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 incorporation or organization)	(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 x 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 x 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 x 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 x

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."

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INDEX

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
ASSETS		
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
TOTAL ASSETS	$ 2,979,540	$ 2,373,701
LIABILITIES		
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
TOTAL LIABILITIES	2,638,549	2,121,353
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	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
TOTAL SHAREHOLDERS' EQUITY	340,991	252,348

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.

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

	Three Months Ended September 30,	
	2016	2015
INTEREST INCOME		
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
TOTAL INTEREST INCOME	26,734	20,419
INTEREST EXPENSE		
Interest on Deposits	1,323	987
Interest on FHLB Advances and Other Borrowings	851	573
TOTAL INTEREST EXPENSE	2,174	1,560
NET INTEREST INCOME	24,560	18,859
Provision for Loan Losses	—	(500)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,560	19,359
NON-INTEREST INCOME		
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	—
TOTAL NON-INTEREST INCOME	8,384	7,757
NON-INTEREST EXPENSE		
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
TOTAL NON-INTEREST EXPENSE	18,653	16,966
Income before Income Taxes	14,291	10,150
Income Tax Expense	4,106	2,429
NET INCOME	$10,185	$7,721

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
INTEREST INCOME		
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
TOTAL INTEREST INCOME	76,264	60,597
INTEREST EXPENSE		
Interest on Deposits	3,804	3,002
Interest on FHLB Advances and Other Borrowings	2,445	1,481
TOTAL INTEREST EXPENSE	6,249	4,483
NET INTEREST INCOME	70,015	56,114
Provision for Loan Losses	1,200	—
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	68,815	56,114
NON-INTEREST INCOME		
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
TOTAL NON-INTEREST INCOME	23,656	21,020
NON-INTEREST EXPENSE		
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
TOTAL NON-INTEREST EXPENSE	57,232	46,114
Income before Income Taxes	35,239	31,020
Income Tax Expense	10,120	8,668
NET INCOME	$25,119	$22,352

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.

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.

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

	Nine Months Ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
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
CASH FLOWS FROM INVESTING ACTIVITIES		
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)
CASH FLOWS FROM FINANCING ACTIVITIES		
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)

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.

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	15,257,814	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	15,257,814	13,265,893
Potentially Dilutive Shares, Net	—	7,617
Diluted Weighted Average Shares Outstanding	15,257,814	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	14,814,520	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	14,814,520	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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	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

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[2]
Loans Collectively Evaluated for Impairment	2,000,022	467,244	856,974	301,953	128,742	58,665	186,444	n/a[2]
Loans Acquired with Deteriorated Credit Quality	12,084	2,922	6,514	702	—	53	1,893	n/a[2]
Total Ending Loans Balance[1]	$2,014,003	$ 470,381	$ 864,871	$ 302,954	$128,742	$ 58,718	$ 188,337	n/a[2]

[1]Total recorded investment in loans includes $7,913 in accrued interest.
[2]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[2]
Loans Collectively Evaluated for Impairment	1,562,037	416,273	611,955	249,687	98,167	50,169	135,786	n/a[2]
Loans Acquired with Deteriorated Credit Quality	7,555	1,325	5,363	—	—	—	867	n/a[2]
Total Ending Loans Balance[1]	$ 1,574,027	$ 419,176	$ 620,163	$ 249,699	$ 98,167	$ 50,169	$ 136,653	n/a[2]

[1]Total recorded investment in loans includes $5,952 in accrued interest.
[2]n/a = not applicable

15

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(1)	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

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

December 31, 2015	Unpaid Principal Balance(1)	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)	$ —	$ —	$ —

(1) 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)	$ —	$ —	$ —

17

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:

September 30, 2016	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
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(1)	$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

(1)Total recorded investment in loans includes $7,913 in accrued interest.

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

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(1)	$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

(1)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[1]
Commercial and Industrial Loans and Leases	$ 50	$ 50	$ —
Commercial Real Estate Loans	—	—	—
Total	$ 50	$ 50	$ —

December 31, 2015	Total	Performing	Non-Accrual[1]
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

[1]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	—	—	—	1,426
Trust and Investment Product Fees	(3)	3,446	—	(8)	3,435
Insurance Revenues	14	28	5,951	—	5,993
Noncash Items:					
Provision for Loan Losses	1,200	—	—	—	1,200
Depreciation and Amortization	3,129	2	61	174	3,366
Income Tax Expense (Benefit)	10,349	115	648	(992)	10,120
Segment Profit (Loss)	25,049	152	999	(1,081)	25,119
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
Nine Months Ended September 30, 2015					
Net Interest Income	$ 56,402	$ 8	$ 4	$(300)	$ 56,114
Net Gains on Sales of Loans	2,364	—	—	—	2,364
Net Gains on Securities	698	—	—	27	725
Trust and Investment Product Fees	3	2,974	—	(3)	2,974
Insurance Revenues	19	33	5,760	—	5,812
Noncash Items:					
Provision for Loan Losses	—	—	—	—	—
Depreciation and Amortization	3,045	15	81	113	3,254
Income Tax Expense (Benefit)	8,709	(13)	576	(604)	8,668
Segment Profit (Loss)	21,650	(47)	874	(125)	22,352
Segment Assets at December 31, 2015	2,367,296	1,338	7,022	(1,955)	2,373,701

