

GERMAN AMERICAN BANCORP, INC.
Form 10-Q
November 12, 2013

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, 2013

Commission File Number 001-15877

German American Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of
incorporation or organization)

35-1547518
(I.R.S. Employer
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.

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Class
Common Shares, no par value

Outstanding at November 1, 2013
13,169,396

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, 2012, 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.”

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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, 2013 | December 31, 2012 |
|---|-----------------------|----------------------|
| ASSETS | | |
| Cash and Due from Banks | \$ 46,657 | \$ 41,624 |
| Federal Funds Sold and Other Short-term Investments | 18,014 | 7,463 |
| Cash and Cash Equivalents | 64,671 | 49,087 |
| Interest-bearing Time Deposits with Banks | | 2,707 |
| Securities Available-for-Sale, at Fair Value | 608,653 | 587,602 |
| Securities Held-to-Maturity, at Cost (Fair value of \$271 and \$351 on September 30, 2013 and December 31, 2012, respectively) | 268 | 346 |
| Loans Held-for-Sale, at Fair Value | 9,054 | 16,641 |
| Loans | 1,284,290 | 1,207,901 |
| Less: Unearned Income | (2,848) | (3,035) |
| Allowance for Loan Losses | (14,464) | (15,520) |
| Loans, Net | 1,266,978 | 1,189,346 |
| Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost | 8,340 | 8,340 |
| Premises, Furniture and Equipment, Net | 36,679 | 36,554 |
| Other Real Estate | 584 | 1,645 |
| Goodwill | 18,865 | 18,865 |
| Intangible Assets | 1,647 | 2,692 |
| Company Owned Life Insurance | 30,932 | 30,223 |
| Accrued Interest Receivable and Other Assets | 13,451 | 62,252 |
| TOTAL ASSETS | \$ 2,060,122 | \$ 2,006,300 |
| LIABILITIES | | |
| Non-interest-bearing Demand Deposits | \$ 364,110 | \$ 349,174 |
| Interest-bearing Demand, Savings, and Money Market Accounts | 974,748 | 962,574 |
| Time Deposits | 332,181 | 329,183 |
| Total Deposits | 1,671,039 | 1,640,931 |
| FHLB Advances and Other Borrowings | 191,554 | 161,006 |
| Accrued Interest Payable and Other Liabilities | 12,386 | 19,337 |
| TOTAL LIABILITIES | 1,874,979 | 1,821,274 |
| SHAREHOLDERS' EQUITY | | |
| 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 | 12,667 | 12,637 |
| Additional Paid-in Capital | 95,838 | 95,617 |

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| | | |
|---|--------------|--------------|
| Retained Earnings | 79,550 | 66,421 |
| Accumulated Other Comprehensive Income (Loss) | (2,912) | 10,351 |
| TOTAL SHAREHOLDERS' EQUITY | 185,143 | 185,026 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 2,060,122 | \$ 2,006,300 |
| End of period shares issued and outstanding | 12,666,836 | 12,636,656 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended September 30, | |
|---|-------------------------------------|---------------|
| | 2013 | 2012 |
| INTEREST INCOME | | |
| Interest and Fees on Loans | \$ 15,307 | \$ 15,082 |
| Interest on Federal Funds Sold and Other Short-term Investments | 2 | 11 |
| Interest and Dividends on Securities: | | |
| Taxable | 2,768 | 3,235 |
| Non-taxable | 735 | 625 |
| TOTAL INTEREST INCOME | 18,812 | 18,953 |
| INTEREST EXPENSE | | |
| Interest on Deposits | 1,145 | 1,622 |
| Interest on FHLB Advances and Other Borrowings | 475 | 938 |
| TOTAL INTEREST EXPENSE | 1,620 | 2,560 |
| NET INTEREST INCOME | 17,192 | 16,393 |
| Provision for Loan Losses | (400) | 640 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 17,592 | 15,753 |
| NON-INTEREST INCOME | | |
| Trust and Investment Product Fees | 802 | 659 |
| Service Charges on Deposit Accounts | 1,029 | 1,049 |
| Insurance Revenues | 1,495 | 1,469 |
| Company Owned Life Insurance | 233 | 213 |
| Interchange Fee Income | 449 | 418 |
| Other Operating Income | 395 | 811 |
| Net Gains on Sales of Loans | 613 | 941 |
| Net Gains on Securities | 428 | 598 |
| TOTAL NON-INTEREST INCOME | 5,444 | 6,158 |
| NON-INTEREST EXPENSE | | |
| Salaries and Employee Benefits | 7,515 | 7,261 |
| Occupancy Expense | 1,155 | 1,066 |
| Furniture and Equipment Expense | 736 | 650 |
| FDIC Premiums | 261 | 271 |
| Data Processing Fees | 383 | 311 |
| Professional Fees | 970 | 585 |
| Advertising and Promotion | 447 | 439 |
| Intangible Amortization | 329 | 405 |
| Other Operating Expenses | 1,788 | 1,740 |
| TOTAL NON-INTEREST EXPENSE | 13,584 | 12,728 |
| Income before Income Taxes | 9,452 | 9,183 |
| Income Tax Expense | 2,969 | 2,891 |

