

GERMAN AMERICAN BANCORP, INC.  
Form 10-Q  
November 09, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 2016

Commission File Number 001-15877

German American Bancorp, Inc.  
(Exact name of registrant as specified in its charter)  
Indiana 35-1547518  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

711 Main Street, Jasper, Indiana 47546  
(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: (812) 482-1314

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 1, 2016
Common Shares, no par value	15,257,849

CAUTION REGARDING FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

Information included in or incorporated by reference in this Quarterly Report on Form 10-Q, our other filings with the Securities and Exchange Commission (the “SEC”) and our press releases or other public statements, contains or may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to the discussions of our forward-looking statements and associated risks in our Annual Report on Form 10-K for the year ended December 31, 2015, in Item 1, “Business – Forward-Looking Statements and Associated Risks” and our discussion of risk factors in Item 1A, “Risk Factors” of that Annual Report on Form 10-K, as updated from time to time in our subsequent SEC filings, including by Item 2 of Part I of this Report (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”) at the conclusion of that Item 2 under the heading “Forward-Looking Statements and Associated Risks.”

\*\*\*\*\*

INDEX

PART I.	FINANCIAL INFORMATION	<u>4</u>
Item 1.	Unaudited Financial Statements	<u>4</u>
	Consolidated Balance Sheets – September 30, 2016 and December 31, 2015	<u>4</u>
	Consolidated Statements of Income – Three Months Ended September 30, 2016 and 2015	<u>5</u>
	Consolidated Statements of Income – Nine Months Ended September 30, 2016 and 2015	<u>6</u>
	Consolidated Statements of Comprehensive Income – Three and Nine Months Ended September 30, 2016 and 2015	<u>7</u>
	Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2016 and 2015	<u>8</u>
	Notes to Consolidated Financial Statements – September 30, 2016	<u>9</u>
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>38</u>
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	<u>50</u>
Item 4.	Controls and Procedures	<u>51</u>
PART II.	OTHER INFORMATION	<u>52</u>
Item 1.	Legal Proceedings	<u>52</u>
Item 1A.	Risk Factors	<u>52</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	<u>52</u>
Item 3.	Defaults Upon Senior Securities	<u>52</u>
Item 4.	Mine Safety Disclosures	<u>52</u>
Item 5.	Other Information	<u>52</u>
Item 6.	Exhibits	<u>52</u>
	SIGNATURES	<u>53</u>
	INDEX OF EXHIBITS	<u>54</u>

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## GERMAN AMERICAN BANCORP, INC.

## CONSOLIDATED BALANCE SHEETS

(unaudited, dollars in thousands except share and per share data)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and Due from Banks	\$ 38,329	\$ 36,062
Federal Funds Sold and Other Short-term Investments	16,455	15,947
Cash and Cash Equivalents	54,784	52,009
Interest-bearing Time Deposits with Banks	744	—
Securities Available-for-Sale, at Fair Value	732,911	637,840
Securities Held-to-Maturity, at Cost (Fair value of \$0 and \$95 on September 30, 2016 and December 31, 2015, respectively)	—	95
Loans Held-for-Sale, at Fair Value	12,967	10,762
Loans	2,006,090	1,568,075
Less: Unearned Income	(3,710)	(3,728)
Allowance for Loan Losses	(15,154)	(14,438)
Loans, Net	1,987,226	1,549,909
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,048	8,571
Premises, Furniture and Equipment, Net	48,074	37,817
Other Real Estate	355	169
Goodwill	53,671	20,536
Intangible Assets	3,096	1,283
Company Owned Life Insurance	46,343	32,732
Accrued Interest Receivable and Other Assets	26,321	21,978
<b>TOTAL ASSETS</b>	<b>\$ 2,979,540</b>	<b>\$ 2,373,701</b>
<b>LIABILITIES</b>		
Non-interest-bearing Demand Deposits	\$ 534,620	\$ 465,357
Interest-bearing Demand, Savings, and Money Market Accounts	1,361,522	1,054,983
Time Deposits	433,521	306,036
Total Deposits	2,329,663	1,826,376
FHLB Advances and Other Borrowings	279,110	273,323
Accrued Interest Payable and Other Liabilities	29,776	21,654
<b>TOTAL LIABILITIES</b>	<b>2,638,549</b>	<b>2,121,353</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred Stock, no par value; 500,000 shares authorized, no shares issued	—	—
Common Stock, no par value, \$1 stated value; 30,000,000 shares authorized	15,258	13,279
Additional Paid-in Capital	171,261	110,145
Retained Earnings	142,347	125,112
Accumulated Other Comprehensive Income	12,125	3,812
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>340,991</b>	<b>252,348</b>

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,979,540	\$ 2,373,701
End of period shares issued and outstanding	15,257,849	13,278,824

See accompanying notes to consolidated financial statements.

4

---

GERMAN AMERICAN BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited, dollars in thousands except per share data)