NOTE 8 – Stock Repurchase Plan

On April 26, 2001, the Company announced that its Board of Directors approved a stock repurchase program for up to 607,754 of the outstanding shares of common stock of the Company. Shares may be purchased from time to time in the open market and in large block privately negotiated transactions. The Company is not obligated to purchase any shares under the program, and the program may be discontinued at any time before the maximum number of shares specified by the program are purchased. The Board of Directors established no expiration date for this program. As of

September 30, 2016, the Company had purchased 334,965 shares under the program. No shares were purchased under the program during the three and nine months ended September 30, 2016 and 2015.

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

NOTE 9 – Equity Plans and Equity Based Compensation

The Company maintains three equity incentive plans under which stock options, restricted stock, and other equity incentive awards can be granted. At September 30, 2016, the Company has reserved 314,393 shares of common stock (as adjusted for subsequent stock dividends and subject to further customary anti-dilution adjustments) for the purpose of issuance pursuant to outstanding and future grants of options, restricted stock, and other equity awards to officers, directors and other employees of the Company.

For the three months and nine months ended September 30, 2016 and 2015, the Company granted no options. The Company recorded no stock compensation expense applicable to options during the three and nine months ended September 30, 2016 and 2015 because all outstanding options were fully vested prior to 2007. In addition, there was no unrecognized option expense.

During the periods presented, awards of long-term incentives were granted in the form of restricted stock. Awards that were granted to management under a management incentive plan were granted in tandem with cash credit entitlements (typically in the form of 60% restricted stock grants and 40% cash credit entitlements). The management and employee restricted stock grants and tandem cash credit entitlements awarded will vest in three equal installments of 33.3% with the first annual vesting on December 5th of the year of the grant and on December 5th of the next two succeeding years. Awards that were granted to directors as additional retainer for their services do not include any cash credit entitlement. These director restricted stock grants are subject to forfeiture in the event that the recipient of the grant does not continue in service as a director of the Company through December 5th of the year after grant or does not satisfy certain meeting attendance requirements, at which time they generally vest 100 percent. For measuring compensation costs, restricted stock awards are valued based upon the market value of the common shares on the date of grant. During the three months ended September 30, 2016 and 2015, the Company granted awards of 180 and 102 shares of restricted stock, respectively. During the nine months ended September 30, 2016 and 2015, the Company granted awards of 32,430 and 33,480 shares of restricted stock, respectively. Total unvested restricted stock awards at September 30, 2016 and December 31, 2015 were 66,943 and 34,513, respectively.

The following table presents expense recorded for restricted stock and cash entitlements as well as the related tax information for the periods presented:

	Three Months Ended September 30,	
	2016	2015
Restricted Stock Expense	$267	$227
Cash Entitlement Expense	143	134
Tax Effect	(166)	(146)
Net of Tax	$244	$215

Nine Months
Ended
September 30,

	2016	2015
Restricted Stock Expense	$1,122	$737
Cash Entitlement Expense	427	438
Tax Effect	(627)	(476)
Net of Tax	$922	$699

Unrecognized expense associated with the restricted stock grants and cash entitlements totaled $1,257 and $1,808 as of September 30, 2016 and 2015, respectively.

The Company maintains an Employee Stock Purchase Plan whereby eligible employees have the option to purchase the Company’s common stock at a discount. The purchase price of the shares under this Plan has been set at 95% of the fair market value of the Company’s common stock as of the last day of the plan year. The plan provided for the purchase of up to 500,000 shares of common stock, which the Company may obtain by purchases on the open market or from private sources, or by issuing authorized but unissued common shares. Funding for the purchase of common stock is from employee and Company contributions.

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

NOTE 9 - Equity Plans and Equity Based Compensation (continued)

The Employee Stock Purchase Plan is not considered compensatory. There was $82 expense recorded for the employee stock purchase plan during the three and nine months ended September 30, 2016. There was $22 expense recorded for the employee stock purchase plan during the three and nine months ended September 30, 2015. There was no unrecognized compensation expense as of September 30, 2016 and 2015 for the Employee Stock Purchase Plan.

NOTE 10 – Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Level 3 pricing is obtained from a third-party based upon similar trades that are not traded frequently without adjustment by the Company. At September 30, 2016, the Company held $8.0 million in Level 3 securities which consist of $7.7 million of non-rated Obligations of State and Political Subdivisions and $353 thousand of equity securities that are not actively traded. Absent the credit rating, significant assumptions must be made such that the credit risk input becomes an unobservable input and thus these securities are reported by the Company in a Level 3 classification.

