time to mitigate the potential dilutive effects of stock-based incentive plans and other potential uses of common stock for corporate purposes. Since the inception of the plan, 1st Source has repurchased a total of 1,140,626 shares.

ITEM 3. Defaults Upon Senior Securities.

None

ITEM 4. Mine Safety Disclosures.

None

ITEM 5. Other Information.

None

ITEM 6. Exhibits

The following exhibits are filed with this report:

3(b)	By-Laws of Registrant, as amended March 20, 2020, filed herewith.
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	April 23, 2020	/s/ CHRISTOPHER J. MURPHY III
		Christopher J. Murphy III Chairman of the Board and CEO
DATE	April 23, 2020	/s/ ANDREA G. SHORT
		Andrea G. Short Treasurer and Chief Financial Officer Principal Accounting Officer

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Section 2: EX-3.B (EX-3.B BYLAWS)

BYLAWS OF 1ST SOURCE CORPORATION

AMENDED BY DIRECTORS
March 20, 2020.

ARTICLE 1
NAME AND REGISTERED OFFICE

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

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

ARTICLE 2
SHARES

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

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

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

ARTICLE 3
SHAREHOLDERS

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

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

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

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

Section 3.5 Notice of Meetings. A notice stating the date, time and place of the meeting, and, in the case of a special meeting or when otherwise required by any provision of the Indiana Business Corporation Law (the "Act"), the Articles or the Bylaws, the purpose or purposes for which the meeting is called, shall be delivered or mailed to each Shareholder entitled to vote or otherwise entitled to notice under the Act, at the address which appears on the records of the Corporation, or shall be given orally in person or by telephone, at least ten (10) days but not more than sixty (60) days before the date of the meeting.

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

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

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

Section 3.9 Voting List. The Secretary of the Corporation shall make a complete list of the Shareholders entitled to notice of each meeting, arranged in alphabetical order by voting group (and within each voting group by class or series of shares), with the address and number of shares held by each, which list shall be on file at the principal office of the Corporation, or at a place identified in the meeting notice in the city where the meeting will be held, and subject to inspection by any Shareholder or the Shareholder’s duly authorized attorney-in-fact on written demand at any time during regular business hours for a period of five (5) business days before the meeting. The list shall be produced at the meeting and subject to inspection by any Shareholder or the Shareholder's duly authorized attorney-in-fact during the meeting or any adjournment. The original stock register or transfer book, or a duplicate kept in the State of Indiana, shall be the only evidence as to who are the Shareholders entitled to examine the list, or to notice of or to vote at any meeting of Shareholders.

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

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

ARTICLE 4
BOARD OF DIRECTORS

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

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

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

(1) Be active in the nominee's chosen business, occupation or profession; and

(2) Be in such health as permits active participation as a member of the Board; and

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

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

Section 4.3 Retirement. Any Director who is not a current or former officer of the Corporation or any subsidiary and becomes 72 years of age during his/her term of office shall resign as a Director prior to the next annual meeting of shareholders, provided, however, that the Board or authorized committee may waive such requirement upon a determination that such Director's continued service through a portion or all of the remainder of his/her term of office is in the best interests of the Corporation.

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

Section 4.5 Meetings. Regular meetings of the Board may be held with or without notice of the date, time, place or purpose of the meeting. Special meetings of the Board may be called at any time by the Chairman of the Board of Directors, the Lead Director, the Vice-Chairman of the Board of Directors, the Chief Executive Officer, or by the President, and shall be called on request of not less than a majority of the members of the Board or on request of the Executive Committee. Notice of a special meeting shall be sent by the person or persons calling the meeting to each Director at the Director's residence or usual place of business by letter sent by first class United States mail, postage prepaid, or private carrier service, or by electronic mail, text message or other form of wire or wireless communication, and shall be effective if received on or before the day of the meeting or five (5) days after sending; or may be personally delivered or given orally to a Director in person or by telephone at any time on or before the day of the meeting. A Director may waive any required notice before or after the date and time stated in the notice. Except as provided in the next sentence, the waiver must be in writing, signed by the Director entitled to the notice, and filed with the minutes or corporate records. A Director's attendance at or participation in a meeting waives any required notice to the Director of the meeting unless the Director at the beginning of the meeting or promptly upon the Director's arrival objects to holding the meeting or transacting business at the meeting and does not vote for or assent to action taken at the meeting.