	Three Months Ended September 30,	
	2016	2015
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$22,311	\$16,702
Interest on Federal Funds Sold and Other Short-term Investments	25	3
Interest and Dividends on Securities:		
Taxable	2,491	2,176
Non-taxable	1,907	1,538
<b>TOTAL INTEREST INCOME</b>	<b>26,734</b>	<b>20,419</b>
<b>INTEREST EXPENSE</b>		
Interest on Deposits	1,323	987
Interest on FHLB Advances and Other Borrowings	851	573
<b>TOTAL INTEREST EXPENSE</b>	<b>2,174</b>	<b>1,560</b>
<b>NET INTEREST INCOME</b>	<b>24,560</b>	<b>18,859</b>
Provision for Loan Losses	—	(500 )
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>24,560</b>	<b>19,359</b>
<b>NON-INTEREST INCOME</b>		
Trust and Investment Product Fees	1,191	1,051
Service Charges on Deposit Accounts	1,612	1,237
Insurance Revenues	1,661	1,752
Company Owned Life Insurance	247	205
Interchange Fee Income	688	547
Other Operating Income	1,523	2,134
Net Gains on Sales of Loans	1,004	831
Net Gains on Securities	458	—
<b>TOTAL NON-INTEREST INCOME</b>	<b>8,384</b>	<b>7,757</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and Employee Benefits	10,572	8,998
Occupancy Expense	1,656	1,305
Furniture and Equipment Expense	568	456
FDIC Premiums	373	284
Data Processing Fees	1,261	901
Professional Fees	777	787
Advertising and Promotion	687	2,198
Intangible Amortization	280	183
Other Operating Expenses	2,479	1,854
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>18,653</b>	<b>16,966</b>
Income before Income Taxes	14,291	10,150
Income Tax Expense	4,106	2,429
<b>NET INCOME</b>	<b>\$10,185</b>	<b>\$7,721</b>

Basic Earnings per Share	\$0.67	\$0.58
Diluted Earnings per Share	\$0.67	\$0.58
Dividends per Share	\$0.18	\$0.17

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited, dollars in thousands except per share data)

	Nine Months Ended September 30,	
	2016	2015
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$63,645	\$49,538
Interest on Federal Funds Sold and Other Short-term Investments	62	10
Interest and Dividends on Securities:		
Taxable	7,055	6,830
Non-taxable	5,502	4,219
<b>TOTAL INTEREST INCOME</b>	<b>76,264</b>	<b>60,597</b>
<b>INTEREST EXPENSE</b>		
Interest on Deposits	3,804	3,002
Interest on FHLB Advances and Other Borrowings	2,445	1,481
<b>TOTAL INTEREST EXPENSE</b>	<b>6,249</b>	<b>4,483</b>
<b>NET INTEREST INCOME</b>	<b>70,015</b>	<b>56,114</b>
Provision for Loan Losses	1,200	—
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>68,815</b>	<b>56,114</b>
<b>NON-INTEREST INCOME</b>		
Trust and Investment Product Fees	3,435	2,974
Service Charges on Deposit Accounts	4,379	3,594
Insurance Revenues	5,993	5,812
Company Owned Life Insurance	709	617
Interchange Fee Income	1,824	1,593
Other Operating Income	3,283	3,341
Net Gains on Sales of Loans	2,607	2,364
Net Gains on Securities	1,426	725
<b>TOTAL NON-INTEREST INCOME</b>	<b>23,656</b>	<b>21,020</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and Employee Benefits	32,357	26,082
Occupancy Expense	4,649	3,732
Furniture and Equipment Expense	1,680	1,417
FDIC Premiums	1,040	850
Data Processing Fees	4,607	2,608
Professional Fees	2,875	2,073
Advertising and Promotion	1,860	3,125
Intangible Amortization	800	630
Other Operating Expenses	7,364	5,597
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>57,232</b>	<b>46,114</b>
Income before Income Taxes	35,239	31,020
Income Tax Expense	10,120	8,668
<b>NET INCOME</b>	<b>\$25,119</b>	<b>\$22,352</b>



Basic Earnings per Share	\$1.70	\$1.69
Diluted Earnings per Share	\$1.70	\$1.69
Dividends per Share	\$0.54	\$0.51

See accompanying notes to consolidated financial statements.

6

---

GERMAN AMERICAN BANCORP, INC.  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited, dollars in thousands)

	Three Months Ended September 30, 2016      2015	
NET INCOME	\$10,185	\$7,721
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	1,898	6,420
Reclassification Adjustment for Losses (Gains) Included in Net Income	(458	) —
Tax Effect	(510	) (2,259 )
Net of Tax	930	4,161
Total Other Comprehensive Income (Loss)	930	4,161
COMPREHENSIVE INCOME	\$11,115	\$11,882

	Nine Months Ended September 30, 2016      2015	
NET INCOME	\$25,119	\$22,352
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	14,241	3,333
Reclassification Adjustment for Losses (Gains) Included in Net Income	(1,426	) (725 )
Tax Effect	(4,502	) (914 )
Net of Tax	8,313	1,694
Total Other Comprehensive Income (Loss)	8,313	1,694
COMPREHENSIVE INCOME	\$33,432	\$24,046

See accompanying notes to consolidated financial statements.

7

---

GERMAN AMERICAN BANCORP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited, dollars in thousands)

	Nine Months Ended September 30,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$25,119	\$22,352
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	2,794	1,869
Depreciation and Amortization	3,366	3,254
Loans Originated for Sale	(95,244 )	(111,296)
Proceeds from Sales of Loans Held-for-Sale	95,765	113,472
Provision for Loan Losses	1,200	—
Gain on Sale of Loans, net	(2,607 )	(2,364 )
Gain on Securities, net	(1,426 )	(725 )
Loss (Gain) on Sales of Other Real Estate and Repossessed Assets	(95 )	53
Loss on Disposition and Donation of Premises and Equipment	5	389
Increase in Cash Surrender Value of Company Owned Life Insurance	(769 )	(454 )
Equity Based Compensation	796	737
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	4,805	2,278
Interest Payable and Other Liabilities	(911 )	(412 )
Net Cash from Operating Activities	32,798	29,153
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Other Short-term Investments	(1,000 )	—
Proceeds from Maturity of Other Short-term Investments	1,248	—
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	74,179	71,026
Proceeds from Sales of Securities Available-for-Sale	141,451	18,999
Purchase of Securities Available-for-Sale	(166,857)	(82,711 )
Proceeds from Maturities of Securities Held-to-Maturity	95	89
Purchase of Federal Home Loan Bank Stock	(1,350 )	(1,127 )
Purchase of Loans	(5,608 )	(1,852 )
Proceeds from Sales of Loans	1,063	—
Loans Made to Customers, net of Payments Received	(116,801)	(64,708 )
Proceeds from Sales of Other Real Estate	1,071	983
Property and Equipment Expenditures	(2,855 )	(886 )
Acquisition of River Valley Bancorp	(793 )	—
Net Cash from Investing Activities	(76,157 )	(60,187 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in Deposits	98,036	24,085
Change in Short-term Borrowings	(19,189 )	(1,993 )
Advances in Long-term Debt	—	75,000
Repayments of Long-term Debt	(24,883 )	(40,111 )
Issuance of Common Stock	54	52
Employee Stock Purchase Plan	—	447
Dividends Paid	(7,884 )	(6,754 )