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| | | | | |
|----------------------------|----|-------|----|-------|
| NET INCOME | \$ | 6,483 | \$ | 6,292 |
| Basic Earnings Per Share | \$ | 0.51 | \$ | 0.50 |
| Diluted Earnings Per Share | \$ | 0.51 | \$ | 0.50 |
| Dividends Per Share | \$ | 0.15 | \$ | 0.14 |

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, | |
|---|------------------------------------|---------------|
| | 2013 | 2012 |
| INTEREST INCOME | | |
| Interest and Fees on Loans | \$ 45,227 | \$ 46,380 |
| Interest on Federal Funds Sold and Other Short-term Investments | 25 | 84 |
| Interest and Dividends on Securities: | | |
| Taxable | 8,380 | 9,982 |
| Non-taxable | 2,008 | 1,797 |
| TOTAL INTEREST INCOME | 55,640 | 58,243 |
| INTEREST EXPENSE | | |
| Interest on Deposits | 3,533 | 5,523 |
| Interest on FHLB Advances and Other Borrowings | 1,978 | 3,066 |
| TOTAL INTEREST EXPENSE | 5,511 | 8,589 |
| NET INTEREST INCOME | 50,129 | 49,654 |
| Provision for Loan Losses | (250) | 1,721 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 50,379 | 47,933 |
| NON-INTEREST INCOME | | |
| Trust and Investment Product Fees | 2,433 | 2,019 |
| Service Charges on Deposit Accounts | 3,034 | 3,001 |
| Insurance Revenues | 4,658 | 4,218 |
| Company Owned Life Insurance | 716 | 723 |
| Interchange Fee Income | 1,392 | 1,309 |
| Other Operating Income | 1,547 | 1,500 |
| Net Gains on Sales of Loans | 2,176 | 2,330 |
| Net Gains on Securities | 1,508 | 692 |
| TOTAL NON-INTEREST INCOME | 17,464 | 15,792 |
| NON-INTEREST EXPENSE | | |
| Salaries and Employee Benefits | 22,926 | 21,409 |
| Occupancy Expense | 3,359 | 3,219 |
| Furniture and Equipment Expense | 2,229 | 2,054 |
| FDIC Premiums | 776 | 851 |
| Data Processing Fees | 1,085 | 746 |
| Professional Fees | 2,156 | 1,777 |
| Advertising and Promotion | 1,453 | 1,208 |
| Intangible Amortization | 1,044 | 1,269 |
| Other Operating Expenses | 5,279 | 5,211 |
| TOTAL NON-INTEREST EXPENSE | 40,307 | 37,744 |
| Income before Income Taxes | 27,536 | 25,981 |
| Income Tax Expense | 8,712 | 8,120 |

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| | | | | |
|----------------------------|----|--------|----|--------|
| NET INCOME | \$ | 18,824 | \$ | 17,861 |
| Basic Earnings Per Share | \$ | 1.49 | \$ | 1.42 |
| Diluted Earnings Per Share | \$ | 1.48 | \$ | 1.41 |
| Dividends Per Share | \$ | 0.45 | \$ | 0.42 |

See accompanying notes to consolidated financial statements.