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: Fair values for impaired collateral dependent loans are generally based on appraisals obtained from licensed real estate appraisers and in certain circumstances consideration of offers obtained to purchase properties prior to foreclosure. Appraisals for commercial real estate generally use three methods to derive value: cost, sales or market comparison and income approach. The cost method bases value in the cost to replace the current property. Value of market comparison approach evaluates the sales price of similar properties in the same market area. The income approach considers net operating income generated by the property and an investor's required return. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Comparable sales adjustments are based on known sales prices of similar type and similar use properties and duration of time that the property has been on the market to sell. Such adjustments made in the appraisal process are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Company’s Risk Management Area reviews the assumptions and approaches utilized in the appraisal. In determining the value of impaired collateral dependent loans and other real estate owned, significant unobservable inputs may be used which include: physical condition of comparable properties sold, net operating income generated by the property and investor rates of return.

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

NOTE 10 - Fair Value (continued)

Other Real Estate: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate (ORE) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property utilizing similar techniques as discussed above for Impaired Loans, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, impairment loss is recognized.

Loans Held-for-Sale: The fair values of loans held for sale are determined by using quoted prices for similar assets, adjusted for specific attributes of that loan resulting in a Level 2 classification.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at September 30, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
U.S. Treasury and Agency Securities	$ —	$ —	$ —	$ —
Obligations of State and Political Subdivisions	—	239,552	7,658	247,210
Mortgage-backed Securities-Residential	—	485,348	—	485,348
Equity Securities	—	—	353	353
Total Securities	$ —	$ 724,900	$ 8,011	$ 732,911
Loans Held-for-Sale	$ —	$ 12,967	$ —	$ 12,967
Derivative Assets	$ —	$ 4,208	$ —	$ 4,208
Derivative Liabilities	$ —	$ 4,535	$ —	$ 4,535

	Fair Value Measurements at December 31, 2015 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
U.S. Treasury and Agency Securities	$ —	$ 9,898	$ —	$ 9,898
Obligations of State and Political Subdivisions	—	194,608	9,020	203,628
Mortgage-backed Securities-Residential	—	423,961	—	423,961

Equity Securities	—	—	353	353
Total Securities	$ —	$ 628,467	$ 9,373	$ 637,840
Loans Held-for-Sale	$ —	$ 10,762	$ —	$ 10,762
Derivative Assets	$ —	$ 1,201	$ —	$ 1,201
Derivative Liabilities	$ —	$ 1,232	$ —	$ 1,232

There were no transfers between Level 1 and Level 2 for the periods ended September 30, 2016 and December 31, 2015.

At September 30, 2016, the aggregate fair value of the Loans Held-for-Sale was $12,967, aggregate contractual principal balance was $12,728 with a difference of $239. At December 31, 2015, the aggregate fair value of the Loans Held-for-Sale was $10,762, aggregate contractual principal balance was $10,559 with a difference of $203.

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

NOTE 10 - Fair Value (continued)

The tables below present a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2016 and 2015:

	Obligations of State and Political Subdivisions		Equity Securities	
	2016	2015	2016	2015
Balance of Recurring Level 3 Assets at July 1	$ 8,213	$ 9,521	$ 353	$ 353
Total Gains or Losses (realized/unrealized) Included in Other Comprehensive Income	—	25	—	—
Maturities / Calls	(555)	(540)	—	—
Purchases	—	—	—	—
Balance of Recurring Level 3 Assets at September 30	$ 7,658	$ 9,006	$ 353	$ 353

	Obligations of State and Political Subdivisions		Equity Securities	
	2016	2015	2016	2015
Balance of Recurring Level 3 Assets at January 1	$ 9,020	$ 10,141	$ 353	$ 353
Total Gains or Losses (realized/unrealized) Included in Other Comprehensive Income	38	(20)	—	—
Maturities / Calls	(1,400)	(1,115)	—	—
Purchases	—	—	—	—
Balance of Recurring Level 3 Assets at September 30	$ 7,658	$ 9,006	$ 353	$ 353

Of the total gain/loss included in other comprehensive income for the three and nine months ended September 30, 2016, $0 and $38, respectively, was attributable to other changes in fair value. Of the total gain/loss included in other comprehensive income for the three and nine months ended September 30, 2015, $25 and $(20), respectively, was attributable to other changes in fair value. The three and nine months ended September 30, 2016 and 2015 included no gain/loss attributable to interest income on securities.

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

Fair Value Measurements at September 30, 2016 Using			
Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total

Assets:				
Impaired Loans				
Commercial and Industrial Loans	$ —	$ —	$ 17	$ 17
Commercial Real Estate Loans	—	—	768	768
Agricultural Loans	—	—	450	450
Other Real Estate				
Commercial Real Estate	—	—	—	—

29

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

NOTE 10 - Fair Value (continued)

	Fair Value Measurements at December 31, 2015 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Impaired Loans				
Commercial and Industrial Loans	$ —	$ —	$ 15	$ 15
Commercial Real Estate Loans	—	—	960	960
Other Real Estate				
Commercial Real Estate	—	—	—	—

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $1,694 with a valuation allowance of $459, resulting in an increase to the provision for loan losses of $197 and $222 for the three and nine months ended September 30, 2016, respectively. For the three and nine months ended September 30, 2015, impaired loans resulted in an additional provision for loan losses of $78 and $113, respectively. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,148 with a valuation allowance of $1,173, resulting in a decrease to the provision for loan losses of $286 for the year ended December 31, 2015.