Edgar Filing: GERMAN AMERICAN BANCORP, INC. - Form 10-Q

Net Cash from Financing Activities	46,134	50,726
Net Change in Cash and Cash Equivalents	2,775	19,692
Cash and Cash Equivalents at Beginning of Year	52,009	42,446
Cash and Cash Equivalents at End of Period	\$54,784	\$62,138
Cash Paid During the Year for		
Interest	\$6,201	\$4,610
Income Taxes	7,064	6,219
Supplemental Non Cash Disclosures (See Note 12 for Business Combination)		
Loans Transferred to Other Real Estate	\$55	\$804
See accompanying notes to consolidated financial statements.		

8

---

GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

NOTE 1 – Basis of Presentation

German American Bancorp, Inc. operates primarily in the banking industry. The accounting and reporting policies of German American Bancorp, Inc. and its subsidiaries (hereinafter collectively referred to as the "Company") conform to U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. It is suggested that these consolidated financial statements and notes be read in conjunction with the financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. Certain items included in the prior period financial statements were reclassified to conform to the current presentation. There was no effect on net income or total shareholders' equity based on these reclassifications.

NOTE 2 – Per Share Data

The computations of Basic Earnings per Share and Diluted Earnings per Share are as follows:

	Three Months Ended September 30, 2016    2015	
Basic Earnings per Share:		
Net Income	\$ 10,185	\$ 7,721
Weighted Average Shares Outstanding	15,257,811	13,265,893
Basic Earnings per Share	\$0.67	\$ 0.58
Diluted Earnings per Share:		
Net Income	\$ 10,185	\$ 7,721
Weighted Average Shares Outstanding	15,257,811	13,265,893
Potentially Dilutive Shares, Net	—	7,617
Diluted Weighted Average Shares Outstanding	15,257,811	13,273,510
Diluted Earnings per Share	\$0.67	\$ 0.58

For the three months ended September 30, 2016 and 2015, there were no anti-dilutive shares.

	Nine Months Ended September 30, 2016    2015	
Basic Earnings per Share:		
Net Income	\$ 25,119	\$ 22,352
Weighted Average Shares Outstanding	14,814,521	13,247,954
Basic Earnings per Share	\$ 1.70	\$ 1.69

Diluted Earnings per Share:		
Net Income	\$25,119	\$ 22,352
Weighted Average Shares Outstanding	14,814,521	13,247,954
Potentially Dilutive Shares, Net	1,759	7,556
Diluted Weighted Average Shares Outstanding	14,816,279	13,255,510
Diluted Earnings per Share	\$1.70	\$ 1.69

For the nine months ended September 30, 2016 and 2015, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

## NOTE 3 – Securities

The amortized cost, unrealized gross gains and losses recognized in accumulated other comprehensive income (loss), and fair value of Securities Available-for-Sale at September 30, 2016 and December 31, 2015, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016				
U.S. Treasury and Agency Securities	\$—	\$—	\$—	\$—
Obligations of State and Political Subdivisions	234,656	12,630	(76)	247,210
Mortgage-backed Securities - Residential	479,047	6,802	(501)	485,348
Equity Securities	353	—	—	353
Total	\$714,056	\$19,432	\$(577)	\$732,911
December 31, 2015				
U.S. Treasury and Agency Securities	\$10,000	\$—	\$(102)	\$9,898
Obligations of State and Political Subdivisions	195,360	8,286	(18)	203,628
Mortgage-backed Securities - Residential	426,087	2,114	(4,240)	423,961
Equity Securities	353	—	—	353
Total	\$631,800	\$10,400	\$(4,360)	\$637,840

Equity securities that do not have readily determinable fair values are included in the above totals, are carried at historical cost and are evaluated for impairment on a periodic basis. All mortgage-backed securities in the above table are residential mortgage-backed securities and guaranteed by government sponsored entities.

The carrying amount, unrecognized gains and losses and fair value of Securities Held-to-Maturity at September 30, 2016 and December 31, 2015, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 2016				
Obligations of State and Political Subdivisions	\$ —	\$ —	—\$	—\$ —
December 31, 2015				
Obligations of State and Political Subdivisions	\$ 95	\$ —	—\$	—\$ 95

The amortized cost and fair value of securities at September 30, 2016 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations with or without call or prepayment penalties. Mortgage-backed and Equity Securities are not due at a single maturity date and are shown separately in the table below.

Securities Available-for-Sale:	Amortized Cost	Fair Value
--------------------------------	----------------	------------



Due in one year or less	\$ 4,663	\$ 4,700
Due after one year through five years	16,432	17,282
Due after five years through ten years	71,210	75,651
Due after ten years	142,351	149,577
Mortgage-backed Securities - Residential	479,047	485,348
Equity Securities	353	353
Total	\$ 714,056	\$ 732,911

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2016  
(unaudited, dollars in thousands except share and per share data)

## NOTE 3 - Securities (continued)

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015
Proceeds from Sales	\$ 36,112	\$ —
Gross Gains on Sales	458	—
Income Taxes on Gross Gains	160	—
	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Proceeds from Sales	\$ 141,451	\$ 18,999
Gross Gains on Sales	1,426	725
Income Taxes on Gross Gains	499	254

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$202,808 and \$154,628 as of September 30, 2016 and December 31, 2015, respectively.