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

| | Three Months Ended September 30, | |
|---|-------------------------------------|----------|
| | 2013 | 2012 |
| NET INCOME | \$ 6,483 | \$ 6,292 |
| Other Comprehensive Income (Loss): | | |
| Unrealized Gains (Losses) on Securities | | |
| Unrealized Holding Gain (Loss) Arising During the Period | (1,860) | 2,190 |
| Reclassification Adjustment for Losses (Gains) Included in Net Income | (428) | (598) |
| Tax Effect | 915 | (406) |
| Net of Tax | (1,373) | 1,186 |
| Total Other Comprehensive Income (Loss) | (1,373) | 1,186 |
| COMPREHENSIVE INCOME | \$ 5,110 | \$ 7,478 |

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

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------|
| | 2013 | 2012 |
| NET INCOME | \$ 18,824 | \$ 17,861 |
| Other Comprehensive Income (Loss): | | |
| Unrealized Gains (Losses) on Securities | | |
| Unrealized Holding Gain (Loss) Arising During the Period | (19,613) | 4,075 |
| Reclassification Adjustment for Losses (Gains) Included in Net Income | (1,508) | (692) |
| Tax Effect | 7,858 | (1,018) |
| Net of Tax | (13,263) | 2,365 |
| Total Other Comprehensive Income (Loss) | (13,263) | 2,365 |
| COMPREHENSIVE INCOME | \$ 5,561 | \$ 20,226 |

See accompanying notes to consolidated financial statements.

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

| | Nine Months Ended September 30, 2013 | 2012 |
|---|--|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | \$ 18,824 | \$ 17,861 |
| Adjustments to Reconcile Net Income to Net Cash from Operating Activities: | | |
| Net Amortization on Securities | 2,338 | 3,419 |
| Depreciation and Amortization | 3,308 | 3,584 |
| Loans Originated for Sale | (132,471) | (125,770) |
| Proceeds from Sales of Loans Held-for-Sale | 142,433 | 130,375 |
| Provision for Loan Losses | (250) | 1,721 |
| Gain on Sale of Loans, net | (2,176) | (2,330) |
| Gain on Securities, net | (1,508) | (692) |
| Loss (Gain) on Sales of Other Real Estate and Repossessed Assets | 258 | (232) |
| Gain on Disposition and Impairment of Premises and Equipment | (70) | (1) |
| Increase in Cash Surrender Value of Company Owned Life Insurance | (709) | (712) |
| Equity Based Compensation | 247 | 463 |
| Change in Assets and Liabilities: | | |
| Interest Receivable and Other Assets | 2,799 | 3,716 |
| Interest Payable and Other Liabilities | 278 | (1,048) |
| Net Cash from Operating Activities | 33,301 | 30,354 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from Maturity of Other Short-term Investments | 2,690 | 3,236 |
| Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale | 114,563 | 100,964 |
| Proceeds from Sales of Securities Available-for-Sale | 119,952 | 92,344 |
| Purchase of Securities Available-for-Sale | (231,085) | (244,755) |
| Proceeds from Maturities of Securities Held-to-Maturity | 78 | 344 |
| Purchase of Loans | (744) | |
| Proceeds from Sales of Loans | 3,250 | 7,560 |
| Loans Made to Customers, net of Payments Received | (80,564) | (55,676) |
| Proceeds from Sales of Other Real Estate | 1,479 | 3,827 |
| Property and Equipment Expenditures | (2,296) | (3,091) |
| Proceeds from Sales of Property and Equipment | 88 | 1 |
| Net Cash from Investing Activities | (72,589) | (95,246) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Change in Deposits | 30,120 | 62,876 |
| Change in Short-term Borrowings | 31,258 | 30,090 |
| Advances in Long-term Debt | 50,000 | |
| Repayments of Long-term Debt | (50,815) | (20,059) |
| Issuance of Common Stock | 13 | 35 |
| Employee Stock Purchase Plan | (9) | (66) |
| Dividends Paid | (5,695) | (5,299) |

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| | | |
|--|-----------|-----------|
| Net Cash from Financing Activities | 54,872 | 67,577 |
| Net Change in Cash and Cash Equivalents | 15,584 | 2,685 |
| Cash and Cash Equivalents at Beginning of Year | 49,087 | 61,103 |
| Cash and Cash Equivalents at End of Period | \$ 64,671 | \$ 63,788 |
| Cash Paid During the Period for | | |
| Interest | \$ 6,096 | \$ 9,411 |
| Income Taxes | 8,732 | 6,484 |
| Supplemental Non Cash Disclosures | | |
| Loans Transferred to Other Real Estate | \$ 676 | \$ 2,862 |
| Accounts Receivable Transferred to Securities | (45,803) | (43,167) |

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013
(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 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 German American Bancorp, Inc. December 31, 2012 Annual Report on Form 10-K.