There was no Other Real Estate carried at fair value less costs to sell at September 30, 2016. A charge to earnings through Other Operating Income of $75 was included in the three and nine months ended September 30, 2016. No charge to earnings was included in the three or nine months ended September 30, 2015. There was no Other Real Estate carried at fair value less costs to sell at December 31, 2015. No charge to earnings was included in the year ended December 31, 2015.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2016 and December 31, 2015:

September 30, 2016	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired Loans - Commercial and Industrial Loans	$ 17	Sales comparison approach	Adjustment for physical condition of comparable properties sold	100%-0% (80%)
Impaired Loans - Commercial Real Estate Loans	$ 768	Sales comparison approach	Adjustment for physical condition of comparable properties sold	77%-30% (49%)
Impaired Loans - Agricultural Loans	$ 450	Sales comparison approach	Adjustment for physical condition of comparable properties sold	32% (32%)

December 31, 2015	Fair Value		Unobservable Input(s)

		Valuation Technique(s)		Range (Weighted Average)
Impaired Loans - Commercial and Industrial Loans	$ 15	Sales comparison approach	Adjustment for physical condition of comparable properties sold	100%-82% (82%)
Impaired Loans - Commercial Real Estate Loans	$ 960	Sales comparison approach	Adjustment for physical condition of comparable properties sold	86%-30% (75%)

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

NOTE 10 - Fair Value (continued)

The carrying amounts and estimated fair values of the Company's financial instruments not previously presented are provided in the tables below for the periods ending September 30, 2016 and December 31, 2015. Not all of the Company's assets and liabilities are considered financial instruments, and therefore are not included in the tables. Because no active market exists for a significant portion of the Company's financial instruments, fair value estimates were based on subjective judgments, and therefore cannot be determined with precision.

		Fair Value Measurements at September 30, 2016 Using			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	$ 55,528	$ 38,329	$ 17,199	$ —	$ 55,528
Securities Held-to-Maturity	—	—	—	—	—
Loans, Net	1,985,991	—	—	1,989,264	1,989,264
FHLB Stock and Other Restricted Stock	13,048	N/A	N/A	N/A	N/A
Accrued Interest Receivable	11,448	—	3,472	7,976	11,448
Financial Liabilities:					
Demand, Savings, and Money Market Deposits	(1,896,142)	(1,896,142)	—	—	(1,896,142)
Time Deposits	(433,521)	—	(432,327)	—	(432,327)
Short-term Borrowings	(158,528)	—	(158,528)	—	(158,528)
Long-term Debt	(120,582)	—	(110,278)	(10,665)	(120,943)
Accrued Interest Payable	(724)	—	(711)	(13)	(724)

		Fair Value Measurements at December 31, 2015 Using			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	$ 52,009	$ 36,062	$ 15,947	$ —	$ 52,009
Securities Held-to-Maturity	95	—	95	—	95
Loans, Net	1,548,934	—	—	1,551,497	1,551,497
FHLB Stock and Other Restricted Stock	8,571	N/A	N/A	N/A	N/A
Accrued Interest Receivable	8,803	—	2,722	6,081	8,803
Financial Liabilities:					
Demand, Savings, and Money Market Deposits	(1,520,340)	(1,520,340)	—	—	(1,520,340)
Time Deposits	(306,036)	—	(305,965)	—	(305,965)
Short-term Borrowings	(177,717)	—	(177,717)	—	(177,717)
Long-term Debt	(95,606)	—	(90,473)	(5,538)	(96,011)
Accrued Interest Payable	(676)	—	(668)	(8)	(676)

Cash and Short-term Investments:
The carrying amount of cash and short-term investments approximate fair values and are classified as Level 1 or Level 2.

Securities Held-to-Maturity:

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2).

FHLB Stock and Other Restricted Stock:
It is not practical to determine the fair values of FHLB stock and other restricted stock due to restrictions placed on their transferability.

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

NOTE 10 - Fair Value (continued)

Loans:
Fair values of loans, excluding loans held for sale and collateral dependent impaired loans carried at fair value, are estimated as follows: For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values resulting in a Level 3 classification. Fair values for other loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality resulting in a Level 3 classification. Impaired loans are valued as described previously. The methods utilized to estimate fair value of loans do not necessarily represent an exit price.

Accrued Interest Receivable:
The carrying amount of accrued interest approximates fair value resulting in a Level 2 or Level 3 classification consistent with the asset they are associated with.