Below is a summary of securities with unrealized losses as of September 30, 2016 and December 31, 2015, presented by length of time the securities have been in a continuous unrealized loss position:

September 30, 2016	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	6,627	(76 )	—	—	6,627	(76 )
Mortgage-backed Securities - Residential	9,634	(6 )	51,066	(495 )	60,700	(501 )
Equity Securities	—	—	—	—	—	—
Total	\$ 16,261	\$ (82 )	\$ 51,066	\$ (495 )	\$ 67,327	\$ (577 )
December 31, 2015	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ 9,898	\$ (102 )	\$ 9,898	\$ (102 )
Obligations of State and Political Subdivisions	1,891	(15 )	356	(3 )	2,247	(18 )
Mortgage-backed Securities - Residential	150,427	(1,173 )	129,040	(3,067 )	279,467	(4,240 )
Equity Securities	—	—	—	—	—	—

Total \$152,318 \$ (1,188 ) \$139,294 \$ (3,172 ) \$291,612 \$ (4,360 )

Securities are written down to fair value when a decline in fair value is not considered temporary. In estimating other-than-temporary losses, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The Company does not intend to sell or expect to be required to sell these securities, and the decline in fair value is largely due to changes in market interest rates. Therefore, the Company does not consider these securities to be other-than-temporarily impaired. All mortgage-backed securities in the Company's portfolio are guaranteed by government sponsored entities, are investment grade, and are performing as expected.

GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

NOTE 4 – Derivatives

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of these interest rate swaps and the offsetting counterparty derivative instruments were \$68.3 million at September 30, 2016 and \$36.8 million at December 31, 2015. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions with independent counterparties with substantially matching terms. The agreements are considered stand alone derivatives and changes in the fair value of derivatives are reported in earnings as non-interest income.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Company's exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. There are provisions in the agreements with the counterparties that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed thresholds are collateralized. In addition, the Company minimizes credit risk through credit approvals, limits, and monitoring procedures.

The following table reflects the fair value hedges included in the Consolidated Balance Sheets as of:

	September 30, 2016		December 31, 2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$68,334	\$ 4,208	\$36,781	\$ 1,201
Included in Other Liabilities:				
Interest Rate Swaps	\$68,334	\$ 4,535	\$36,781	\$ 1,232

The following table presents the effect of derivative instruments on the Consolidated Statements of Income for the periods presented:

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest Rate Swaps:				
Included in Other Operating Income	\$670	\$179	\$828	\$344

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2016  
(unaudited, dollars in thousands except share and per share data)

## NOTE 5 – Loans

Loans were comprised of the following classifications at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Commercial:		
Commercial and Industrial Loans and Leases	\$ 469,255	\$ 418,154
Commercial Real Estate Loans	862,998	618,788
Agricultural Loans	299,080	246,886
Retail:		
Home Equity Loans	128,321	97,902
Consumer Loans	58,533	50,029
Residential Mortgage Loans	187,903	136,316
Subtotal	2,006,090	1,568,075
Less: Unearned Income	(3,710 )	(3,728 )
Allowance for Loan Losses	(15,154 )	(14,438 )
Loans, Net	\$ 1,987,226	\$ 1,549,909

As further described in Note 12, during 2016 the Company acquired loans with a fair value of \$317,760 as a part of a business combination. This was made up of loans with an acquired balance of \$328,431, net of \$10,671 of fair value discounts at date of acquisition. At September 30, 2016, the remaining carrying amount of such loans total \$280,027, which is included in the September 30, 2016 table above. This amount is made up of loans with a remaining balance of \$288,559 net of remaining fair value discounts of \$8,532.

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ended September 30, 2016 and 2015:

September 30, 2016	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 4,190	\$ 6,533	\$ 2,704	\$ 350	\$ 242	\$ 559	\$ 726	\$15,304
Provision for Loan Losses	(378 )	(1,111 )	1,408	20	119	(7 )	(51 )	—
Recoveries	1	2	—	1	59	2	—	65
Loans Charged-off	—	—	(10 )	(15 )	(173 )	(17 )	—	(215 )
Ending Balance	\$ 3,813	\$ 5,424	\$ 4,102	\$ 356	\$ 247	\$ 537	\$ 675	\$15,154

September 30, 2015	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 4,659	\$ 7,315	\$ 1,223	\$ 350	\$ 382	\$ 619	\$ 710	\$15,258

Edgar Filing: GERMAN AMERICAN BANCORP, INC. - Form 10-Q

Provision for Loan Losses	(337 )	(568 )	754	(41 )	(105 )	(172 )	(31 )	(500 )
Recoveries	16	30	—	2	39	3	—	90
Loans Charged-off	(5 )	—	—	(2 )	(71 )	—	—	(78 )
Ending Balance	\$ 4,333	\$ 6,777	\$ 1,977	\$ 309	\$ 245	\$ 450	\$ 679	\$14,770

13

---

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2016  
(unaudited, dollars in thousands except share and per share data)

## NOTE 5 - Loans (continued)

The following tables present the activity in the allowance for loan losses by portfolio class for the nine months ended September 30, 2016 and 2015:

September 30, 2016	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 4,242	\$ 6,342	\$ 2,115	\$ 383	\$ 230	\$ 414	\$ 712	\$ 14,438
Provision for Loan Losses	(453 )	(923 )	1,997	60	212	344	(37 )	1,200
Recoveries	29	5	—	2	147	11	—	194
Loans Charged-off	(5 )	—	(10 )	(89 )	(342 )	(232 )	—	(678 )
Ending Balance	\$ 3,813	\$ 5,424	\$ 4,102	\$ 356	\$ 247	\$ 537	\$ 675	\$ 15,154