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, 2013 | 2012 |
|---|---|------------|
| Basic Earnings per Share: | | |
| Net Income | \$ 6,483 | \$ 6,292 |
| Weighted Average Shares Outstanding | 12,666,780 | 12,628,335 |
| Basic Earnings per Share | \$ 0.51 | \$ 0.50 |
| Diluted Earnings per Share: | | |
| Net Income | \$ 6,483 | \$ 6,292 |
| Weighted Average Shares Outstanding | 12,666,780 | 12,628,335 |
| Potentially Dilutive Shares, Net | 24,384 | 20,589 |
| Diluted Weighted Average Shares Outstanding | 12,691,164 | 12,648,924 |
| Diluted Earnings per Share | \$ 0.51 | \$ 0.50 |

For the three months ended September 30, 2013 and 2012, there were no anti-dilutive shares.

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

| | Nine Months Ended September 30, 2013 | 2012 |
|-------------------------------------|--|------------|
| Basic Earnings per Share: | | |
| Net Income | \$ 18,824 | \$ 17,861 |
| Weighted Average Shares Outstanding | 12,658,403 | 12,618,863 |
| Basic Earnings per Share | \$ 1.49 | \$ 1.42 |
| Diluted Earnings per Share: | | |

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| | | | | |
|---|----|------------|----|------------|
| Net Income | \$ | 18,824 | \$ | 17,861 |
| Weighted Average Shares Outstanding | | 12,658,403 | | 12,618,863 |
| Potentially Dilutive Shares, Net | | 19,950 | | 15,009 |
| Diluted Weighted Average Shares Outstanding | | 12,678,353 | | 12,633,872 |
| Diluted Earnings per Share | \$ | 1.48 | \$ | 1.41 |

For the nine months ended September 30, 2013 and 2012, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013
(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, 2013 and December 31, 2012, were as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|---------------|
| Securities Available-for-Sale: | | | | |
| September 30, 2013 | | | | |
| U.S. Treasury and Agency Securities | \$ 20,754 | \$ 2 | \$ (969) | \$ 19,787 |
| Obligations of State and Political Subdivisions | 95,033 | 2,793 | (555) | 97,271 |
| Mortgage-backed Securities - Residential | 496,129 | 4,765 | (10,325) | 490,569 |
| Equity Securities | 684 | 342 | | 1,026 |
| Total | \$ 612,600 | \$ 7,902 | \$ (11,849) | \$ 608,653 |
| December 31, 2012 | | | | |
| U.S. Treasury and Agency Securities | \$ 23,570 | \$ 40 | \$ (138) | \$ 23,472 |
| Obligations of State and Political Subdivisions | 71,352 | 5,145 | (12) | 76,485 |
| Mortgage-backed Securities - Residential | 475,452 | 11,505 | (45) | 486,912 |
| Equity Securities | 684 | 49 | | 733 |
| Total | \$ 571,058 | \$ 16,739 | \$ (195) | \$ 587,602 |

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, 2013 and December 31, 2012, were as follows:

| | Carrying Amount | Gross Unrecognized Gains | Gross Unrecognized Losses | Fair Value |
|---|--------------------|--------------------------------|---------------------------------|---------------|
| Securities Held-to-Maturity: | | | | |
| September 30, 2013 | | | | |
| Obligations of State and Political Subdivisions | \$ 268 | \$ 3 | \$ | \$ 271 |
| December 31, 2012 | | | | |
| Obligations of State and Political Subdivisions | \$ 346 | \$ 5 | \$ | \$ 351 |

The amortized cost and fair value of Securities at September 30, 2013 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.

| | Amortized Cost | Fair Value |
|--|-------------------|---------------|
| Securities Available-for-Sale: | | |
| Due in one year or less | \$ 2,855 | \$ 2,878 |
| Due after one year through five years | 11,966 | 12,237 |
| Due after five years through ten years | 60,770 | 61,075 |
| Due after ten years | 40,196 | 40,868 |
| Mortgage-backed Securities - Residential | 496,129 | 490,569 |
| Equity Securities | 684 | 1,026 |
| Totals | \$ 612,600 | \$ 608,653 |

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2013
(unaudited, dollars in thousands except share and per share data)

Note 3 Securities (continued)

| | Carrying Amount | Fair Value |
|--|--------------------|---------------|
| Securities Held-to-Maturity: | | |
| Due in one year or less | \$ | \$ |
| Due after one year through five years | 268 | 271 |
| Due after five years through ten years | | |
| Due after ten years | | |
| Totals | \$ 268 | \$ 271 |