Deposits:
The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 1 classification. Fair values for fixed rate time deposits are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

Short-term Borrowings:
The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values resulting in a Level 2 classification.

Long-term Debt:
The fair values of the Company's long-term borrowings are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 2 classification.

The fair values of the Company's subordinated debentures are estimated using discounted cash flow analyses based on the current borrowing rates for similar types of borrowing arrangements resulting in a Level 3 classification.

Accrued Interest Payable:
The carrying amount of accrued interest approximates fair value resulting in a Level 2 or Level 3 classification consistent with the liability they are associated with.

NOTE 11 – Other Comprehensive Income (Loss)

The tables below summarize the changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2016 and 2015, net of tax:

September 30, 2016	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Postretirement Benefit Items	Total

Beginning Balance at July 1, 2016	$ 11,273	$ —	$ (78)	$ 11,195
Other Comprehensive Income (Loss) Before Reclassification	1,228	—	—	1,228
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(298)	—	—	(298)
Net Current Period Other Comprehensive Income (Loss)	930	—	—	930
Ending Balance at September 30, 2016	$ 12,203	$ —	$ (78)	$ 12,125

32

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

NOTE 11 - Other Comprehensive Income (Loss) (continued)

September 30, 2016	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Postretirement Benefit Items	Total
Beginning Balance at January 1, 2016	$ 3,890	$ —	$ (78)	$ 3,812
Other Comprehensive Income (Loss) Before Reclassification	9,240	—	—	9,240
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(927)	—	—	(927)
Net Current Period Other Comprehensive Income (Loss)	8,313	—	—	8,313
Ending Balance at September 30, 2016	$ 12,203	$ —	$ (78)	$ 12,125

September 30, 2015	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Postretirement Benefit Items	Total
Beginning Balance at July 1, 2015	$ 491	$ —	$ (68)	$ 423
Other Comprehensive Income (Loss) Before Reclassification	4,161	—	—	4,161
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	—	—	—
Net Current Period Other Comprehensive Income (Loss)	4,161	—	—	4,161
Ending Balance at September 30, 2015	$ 4,652	$ —	$ (68)	$ 4,584

September 30, 2015	Unrealized Gains and Losses on Available-for-Sale Securities	Defined Benefit Pension Items	Postretirement Benefit Items	Total
Beginning Balance at January 1, 2015	$ 2,958	$ —	$ (68)	$ 2,890
Other Comprehensive Income (Loss) Before Reclassification	2,165	—	—	2,165
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(471)	—	—	(471)
Net Current Period Other Comprehensive Income (Loss)	1,694	—	—	1,694
Ending Balance at September 30, 2015	$ 4,652	$ —	$ (68)	$ 4,584

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

NOTE 11 - Other Comprehensive Income (Loss) (continued)

The tables below summarize the classifications out of accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2016 and 2015:

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on Available-for-Sale Securities	$ 458	Net Gains on Securities
	(160)	Income Tax Expense
	298	Net of Tax
Total Reclassifications for the Three Months Ended September 30, 2016	$ 298	

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on Available-for-Sale Securities	$ 1,426	Net Gains on Securities
	(499)	Income Tax Expense
	927	Net of Tax
Total Reclassifications for the Nine Months Ended September 30, 2016	$ 927	

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized Gains and Losses on Available-for-Sale Securities	$ —	Net Gains on Securities
	—	Income Tax Expense
	—	Net of Tax
Total Reclassifications for the Three Months Ended September 30, 2015	$ —	

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified From Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented

Unrealized Gains and Losses on Available-for-Sale Securities	$ 725	Net Gains on Securities
	(254)	Income Tax Expense
	471	Net of Tax
Total Reclassifications for the Nine Months Ended September 30, 2015	$ 471	

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

NOTE 12 – Business Combination

Effective March 1, 2016, the Company acquired River Valley Bancorp ("River Valley") and its subsidiaries, including River Valley Financial Bank, pursuant to an Agreement and Plan of Reorganization dated October 26, 2015, as amended. The acquisition was accomplished by the merger of River Valley into German American Bancorp, Inc., immediately followed by the merger of River Valley Financial Bank into German American Bancorp, Inc.'s bank subsidiary, German American Bancorp. River Valley Financial Bank operated 14 banking offices in Southeast Indiana and 1 banking office in Northern Kentucky. River Valley's consolidated assets and equity (unaudited) as of February 29, 2016 totaled $516.3 million and $56.6 million, respectively. The Company accounted for the transaction under the acquisition method of accounting which means that the acquired assets and liabilities were recorded at fair value at the date of acquisition. The fair value estimates included in these financial statements are based on preliminary valuations. The Company does not expect material variances from these estimates and expects that final valuation estimates will be completed during the year ending December 31, 2016.