  

September 30, 2015	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 4,627	\$ 7,273	\$ 1,123	\$ 246	\$ 354	\$ 622	\$ 684	\$ 14,929
Provision for Loan Losses	(350 )	(566 )	854	88	(65 )	44	(5 )	—
Recoveries	83	81	—	8	193	14	—	379
Loans Charged-off	(27 )	(11 )	—	(33 )	(237 )	(230 )	—	(538 )
Ending Balance	\$ 4,333	\$ 6,777	\$ 1,977	\$ 309	\$ 245	\$ 450	\$ 679	\$ 14,770

In determining the adequacy of the allowance for loan loss, general allocations are made for pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on historical averages for loan losses for these portfolios, judgmentally adjusted for current economic factors and portfolio trends. During 2016, the overall allowance for loan and lease losses was increased in the agricultural sector as a result of qualitative considerations for current economic conditions and trends which included a decline in the aggregate debt service coverage ratios for agricultural borrowers and a decline in per acre values of crop production real estate.

Loan impairment is reported when full repayment under the terms of the loan is not expected. This methodology is used for all loans, including loans acquired with deteriorated credit quality if such loans perform worse than what was expected at the time of acquisition. For purchased loans, the assessment is made at the time of acquisition as well as over the life of loan. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral if repayment is expected solely from the collateral. Commercial and industrial loans, commercial real estate loans, and agricultural loans are evaluated individually for impairment. Smaller balance homogeneous loans are evaluated for impairment in

total. Such loans include real estate loans secured by one-to-four family residences and loans to individuals for household, family and other personal expenditures. Individually evaluated loans on non-accrual are generally considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Specific allocations on impaired loans are determined by comparing the loan balance to the present value of expected cash flows or expected collateral proceeds. Allocations are also applied to categories of loans not considered individually impaired but for which the rate of loss is expected to be greater than historical averages, including non-performing consumer or residential real estate loans. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values. The allowance for commercial real estate loans declined during 2016 primarily as a result of the repayment of a single non-accrual commercial real estate credit during the third quarter of 2016. This credit relationship was considered impaired and therefore had a specific allocation assigned prior to repayment.



GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

NOTE 5 - Loans (continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of September 30, 2016 and December 31, 2015:

September 30, 2016	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
Allowance for Loan Losses:								
Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	\$411	\$86	\$325	\$—	\$—	\$—	\$—	\$—
Collectively Evaluated for Impairment	14,687	3,727	5,099	4,054	356	239	537	675
Acquired with Deteriorated Credit Quality	56	—	—	48	—	8	—	—
Total Ending Allowance Balance	\$15,154	\$3,813	\$5,424	\$4,102	\$356	\$247	\$537	\$675
Loans:								
Loans Individually Evaluated for Impairment	\$1,897	\$215	\$1,383	\$299	\$—	\$—	\$—	n/a <sup>(2)</sup>
Loans Collectively Evaluated for Impairment	2,000,022	467,244	856,974	301,953	128,742	58,665	186,444	n/a <sup>(2)</sup>
Loans Acquired with Deteriorated Credit Quality	12,084	2,922	6,514	702	—	53	1,893	n/a <sup>(2)</sup>
Total Ending Loans Balance <sup>(1)</sup>	\$2,014,003	\$470,381	\$864,871	\$302,954	\$128,742	\$58,718	\$188,337	n/a <sup>(2)</sup>

<sup>(1)</sup>Total recorded investment in loans includes \$7,913 in accrued interest.

<sup>(2)</sup>n/a = not applicable

December 31, 2015	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
-------------------	-------	--	------------------------------------	-----------------------	-------------------------	-------------------	----------------------------------	-------------

## Allowance for Loan

## Losses:

## Ending Allowance Balance

## Attributable to Loans:

Individually Evaluated for Impairment	\$ 1,202	\$ 106	\$ 1,096	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively Evaluated for Impairment	13,236	4,136	5,246	2,115	383	230	414	712
Acquired with Deteriorated Credit Quality	—	—	—	—	—	—	—	—
Total Ending Allowance Balance	\$ 14,438	\$ 4,242	\$ 6,342	\$ 2,115	\$ 383	\$ 230	\$ 414	\$ 712

## Loans:

Loans Individually Evaluated for Impairment	\$ 4,435	\$ 1,578	\$ 2,845	\$ 12	\$ —	\$ —	\$ —	n/a <sup>(2)</sup>
Loans Collectively Evaluated for Impairment	1,562,037	416,273	611,955	249,687	98,167	50,169	135,786	n/a <sup>(2)</sup>
Loans Acquired with Deteriorated Credit Quality	7,555	1,325	5,363	—	—	—	867	n/a <sup>(2)</sup>
Total Ending Loans Balance <sup>(1)</sup>	\$ 1,574,027	\$ 419,176	\$ 620,163	\$ 249,699	\$ 98,167	\$ 50,169	\$ 136,653	n/a <sup>(2)</sup>

<sup>(1)</sup>Total recorded investment in loans includes \$5,952 in accrued interest.

<sup>(2)</sup>n/a = not applicable

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2016  
(unaudited, dollars in thousands except share and per share data)

## NOTE 5 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans as of September 30, 2016 and December 31, 2015:

September 30, 2016	Unpaid Principal Balance <sup>(1)</sup>	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 173	\$ 114	\$ —
Commercial Real Estate Loans	2,495	1,068	—
Agricultural Loans	361	299	—
Subtotal	3,029	1,481	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	105	103	86
Commercial Real Estate Loans	1,100	1,093	325
Agricultural Loans	589	498	48
Subtotal	1,794	1,694	459
Total	\$ 4,823	\$ 3,175	\$ 459
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 2,201	\$ 780	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 589	\$ 498	\$ 48

<sup>(1)</sup> Unpaid Principal Balance is the remaining contractual payments gross of partial charge-offs.