Proceeds from the sales of Available-for-Sale Securities are summarized below:

| | Three Months Ended September 30, 2013 | Three Months Ended September 30, 2012 |
|--------------------------------|---|---|
| Proceeds from Sales and Calls | \$ 19,231 | \$ 40,949 |
| Gross Gains on Sales and Calls | 428 | 598 |
| Income Taxes on Gross Gains | 150 | 209 |
| | Nine Months Ended September 30, 2013 | Nine Months Ended September 30, 2012 |
| Proceeds from Sales and Calls | \$ 119,952 | \$ 92,344 |
| Gross Gains on Sales and Calls | 1,508 | 692 |
| Income Taxes on Gross Gains | 528 | 242 |

Below is a summary of securities with unrealized losses as of September 30, 2013 and December 31, 2012, presented by length of time the securities have been in a continuous unrealized loss position:

| | Less than 12 Months | | 12 Months or More | | Total | |
|--|---------------------|--------------------|-------------------|--------------------|---------------|--------------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| September 30, 2013 | | | | | | |
| U.S. Treasury and Agency Securities | \$ 19,031 | \$ (969) | \$ | \$ | \$ 19,031 | \$ (969) |
| Obligations of State and Political Subdivisions | 18,166 | (555) | | | 18,166 | (555) |
| Mortgage-backed Securities - Residential Equity Securities | 319,113 | (10,325) | | | 319,113 | (10,325) |
| Total | \$ 356,310 | \$ (11,849) | \$ | \$ | \$ 356,310 | \$ (11,849) |

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| | Less than 12 Months | | 12 Months or More | | Total | |
|--|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| December 31, 2012 | | | | | | |
| U.S. Treasury and Agency Securities | \$ 19,862 | \$ (138) | \$ | \$ | \$ 19,862 | \$ (138) |
| Obligations of State and Political Subdivisions | 1,042 | (12) | | | 1,042 | (12) |
| Mortgage-backed Securities - Residential Equity Securities | 18,323 | (45) | | | 18,323 | (45) |
| Total | \$ 39,227 | \$ (195) | \$ | \$ | \$ 39,227 | \$ (195) |

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 doesn't 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, 2013
(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 \$18.0 million at September 30, 2013 and \$6.1 million at December 31, 2012. 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 approved, reputable, 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, 2013 | | December 31, 2012 | |
|--------------------------------|--------------------|------------|--------------------|------------|
| | Notional Amount | Fair Value | Notional Amount | Fair Value |
| Included in Other Assets: | | | | |
| Interest Rate Swaps | \$ 17,951 | \$ 511 | \$ 6,051 | \$ 187 |
| Included in Other Liabilities: | | | | |
| Interest Rate Swaps | \$ 17,951 | \$ 392 | \$ 6,051 | \$ 178 |

The following tables present the effect of derivative instruments on the Consolidated Statements of Income for the periods presented:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|------------------------------------|------|-----------------------------------|------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest Rate Swaps: | | | | |
| Included in Interest Income / (Expense) | \$ | \$ | \$ | \$ |
| Included in Other Income / (Expense) | (34) | 148 | 517 | 148 |

Note 5 Loans

Loans were comprised of the following classifications at September 30, 2013 and December 31, 2012:

| September 30, 2013 | December 31, 2012 |
|-----------------------|----------------------|
|-----------------------|----------------------|

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| | | |
|--|--------------|--------------|
| Commercial: | | |
| Commercial and Industrial Loans and Leases | \$ 338,770 | \$ 335,373 |
| Commercial Real Estate Loans | 530,260 | 488,496 |
| Agricultural Loans | 185,868 | 179,906 |
| Retail: | | |
| Home Equity Loans | 75,018 | 74,437 |
| Consumer Loans | 46,754 | 41,103 |
| Residential Mortgage Loans | 107,620 | 88,586 |
| Subtotal | 1,284,290 | 1,207,901 |
| Less: Unearned Income | (2,848) | (3,035) |
| Allowance for Loan Losses | (14,464) | (15,520) |
| Loans, Net | \$ 1,266,978 | \$ 1,189,346 |

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NOTE 5 Loans (continued)