In accordance with ASC 805, the Company has expensed approximately $4.3 million of direct acquisition costs and recorded $33.1 million of goodwill and $2.6 million of intangible assets. The intangible assets are related to core deposits and are being amortized over 8 years. For tax purposes, goodwill totaling $33.1 million is non-deductible but will be evaluated annually for impairment. The following table summarizes the fair value of the total consideration transferred as a part of the River Valley acquisition as well as the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction.

Consideration	
Cash for Options and Fractional Shares	$395
Cash Consideration	24,975
Equity Instruments	62,022
Fair Value of Total Consideration Transferred	$87,392
Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:	
Cash	$17,877
Federal Funds Sold and Other Short-term Investments	6,477
Interest-bearing Time Deposits with Banks	992
Securities	132,396
Loans	317,760
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	3,127
Premises, Furniture & Equipment	10,219
Other Real Estate	882
Intangible Assets	2,613
Company Owned Life Insurance	12,842
Accrued Interest Receivable and Other Assets	8,958
Deposits - Non Interest Bearing	(9,584)
Deposits - Interest Bearing	(395,862)
FHLB Advances and Other Borrowings	(49,910)
Accrued Interest Payable and Other Liabilities	(4,530)
Total Identifiable Net Assets	$54,257

Goodwill	$33,135

Under the terms of the merger agreement, the Company issued approximately 1,942,000 shares of its common stock to the former shareholders of River Valley. Each River Valley common shareholder of record at the effective time of the merger became entitled to receive 0.770 shares of common stock of the Company for each of their former shares of River Valley common stock.

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

NOTE 12 - Business Combination (continued)

In connection with the closing of the merger, the Company paid to River Valley's shareholders of record at the close of business on February 29, 2016, cash consideration of $9.90 per River Valley share (an aggregate of $24,975 to shareholders) and the Company paid approximately $395 to persons who held options to purchase River Valley common stock (all of which rights were cancelled at the effective time of the merger and were not assumed by the Company).

This acquisition was consistent with the Company’s strategy to build a regional presence in Southern Indiana. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region.

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which are loans that have shown evidence of credit deterioration since origination. Receivables acquired that were not subject to these requirements include non-impaired loans and customer receivables with a fair value of $309.0 million and unpaid principle of $316.4 million on the date of acquisition.

The following table presents unaudited pro forma information as if the acquisition had occurred on January 1, 2015 after giving effect to certain adjustments. The unaudited pro forma information for the three and nine months ended September 30, 2016 and 2015 includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, interest expense on deposits and borrowings acquired, and the related income tax effects. The unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed date.

	Pro Forma Three Months Ended 9/30/2016	Pro Forma Three Months Ended 9/30/2015
Net Interest Income	$ 24,560	$ 25,165
Non-interest Income	8,384	8,857
Total Revenue	32,944	34,022
Provision for Loan Losses Expense	—	(500)
Non-interest Expense	18,465	20,817
Income Before Income Taxes	14,479	13,705
Income Tax Expense	4,182	3,357
Net Income	10,297	10,348
Earnings Per Share and Diluted Earnings Per Share	$ 0.67	$ 0.68

	Pro Forma Nine Months	Pro Forma Nine Months

	Ended 9/30/2016	Ended 9/30/2015
Net Interest Income	$ 72,907	$ 73,313
Non-interest Income	24,298	24,445
Total Revenue	97,205	97,758
Provision for Loan Losses Expense	1,200	—
Non-interest Expense	54,877	57,338
Income Before Income Taxes	41,128	40,420
Income Tax Expense	12,263	11,029
Net Income	28,865	29,391
Earnings Per Share and Diluted Earnings Per Share	$ 1.89	$ 1.93

The above pro forma financial information includes approximately $429 of net income and $3,043 of total revenue related to the operations of River Valley during the third quarter of 2016 and $3,187 of net income and $12,561 of total revenue related to the

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

NOTE 12 - Business Combination (continued)

operations of River Valley for the nine months ended 2016. The above pro forma financial information related to 2016 excludes non-recurring merger costs that totaled $189 and $4,318 on a pre-tax basis for the three and nine months ended September 30, 2016, respectively. The above pro forma financial information excludes the River Valley provision for loan loss recognized during the three and nine months ended 2016 and 2015. Under acquisition accounting treatment, loans are recorded at fair value which includes a credit risk component, and therefore the provision for loan loss recognized during the three and nine months ended September 30, 2015 was presumed to not be necessary.

NOTE 13 - Newly Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued an update (ASU No. 2014-09 Revenue From Contracts With Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company is currently evaluating the impact of this new accounting standard on the Company's consolidated results of operations and financial condition.

In January 2016, the FASB issued update ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this update are as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (4) require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (5) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (6) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (7) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. These amendments are effective for annual reporting periods and interim periods within those annual reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact of this new accounting standard on the Company's consolidated financial statements.

In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. The Company is currently evaluating the impact of this new accounting standard on the Company's consolidated financial statements.