December 31, 2015	Unpaid Principal Balance <sup>(1)</sup>	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 161	\$ 161	\$ —
Commercial Real Estate Loans	1,292	768	—
Agricultural Loans	12	12	—
Subtotal	1,465	941	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	1,403	1,417	106
Commercial Real Estate Loans	2,207	2,077	1,096
Agricultural Loans	—	—	—
Subtotal	3,610	3,494	1,202
Total	\$ 5,075	\$ 4,435	\$ 1,202
	\$ 528	\$ —	\$ —

Loans Acquired With Deteriorated Credit Quality With No Related Allowance  
Recorded (Included in the Total Above)

Loans Acquired With Deteriorated Credit Quality With An Additional Allowance      \$ —      \$ —      \$ —  
Recorded (Included in the Total Above)

<sup>(1)</sup> Unpaid Principal Balance is the remaining contractual payments gross of partial charge-offs.

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2016  
(unaudited, dollars in thousands except share and per share data)

## NOTE 5 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans for the three month periods ended September 30, 2016 and 2015:

September 30, 2016	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 194	\$ 1	\$ 1
Commercial Real Estate Loans	3,102	47	47
Agricultural Loans	373	—	—
Subtotal	3,669	48	48
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	108	—	—
Commercial Real Estate Loans	1,105	—	—
Agricultural Loans	589	—	—
Subtotal	1,802	—	—
Total	\$ 5,471	\$ 48	\$ 48
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 2,399	\$ 1	\$ 1
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 589	\$ —	\$ —
September 30, 2015	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 366	\$ 12	\$ 12
Commercial Real Estate Loans	1,008	11	11
Agricultural Loans	12	1	1
Subtotal	1,386	24	24
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	1,974	22	22
Commercial Real Estate Loans	3,067	2	1
Agricultural Loans	—	—	—
Subtotal	5,041	24	23
Total	\$ 6,427	\$ 48	\$ 47
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 127	\$ —	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ —	\$ —	\$ —



GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

## NOTE 5 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans for the nine month periods ended September 30, 2016 and 2015:

September 30, 2016	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 446	\$ 26	\$ 12
Commercial Real Estate Loans	3,745	71	51
Agricultural Loans	812	2	1
Subtotal	5,003	99	64
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	108	—	—
Commercial Real Estate Loans	1,834	2	—
Agricultural Loans	196	—	—
Subtotal	2,138	2	—
Total	\$ 7,141	\$ 101	\$ 64
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 2,272	\$ 14	\$ 4
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 717	\$ —	\$ —
September 30, 2015	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 471	\$ 24	\$ 24
Commercial Real Estate Loans	1,228	92	92
Agricultural Loans	8	1	1
Subtotal	1,707	117	117
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	1,821	68	68
Commercial Real Estate Loans	3,093	3	2
Agricultural Loans	—	—	—
Subtotal	4,914	71	70
Total	\$ 6,621	\$ 188	\$ 187
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 237	\$ —	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ —	\$ —	\$ —

All classes of loans, including loans acquired with deteriorated credit quality, are generally placed on non-accrual status when scheduled principal or interest payments are past due for 90 days or more or when the borrower's ability to repay becomes doubtful. For purchased loans, the determination is made at the time of acquisition as well as over the life of the loan. Uncollected accrued interest for each class of loans is reversed against income at the time a loan is placed on non-accrual. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. All classes of loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments



GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2016  
(unaudited, dollars in thousands except share and per share data)

## NOTE 5 - Loans (continued)

are reasonably assured. Loans are typically charged-off at 180 days past due, or earlier if deemed uncollectible. Exceptions to the non-accrual and charge-off policies are made when the loan is well secured and in the process of collection.

The following tables present the recorded investment in non-accrual loans and loans past due 90 days or more still on accrual by class of loans as of September 30, 2016 and December 31, 2015:

	Non-Accrual		Loans Past Due 90 Days or More & Still Accruing	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Commercial and Industrial Loans and Leases	\$168	\$134	\$148	\$98
Commercial Real Estate Loans	2,161	2,047	—	48
Agricultural Loans	797	—	55	—
Home Equity Loans	204	204	—	—
Consumer Loans	104	90	—	—
Residential Mortgage Loans	1,472	668	—	—
Total	\$4,906	\$3,143	\$203	\$146
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$1,506	\$68	\$—	\$—

The following tables present the aging of the recorded investment in past due loans by class of loans as of September 30, 2016 and December 31, 2015:

	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
September 30, 2016						
Commercial and Industrial Loans and Leases	\$470,381	\$120	\$32	\$217	\$369	\$470,012
Commercial Real Estate Loans	864,871	1,421	439	912	2,772	862,099
Agricultural Loans	302,954	229	—	671	900	302,054
Home Equity Loans	128,742	387	46	200	633	128,109
Consumer Loans	58,718	889	30	104	1,023	57,695
Residential Mortgage Loans	188,337	3,229	1,511	838	5,578	182,759
Total <sup>(1)</sup>	\$2,014,003	\$6,275	\$2,058	\$2,942	\$11,275	\$2,002,728
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$12,084	\$—	\$—	\$710	\$710	\$11,374
Net Carrying Value of Loans Acquired in Current Year (Included in the Total Above)	\$281,252	\$2,637	\$1,222	\$1,389	\$5,248	\$276,004

<sup>(1)</sup>Total recorded investment in loans includes \$7,913 in accrued interest.