The following table presents the activity in the allowance for loan losses by portfolio class for the three months ending September 30, 2013 and 2012:

| | Commercial and Industrial Loans and Leases | Commercial Real Estate Loans | Agricultural Loans | Home Equity Loans | Consumer Loans | Residential Mortgage Loans | Unallocated | Total |
|---------------------------|--|------------------------------------|-----------------------|-------------------------|-------------------|----------------------------------|-------------|-----------|
| September 30, 2013 | | | | | | | | |
| Beginning Balance | \$ 4,258 | \$ 8,636 | \$ 817 | \$ 313 | \$ 199 | \$ 280 | \$ 760 | \$ 15,263 |
| Provision for Loan Losses | (361) | (214) | 53 | 89 | 64 | 36 | (67) | (400) |
| Recoveries | 108 | 7 | | | 33 | 2 | | 150 |
| Loans Charged-off | (34) | (212) | | (193) | (93) | (17) | | (549) |
| Ending Balance | \$ 3,971 | \$ 8,217 | \$ 870 | \$ 209 | \$ 203 | \$ 301 | \$ 693 | \$ 14,464 |

| | Commercial and Industrial Loans and Leases | Commercial Real Estate Loans | Agricultural Loans | Home Equity Loans | Consumer Loans | Residential Mortgage Loans | Unallocated | Total |
|---------------------------|--|------------------------------------|-----------------------|-------------------------|-------------------|----------------------------------|-------------|-----------|
| September 30, 2012 | | | | | | | | |
| Beginning Balance | \$ 4,707 | \$ 8,732 | \$ 890 | \$ 181 | \$ 227 | \$ 391 | \$ 564 | \$ 15,692 |
| Provision for Loan Losses | 193 | 376 | 21 | 21 | 12 | (12) | 29 | 640 |
| Recoveries | 8 | 62 | | | 35 | 2 | | 107 |
| Loans Charged-off | (54) | (351) | | (7) | (63) | (42) | | (517) |
| Ending Balance | \$ 4,854 | \$ 8,819 | \$ 911 | \$ 195 | \$ 211 | \$ 339 | \$ 593 | \$ 15,922 |

The following table presents the activity in the allowance for loan losses by portfolio class for the nine months ending September 30, 2013 and 2012:

| | Commercial and Industrial Loans and Leases | Commercial Real Estate Loans | Agricultural Loans | Home Equity Loans | Consumer Loans | Residential Mortgage Loans | Unallocated | Total |
|---------------------------|--|------------------------------------|-----------------------|-------------------------|-------------------|----------------------------------|-------------|-----------|
| September 30, 2013 | | | | | | | | |
| Beginning Balance | \$ 4,555 | \$ 8,931 | \$ 989 | \$ 141 | \$ 214 | \$ 186 | \$ 504 | \$ 15,520 |
| Provision for Loan Losses | (618) | (261) | (119) | 326 | 100 | 133 | 189 | (250) |
| Recoveries | 121 | 85 | | | 104 | 5 | | 315 |
| Loans Charged-off | (87) | (538) | | (258) | (215) | (23) | | (1,121) |

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| | | | | | | | | |
|---------------------------|--|--------------------|-------------------|----------------|----------------------------|-------------|--------|-----------|
| Ending Balance | \$ 3,971 | \$ 8,217 | \$ 870 | \$ 209 | \$ 203 | \$ 301 | \$ 693 | \$ 14,464 |
| | Commercial and Industrial Loans and Leases | | | | | | | |
| | Commercial Real Estate Loans | Agricultural Loans | Home Equity Loans | Consumer Loans | Residential Mortgage Loans | Unallocated | Total | |
| September 30, 2012 | | | | | | | | |
| Beginning Balance | \$ 3,493 | \$ 9,297 | \$ 926 | \$ 258 | \$ 190 | \$ 402 | \$ 746 | \$ 15,312 |
| Provision for Loan Losses | 1,466 | 232 | (15) | (9) | 141 | 59 | (153) | 1,721 |
| Recoveries | 57 | 88 | | 1 | 99 | 11 | | 256 |
| Loans Charged-off | (162) | (798) | | (55) | (219) | (133) | | (1,367) |
| Ending Balance | \$ 4,854 | \$ 8,819 | \$ 911 | \$ 195 | \$ 211 | \$ 339 | \$ 593 | \$ 15,922 |

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NOTE 5 Loans (continued)

In determining the adequacy of the allowance for loan loss, general allocations are made for other 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 a three-year historical average for loan losses for these portfolios, judgmentally adjusted for current economic factors and portfolio trends. For 2012, the Company utilized a 4 quarter rolling historical loan loss average. Beginning in 2013, management deemed a rolling 12 quarter historical loan loss average to be more indicative of the inherent losses in the Company's loan portfolio in the current economic environment than the 4 quarter average. This change in methodology resulted in an increase to the required loan loss allowance of approximately \$280 in the first quarter of 2013.