In June 2016, the FASB issued new accounting guidance in ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326). The main objective of the update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this update replace the incurred loss impairment methodology in current GAAP (Generally Accepted Accounting Principles) with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to form credit loss estimates. The amendments in this update become effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of this new accounting standard on the Company's consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GERMAN AMERICAN BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

German American Bancorp, Inc., is a NASDAQ-traded (symbol: GABC) financial services holding company based in Jasper, Indiana. German American Bancorp, Inc., through its banking subsidiary German American Bancorp, operates 52 banking offices in 19 contiguous southern Indiana counties and one northern Kentucky county. The Company also owns an investment brokerage subsidiary (German American Investment Services, Inc.) and a full line property and casualty insurance agency (German American Insurance, Inc.).

Throughout this Management's Discussion and Analysis, as elsewhere in this Report, when we use the term "Company," we will usually be referring to the business and affairs (financial and otherwise) of German American Bancorp, Inc. and its subsidiaries and affiliates as a whole. Occasionally, we will refer to the term "parent company" or "holding company" when we mean to refer to only German American Bancorp, Inc.

This section presents an analysis of the consolidated financial condition of the Company as of September 30, 2016 and December 31, 2015 and the consolidated results of operations for the three and nine months ended September 30, 2016 and 2015. This discussion should be read in conjunction with the consolidated financial statements and other financial data presented elsewhere herein and with the financial statements and other financial data, as well as the Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

MANAGEMENT OVERVIEW

This updated discussion should be read in conjunction with the Management Overview that was included in our Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and in the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016.

On March 1, 2016, the Company completed its acquisition of River Valley Bancorp ("River Valley") and its subsidiaries, including River Valley Financial Bank. This acquisition was consistent with the Company's strategy to build a regional presence in Southern Indiana. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region. The acquisition is discussed in more detail in Note 12 (Business Combination) of the Notes to the Consolidated Financial Statements included in Item 1 of this Report.

Net income for the quarter ended September 30, 2016 totaled $10,185,000, or $0.67 per diluted share, an increase of $2,464,000, or 16% on a per share basis, from the quarter ended September 30, 2015 net income of $7,721,000, or $0.58 per diluted share. The operating results for the third quarter of 2016 were enhanced by the inclusion of the operations of River Valley.

On a year-to-date basis, 2016 earnings improved $2,767,000, or 12%, to $25,119,000 as compared to $22,352,000 for the first nine months of 2015. On a per share basis, net income totaled $1.70 per diluted share during the first nine months of 2016 representing a 1% increase from the $1.69 per diluted share for the first nine months of 2015. The first nine months of 2016 included seven months of operations of River Valley and was significantly impacted by merger related charges associated with the closing of the River Valley transaction effective March 1, 2016. The merger related charges totaled approximately $4,318,000, or $2,724,000 on an after-tax basis, which represented approximately $0.18 per share during the first nine months of 2016.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial condition and results of operations for the Company presented in the Consolidated Financial Statements, accompanying Notes to the Consolidated Financial Statements, and selected financial data appearing elsewhere within this Report, are, to a large degree, dependent upon the Company’s accounting policies. The selection of and application of these policies involve estimates, judgments, and uncertainties that are subject to change. The critical accounting policies and estimates that the Company has determined to be the most susceptible to change in the near term relate to the determination of the allowance for loan losses, the valuation of securities available for sale and income tax expense.

Allowance for Loan Losses

The Company maintains an allowance for loan losses to cover probable incurred credit losses at the balance sheet date. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. A provision for loan losses is charged to operations based on management's periodic evaluation of the necessary allowance balance. Evaluations are conducted at least quarterly and more often if deemed necessary. The ultimate recovery of all loans is susceptible to future market factors beyond the Company's control.

The Company has an established process to determine the adequacy of the allowance for loan losses. The determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on other classified loans and pools of homogeneous loans, and consideration of past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors, all of which may be susceptible to significant change. The allowance consists of two components of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover losses inherent in the loan portfolio.

Commercial and agricultural loans are subject to a standardized grading process administered by an internal loan review function. The need for specific reserves is considered for credits identified as impaired when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or (d) other reasons where the ultimate collectability of the loan is in question, or the loan characteristics require special monitoring. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired.

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.

General allocations are made for commercial and agricultural loans that are graded as substandard based on migration analysis techniques to determine historical average losses for similar types of loans. General allocations are also 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 historical averages for loan losses for these portfolios, judgmentally adjusted for economic, external and internal factors and portfolio trends. Economic factors include evaluating changes in international, national, regional and local economic and business conditions that affect the collectability of the loan portfolio. Internal factors include evaluating changes in lending policies and procedures; changes in the nature and volume of the loan portfolio; and changes in experience, ability and depth of lending management and staff. In setting our external and internal factors we also consider the overall level of the allowance for loan losses to total loans; our allowance coverage as compared to similar size bank holding companies; and regulatory requirements.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses includes a minor unallocated component. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as economic uncertainties, lending staff quality, industry trends impacting specific portfolio segments, and broad portfolio quality trends. Therefore, the ratio of allocated to unallocated components within the total allowance may fluctuate from period to period.