	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
December 31, 2015						

Edgar Filing: GERMAN AMERICAN BANCORP, INC. - Form 10-Q

Commercial and Industrial Loans and Leases	\$419,176	\$ 82	\$ 117	\$ 124	\$ 323	\$418,853
Commercial Real Estate Loans	620,163	136	163	104	403	619,760
Agricultural Loans	249,699	—	—	—	—	249,699
Home Equity Loans	98,167	225	8	204	437	97,730
Consumer Loans	50,169	101	40	90	231	49,938
Residential Mortgage Loans	136,653	2,615	154	668	3,437	133,216
Total <sup>(1)</sup>	\$1,574,027	\$ 3,159	\$ 482	\$ 1,190	\$ 4,831	\$1,569,196
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$7,555	\$ —	\$ —	\$ —	\$ —	\$7,555

<sup>(1)</sup>Total recorded investment in loans includes \$5,952 in accrued interest.

GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

NOTE 5 - Loans (continued)

Troubled Debt Restructurings:

In certain instances, the Company may choose to restructure the contractual terms of loans. A troubled debt restructuring occurs when the Bank grants a concession to the borrower that it would not otherwise consider due to a borrower's financial difficulty. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. This evaluation is performed under the Company's internal underwriting policy. The Company uses the same methodology for loans acquired with deteriorated credit quality as for all other loans when determining whether the loan is a troubled debt restructuring.

During the three and nine months ended September 30, 2016 and 2015, there were no loans modified as troubled debt restructurings.

The following tables present the recorded investment of troubled debt restructurings by class of loans as of September 30, 2016 and December 31, 2015:

September 30, 2016	Total	Performing	Non-Accrual <sup>(1)</sup>
Commercial and Industrial Loans and Leases	\$ 50	\$ 50	\$ —
Commercial Real Estate Loans	—	—	—
Total	\$ 50	\$ 50	\$ —
December 31, 2015	Total	Performing	Non-Accrual <sup>(1)</sup>
Commercial and Industrial Loans and Leases	\$ 1,446	\$ 1,445	\$ 1
Commercial Real Estate Loans	2,455	795	1,660
Total	\$ 3,901	\$ 2,240	\$ 1,661

<sup>(1)</sup>The non-accrual troubled debt restructurings are included in the Non-Accrual Loan table presented on a previous page.

The Company had not committed to lending any additional amounts as of September 30, 2016 and December 31, 2015 to customers with outstanding loans that are classified as troubled debt restructurings.

For the three months ended September 30, 2016 and 2015, there were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification. For the nine months ended September 30, 2016, there were no loans modified as troubled debt restructurings for which there was a payment default within the twelve months following the modification. For the nine months ended September 30, 2015, there was one troubled debt restructuring with a recorded investment of \$95 for which there was a payment default within twelve months following the modification. The troubled debt restructuring that subsequently defaulted resulted in no change to the allowance for loan losses and a charge-off of \$95 during the nine months ending September 30, 2015. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company classifies loans as to credit risk by individually analyzing loans. This analysis includes commercial and industrial loans, commercial real estate loans, and agricultural loans with an outstanding balance greater than \$100. This analysis is typically performed on at least an annual basis. The Company uses the following definitions for risk ratings:

**Special Mention.** Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2016  
(unaudited, dollars in thousands except share and per share data)

## NOTE 5 - Loans (continued)

of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

September 30, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	\$448,350	\$ 12,789	\$ 9,242	\$ —	—\$470,381
Commercial Real Estate Loans	817,596	31,247	16,028	—	864,871
Agricultural Loans	282,472	15,519	4,963	—	302,954
Total	\$ 1,548,418	\$ 59,555	\$ 30,233	\$ —	—\$1,638,206
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 1,653	\$ 3,162	\$ 5,323	\$ —	—\$10,138
Net Carrying Value of Loans Acquired in Current Year (Included in the Total Above)	\$ 188,987	\$ 11,669	\$ 8,941	\$ —	—\$209,597
December 31, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	\$393,270	\$ 13,675	\$ 12,231	\$ —	—\$419,176
Commercial Real Estate Loans	586,247	25,341	8,575	—	620,163
Agricultural Loans	242,728	5,177	1,794	—	249,699
Total	\$ 1,222,245	\$ 44,193	\$ 22,600	\$ —	—\$1,289,038
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 1,572	\$ 3,319	\$ 1,797	\$ —	—\$6,688

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For home equity, consumer and residential mortgage loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in home equity, consumer and residential mortgage loans based on payment activity as of September 30, 2016 and December 31, 2015:

September 30, 2016	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	\$128,538	\$ 58,614	\$ 186,865
Nonperforming	204	104	1,472
Total	\$128,742	\$ 58,718	\$ 188,337
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ —	\$ 53	\$ 1,893

December 31, 2015	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	\$97,963	\$ 50,079	\$ 135,985
Nonperforming	204	90	668
Total	\$98,167	\$ 50,169	\$ 136,653
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$—	\$ —	\$ 867

GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

## NOTE 5 - Loans (continued)

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The recorded investment of those loans is as follows:

	September 30, 2016	December 31, 2015
Commercial and Industrial Loans	\$ 2,922	\$ 1,325
Commercial Real Estate Loans	6,514	5,363
Agricultural Loans	702	—
Home Equity Loans	—	—
Consumer Loans	53	—
Residential Mortgage Loans	1,893	867
Total	\$ 12,084	\$ 7,555
Carrying Amount, Net of Allowance	\$ 12,028	\$ 7,555

Accretable yield, or income expected to be collected, is as follows:

	2016	2015
Balance at July 1	\$2,198	\$1,680
New Loans Purchased	—	—
Accretion of Income	(100 )	(251 )
Reclassifications from Non-accretable Difference	570	—
Charge-off of Accretable Yield	—	—
Balance at September 30	\$2,668	\$1,429

For those purchased loans disclosed above, the Company increased the allowance for loan losses by \$56 during the three months ended September 30, 2016. The Company did not increase the allowance for loan losses during the three months ended September 30, 2015. No allowance for loan losses were reversed during the three months ended September 30, 2016 and 2015.