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. 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.

The following table presents 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, 2013 and December 31, 2012:

| | Total | Commercial and Industrial Loans and Leases | Commercial Real Estate Loans | Agricultural Loans | Home Equity Loans | Consumer Loans | Residential Mortgage Loans | Unallocated |
|---|----------|--|------------------------------------|-----------------------|-------------------------|-------------------|----------------------------------|-------------|
| September 30, 2013 | | | | | | | | |
| Allowance for Loan Losses: | | | | | | | | |
| Ending Allowance Balance | | | | | | | | |
| Attributable to Loans: | | | | | | | | |
| Individually Evaluated for Impairment | \$ 3,681 | \$ 461 | \$ 3,220 | \$ | \$ | \$ | \$ | \$ |
| Collectively Evaluated for Impairment | 10,774 | 3,510 | 4,988 | 870 | 209 | 203 | 301 | 693 |
| | 9 | | 9 | | | | | |

| | | | | | | | | |
|---|--------------|------------|------------|------------|-----------|-----------|------------|--------|
| Acquired with Deteriorated Credit Quality Total Ending Allowance Balance | \$ 14,464 | \$ 3,971 | \$ 8,217 | \$ 870 | \$ 209 | \$ 203 | \$ 301 | \$ 693 |
| Loans: | | | | | | | | |
| Loans Individually Evaluated for Impairment | \$ 9,577 | \$ 2,622 | \$ 6,267 | \$ 688 | \$ | \$ | \$ | \$ |
| Loans Collectively Evaluated for Impairment | 1,271,221 | 334,789 | 518,842 | 187,787 | 75,278 | 46,741 | 107,784 | |
| Loans Acquired with Deteriorated Credit Quality Total Ending Loans Balance ⁽¹⁾ | 8,909 | 2,186 | 6,438 | | | 138 | 147 | |
| | \$ 1,289,707 | \$ 339,597 | \$ 531,547 | \$ 188,475 | \$ 75,278 | \$ 46,879 | \$ 107,931 | \$ |

⁽¹⁾ Total recorded investment in loans includes \$5,417 in accrued interest.

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NOTE 5 Loans (continued)

| | Total | Commercial and Industrial Loans and Leases | Commercial Real Estate Loans | Agricultural Loans | Home Equity Loans | Consumer Loans | Residential Mortgage Loans | Unallocated |
|---|--------------|--|------------------------------------|-----------------------|-------------------------|-------------------|----------------------------------|-------------|
| December 31, 2012 | | | | | | | | |
| Allowance for Loan Losses: | | | | | | | | |
| Ending Allowance Balance | | | | | | | | |
| Attributable to Loans: | | | | | | | | |
| Individually Evaluated for Impairment | \$ 5,323 | \$ 1,279 | \$ 3,894 | \$ 150 | \$ | \$ | \$ | \$ |
| Collectively Evaluated for Impairment | 10,109 | 3,208 | 5,017 | 839 | 141 | 214 | 186 | 504 |
| Acquired with Deteriorated Credit Quality | 88 | 68 | 20 | | | | | |
| Total Ending Allowance Balance | \$ 15,520 | \$ 4,555 | \$ 8,931 | \$ 989 | \$ 141 | \$ 214 | \$ 186 | \$ 504 |
| Loans: | | | | | | | | |
| Loans Individually Evaluated for Impairment | \$ 12,520 | \$ 2,547 | \$ 7,550 | \$ 2,423 | \$ | \$ | \$ | \$ |
| Loans Collectively Evaluated for Impairment | 1,189,729 | 331,920 | 473,209 | 180,152 | 74,699 | 41,083 | 88,666 | |
| Loans Acquired with Deteriorated Credit Quality | 11,174 | 1,840 | 9,037 | | | 148 | 149 | |
| Total Ending Loans Balance ⁽¹⁾ | \$ 1,213,423 | \$ 336,307 | \$ 489,796 | \$ 182,575 | \$ 74,699 | \$ 41,231 | \$ 88,815 | \$ |

⁽¹⁾ Total recorded investment in loans includes \$5,522 in accrued interest.