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

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

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

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

Section 4.10 Resignations. Any Director may resign at any time by giving written notice to the Board, the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary. Such resignation shall take effect when delivered unless the notice specifies a later effective date or an effective date determined upon the happening of an event. An incumbent director standing for re-election shall promptly tender his or her resignation for consideration by the Board or designated Committee of the Board in the event he or she does not receive sufficient votes to be re-elected in an election of directors but otherwise remains in office because no successor nominee was elected. The Board shall consider whether to accept, reject, or take other action with respect to such resignation. It shall disclose its decision within ninety (90) days from the date of certification of the election results. It shall also disclose its rationale in the event its decision is to reject the resignation or otherwise authorize the incumbent director to continue in office. The incumbent director shall not participate in the Board's decision on his or her resignation.

Section 4.11 Removal. Any Director may be removed, either with or without cause, at any meeting of the Shareholders or Directors called for that purpose if the meeting notice states that the purpose or one of the purposes of the meeting is removal of the Director and if the number of votes cast to remove the Director exceeds the number of votes cast not to remove the Director. If the removal occurs at a meeting of the Shareholders and the notice so provides, the vacancy caused by the removal may be filled at the meeting by vote of the holders of a majority of the outstanding shares present and entitled to vote for the election of Directors.

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

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

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

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

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

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

ARTICLE 5
OFFICERS

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

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

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

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

Section 5.5 Vacancies. Whenever a vacancy occurs in any office by reason of death, resignation, removal, increase in the number of officers of the Corporation, or otherwise, it shall be filled by the Board, and the Officer so chosen shall hold office during the remainder of the predecessor’s term or as otherwise provided in these Bylaws. Assistant Officers may be designated to fill vacancies in the manner provided in Section 5.12 of these Bylaws.

Section 5.6 Chairman of the Board of Directors. The Chairman of the Board of Directors shall be a Director. The Chairman shall preside at all meetings of the

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

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

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

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

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

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

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

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

ARTICLE 6
INDEMNIFICATION

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

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

(1) The person furnishes the Corporation a written affirmation of the person’s good faith belief that the person has met the standard of conduct specified in 6.4 below;

(2) The person furnishes the Corporation an unlimited general written undertaking, executed personally or on the person’s behalf, to repay the advance if it is ultimately determined that the person did not meet such standard of conduct; and

(3) A determination is made in the manner specified in 6.3 below that the facts then known to those making the determination would not preclude indemnification under 6.1 above.

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

(1) By the Board of Directors by majority vote of a quorum consisting of Directors not at the time Parties to the Proceeding as to which indemnification or advancement of expenses is at issue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ARTICLE 7
CONFLICT OF INTEREST TRANSACTIONS

Section 7.1 Conflict of Interest Transactions. No contract or transaction between the Corporation and one or more of its Directors, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors, officers, trustees, or general partners are Directors of this Corporation, or in which any Director of the Corporation has a material financial interest, shall be void or voidable solely for this reason, or solely because the Director is present at or participates in the meeting of the Board or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if:

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

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

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

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

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

ARTICLE 8
GENERAL PROVISIONS

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

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

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

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Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION

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

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

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 23, 2020

/s/ CHRISTOPHER J. MURPHY III

Christopher J. Murphy III
Chief Executive Officer

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Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION

I, Andrea G. Short, Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of 1st Source Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 23, 2020

/s/ ANDREA G. SHORT

Andrea G. Short

Chief Financial Officer

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Section 5: EX-32.1 (EX-32.1)

Exhibit 32.1

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

In connection with the Quarterly Report of 1st Source Corporation (1st Source) on Form 10-Q for the quarterly period ended March 31, 2020, 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 23, 2020

/s/ CHRISTOPHER J. MURPHY III

Christopher J. Murphy III

Chief Executive Officer

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Section 6: EX-32.2 (EX-32.2)

Exhibit 32.2

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

In connection with the Quarterly Report of 1st Source Corporation (1st Source) on Form 10-Q for the quarterly period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Andrea G. Short, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of sections 13(a) or 15(d) of the Securities and Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of 1st Source.

Date: April 23, 2020

/s/ ANDREA G. SHORT
Andrea G. Short
Chief Financial Officer

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