	2016	2015
Balance at January 1	\$1,279	\$1,685
New Loans Purchased	1,395	—
Accretion of Income	(576 )	(333 )
Reclassifications from Non-accretable Difference	570	104
Charge-off of Accretable Yield	—	(27 )
Balance at September 30	\$2,668	\$1,429

For those purchased loans disclosed above, the Company increased the allowance for loan losses by \$56 during the nine months ended September 30, 2016. The Company did not increase the allowance for loan losses during the nine

months ended September 30, 2015. No allowances for loan losses were reversed during the nine months ended September 30, 2016. Allowances for losses were reversed by \$44 during the nine months ended September 30, 2015.



GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

NOTE 5 - Loans (continued)

Contractually required payments receivable of loans purchased with evidence of credit deterioration during the nine months ended September 30, 2016 are included in the table below. The value of the purchased loans included in the table are as of acquisition date. There were no such loans purchased during the year ended December 31, 2015.

Commercial and Industrial Loans	\$220
Commercial Real Estate Loans	10,612
Agricultural Loans	896
Home Equity Loans	—
Consumer Loans	87
Residential Mortgage Loans	2,279
Total	\$14,094

Cash Flows Expected to be Collected at Acquisition	\$11,051
Fair Value of Acquired Loans at Acquisition	\$8,807

The carrying amount of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction totaled \$315 as of September 30, 2016 and \$169 as of December 31, 2015.

NOTE 6 – Repurchase Agreements Accounted for as Secured Borrowings

Repurchase agreements are short-term borrowings included in FHLB Advances and Other Borrowings and mature overnight and continuously. Repurchase agreements, which were secured by mortgage-backed securities, totaled \$39,462 and \$18,417 as of September 30, 2016 and December 31, 2015, respectively. Risk could arise when the collateral pledged to a repurchase agreement declines in fair value. The Company minimizes risk by consistently monitoring the value of the collateral pledged. At the point in time where the collateral has declined in fair value, the Company is required to provide additional collateral based on the value of the underlying securities.

NOTE 7 – Segment Information

The Company's operations include three primary segments: core banking, trust and investment advisory services, and insurance operations. The core banking segment involves attracting deposits from the general public and using such funds to originate consumer, commercial and agricultural, commercial and agricultural real estate, and residential mortgage loans, primarily in the Company's local markets. The core banking segment also involves the sale of residential mortgage loans in the secondary market. The trust and investment advisory services segment involves providing trust, investment advisory, and brokerage services to customers. The insurance segment offers a full range of personal and corporate property and casualty insurance products, primarily in the Company's banking subsidiary's local markets.

The core banking segment is comprised by the Company's banking subsidiary, German American Bancorp, which operated through 52 banking offices at September 30, 2016. Net interest income from loans and investments funded by deposits and borrowings is the primary revenue for the core-banking segment. The trust and investment advisory services segment's revenues are comprised primarily of fees generated by the trust operations of the Company's banking subsidiary and by German American Investment Services, Inc. These fees are derived by providing trust,

investment advisory, and brokerage services to its customers. The insurance segment primarily consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

The following segment financial information has been derived from the internal financial statements of the Company which are used by management to monitor and manage financial performance. The accounting policies of the three segments are the same as those of the Company. The evaluation process for segments does not include holding company income and expense. Holding company amounts are the primary differences between segment amounts and consolidated totals, and are reflected in the column labeled "Other" below, along with amounts to eliminate transactions between segments.

GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

## NOTE 7 - Segment Information (continued)

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Three Months Ended					
September 30, 2016					
Net Interest Income	\$ 24,721	\$ —	—\$ 2	\$(163)	\$ 24,560
Net Gains on Sales of Loans	1,004	—	—	—	1,004
Net Gains on Securities	458	—	—	—	458
Trust and Investment Product Fees	(6	) 1,205	—	(8	) 1,191
Insurance Revenues	6	15	1,640	—	1,661
Noncash Items:					
Provision for Loan Losses	—	—	—	—	—
Depreciation and Amortization	1,065	—	10	64	1,139
Income Tax Expense (Benefit)	4,249	51	80	(274	) 4,106
Segment Profit (Loss)	10,168	69	122	(174	) 10,185
Segment Assets at September 30, 2016	2,972,622	1,792	7,842	(2,716)	2,979,540

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals	
Three Months Ended						
September 30, 2015						
Net Interest Income	\$ 18,961	\$ —	\$ 2	\$(104)	\$ 18,859	
Net Gains on Sales of Loans	831	—	—	—	831	
Net Gains on Securities	—	—	—	—	—	
Trust and Investment Product Fees	1	1,053	—	(3	) 1,051	
Insurance Revenues	8	15	1,729	—	1,752	
Noncash Items:						
Provision for Loan Losses	(500	) —	—	—	(500	)
Depreciation and Amortization	980	2	27	38	1,047	
Income Tax Expense (Benefit)	2,571	(1	) 84	(225	) 2,429	
Segment Profit (Loss)	7,702	(14	) 140	(107	) 7,721	
Segment Assets at December 31, 2015	2,367,296	1,338	7,022	(1,955)	2,373,701	

GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2016  
 (unaudited, dollars in thousands except share and per share data)

NOTE 7 - Segment Information (continued)

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Nine Months Ended September 30, 2016					
Net Interest Income	\$70,492	\$ —	\$ 5	\$(482)	\$ 70,015
Net Gains on Sales of Loans	2,607	—	—	—	2,607
Net Gains on Securities	1,426	—	—	—	