The following table presents loans individually evaluated for impairment by class of loans as of September 30, 2013 and December 31, 2012:

Unpaid Allowance for

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| | Principal Balance ⁽¹⁾ | Recorded Investment | Loan Losses Allocated |
|--|-------------------------------------|------------------------|--------------------------|
| September 30, 2013 | | | |
| With No Related Allowance Recorded: | | | |
| Commercial and Industrial Loans and Leases | \$ 2,143 | \$ 2,161 | \$ |
| Commercial Real Estate Loans | 3,694 | 1,907 | |
| Agricultural Loans | 675 | 688 | |
| Subtotal | 6,512 | 4,756 | |
| With An Allowance Recorded: | | | |
| Commercial and Industrial Loans and Leases | 511 | 461 | 461 |
| Commercial Real Estate Loans | 4,608 | 4,488 | 3,229 |
| Agricultural Loans | | | |
| Subtotal | 5,119 | 4,949 | 3,690 |
| Total | \$ 11,631 | \$ 9,705 | \$ 3,690 |
| Loans Acquired With Deteriorated Credit Quality With No Related Allowance | | | |
| Recorded (Included in the Total Above) | \$ 125 | \$ 119 | \$ |
| Loans Acquired With Deteriorated Credit Quality With An Additional Allowance | | | |
| Recorded (Included in the Total Above) | \$ 34 | \$ 9 | \$ 9 |

⁽¹⁾ Unpaid Principal Balance is the remaining contractual payments inclusive of partial charge-offs.

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NOTE 5 Loans (continued)

| | Unpaid Principal Balance ⁽¹⁾ | Recorded Investment | Allowance for Loan Losses Allocated |
|---|---|------------------------|---|
| December 31, 2012 | | | |
| With No Related Allowance Recorded: | | | |
| Commercial and Industrial Loans and Leases | \$ 108 | \$ 87 | \$ |
| Commercial Real Estate Loans | 4,312 | 2,154 | |
| Agricultural Loans | 2,126 | 2,137 | |
| Subtotal | 6,546 | 4,378 | |
| With An Allowance Recorded: | | | |
| Commercial and Industrial Loans and Leases | 2,642 | 2,581 | 1,347 |
| Commercial Real Estate Loans | 5,579 | 5,418 | 3,914 |
| Agricultural Loans | 285 | 286 | 150 |
| Subtotal | 8,506 | 8,285 | 5,411 |
| Total | \$ 15,052 | \$ 12,663 | \$ 5,411 |
| Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above) | \$ 45 | \$ 25 | \$ |
| Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above) | \$ 155 | \$ 118 | \$ 88 |

⁽¹⁾ Unpaid Principal Balance is the remaining contractual payments inclusive of partial charge-offs.

The following table presents loans individually evaluated for impairment by class of loans for the three month period ended September 30, 2013 and 2012:

| | Average Recorded Investment | Interest Income Recognized | Cash Basis Recognized |
|--|-----------------------------------|----------------------------------|-----------------------------|
| September 30, 2013 | | | |
| With No Related Allowance Recorded: | | | |
| Commercial and Industrial Loans and Leases | \$ 2,223 | \$ 33 | \$ 32 |
| Commercial Real Estate Loans | 1,956 | 1 | 2 |
| Agricultural Loans | 751 | 21 | 16 |
| Subtotal | 4,930 | 55 | 50 |
| With An Allowance Recorded: | | | |
| Commercial and Industrial Loans and Leases | 464 | 1 | 1 |
| Commercial Real Estate Loans | 5,415 | 5 | 4 |
| Agricultural Loans | | | |
| Subtotal | 5,879 | 6 | 5 |
| Total | \$ 10,809 | \$ 61 | \$ 55 |

| | | | |
|---|--------|------|------|
| Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above) | \$ 119 | \$ | \$ |
| Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above) | \$ 214 | \$ 1 | \$ 1 |

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NOTE 5 Loans (continued)

| | Average Recorded Investment | Interest Income Recognized | Cash Basis Recognized |
|--|-----------------------------------|----------------------------------|-----------------------------|
| September 30, 2012 | | | |
| With No Related Allowance Recorded: | | | |
| Commercial and Industrial Loans and Leases | \$ 139 | \$ 1 | \$ 1 |
| Commercial Real Estate Loans | 3,353 | 12 | 12 |
| Agricultural Loans | | | |
| Subtotal | 3,492 | 13 | 13 |
| With An Allowance Recorded: | | | |
| Commercial and Industrial Loans and Leases | 2,749 | 4 | 3 |
| Commercial Real Estate Loans | 7,179 | 6 | 5 |
| Agricultural Loans | | | |
| Subtotal | 9,928 | 10 | 8 |
| Total | \$ 13,420 | \$ 23 | \$ |