Securities Valuation

Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported separately in accumulated other comprehensive income (loss), net of tax. The Company obtains market values from a third party on a monthly basis in order to adjust the securities to fair value. Equity securities that do not have readily determinable fair values are carried at cost. Additionally, when securities are deemed to be other than temporarily impaired, a charge will be recorded through earnings; therefore, future changes in the fair value of securities could have a significant impact on the Company's operating results. In determining whether a market value decline is other than temporary, management considers the reason for the decline, the extent of the decline, the duration of the decline and whether the Company intends to sell or believes it will be required to sell the securities prior to recovery. As of September 30, 2016, gross unrealized gains on the securities available-for-sale portfolio totaled approximately $19,432,000 and gross unrealized losses totaled approximately $577,000.

Income Tax Expense

Income tax expense involves estimates related to the valuation allowance on deferred tax assets and loss contingencies related to exposure from tax examinations presumed to occur.

A valuation allowance reduces deferred tax assets to the amount management believes is more likely than not to be realized. In evaluating the realization of deferred tax assets, management considers the likelihood that sufficient taxable income of appropriate character will be generated within carry-back and carry-forward periods, including consideration of available tax planning strategies. Tax-related loss contingencies, including assessments arising from tax examinations and tax strategies, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. In considering the likelihood of loss, management considers the nature of the contingency, the progress of any examination or related protest or appeal, the views of legal counsel and other advisors, experience of the Company or other enterprises in similar matters, if any, and management’s intended response to any assessment.

RESULTS OF OPERATIONS

Net Income:

Net income for the quarter ended September 30, 2016 totaled $10,185,000, or $0.67 per diluted share, an increase of $2,464,000, or 16% on a per share basis, from the quarter ended September 30, 2015 net income of $7,721,000, or $0.58 per diluted share. The operating results for the third quarter of 2016 were enhanced by the inclusion of the operations of River Valley.

On a year-to-date basis, 2016 earnings improved $2,767,000, or 12%, to $25,119,000 as compared to $22,352,000 for the first nine months of 2015. On a per share basis, net income totaled $1.70 per diluted share during the first nine months of 2016 representing a 1% increase from the $1.69 per diluted share for the first nine months of 2015. The first nine months of 2016 included seven months of operations of River Valley and was significantly impacted by merger related charges associated with the closing of the River Valley transaction effective March 1, 2016. The merger related charges totaled approximately $4,318,000, or $2,724,000 on an after-tax basis, which represented approximately $0.18 per share during the first nine months of 2016.

Net Interest Income:

Net interest income is the Company’s single largest source of earnings, and represents the difference between interest and fees realized on earning assets, less interest paid on deposits and borrowed funds. Several factors contribute to the determination of net interest income and net interest margin, including the volume and mix of earning assets, interest rates, and income taxes. Many factors affecting net interest income are subject to control by management policies and actions. Factors beyond the control of management include the general level of credit and deposit demand, Federal Reserve Board monetary policy, and changes in tax laws.

The following table summarizes net interest income (on a tax-equivalent basis). For tax-equivalent adjustments, an effective tax rate of 35% was used for all periods presented[1].

	Average Balance Sheet (Tax-equivalent basis; dollars in thousands)					
	Three Months Ended September 30, 2016			Three Months Ended September 30, 2015		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
ASSETS						
Federal Funds Sold and Other Short-term Investments	$22,709	$25	0.44%	$22,155	$3	0.06%
Securities:						
Taxable	487,489	2,491	2.04%	442,907	2,176	1.97%
Non-taxable	247,380	2,935	4.74%	186,563	2,365	5.07%
Total Loans and Leases[2]	1,982,291	22,475	4.51%	1,492,772	16,796	4.47%
TOTAL INTEREST EARNING ASSETS	2,739,869	27,926	4.07%	2,144,397	21,340	3.96%
Other Assets	219,074			145,019		
Less: Allowance for Loan Losses	(15,379)			(15,382)		
TOTAL ASSETS	$2,943,564			$2,274,034		
LIABILITIES AND SHAREHOLDERS’ EQUITY						
Interest-bearing Demand, Savings and Money Market Deposits	$1,363,654	$671	0.20%	$1,027,035	$329	0.13%
Time Deposits	416,968	652	0.62%	355,853	658	0.73%
FHLB Advances and Other Borrowings	274,365	851	1.23%	200,831	573	1.13%
TOTAL INTEREST-BEARING LIABILITIES	2,054,987	2,174	0.42%	1,583,719	1,560	0.39%
Demand Deposit Accounts	522,994			428,380		
Other Liabilities	28,134			19,628		
TOTAL LIABILITIES	2,606,115			2,031,727		
Shareholders’ Equity	337,449			242,307		
TOTAL LIBABILITIES AND SHAREHOLDERS' EQUITY	$2,943,564			$2,274,034		
COST OF FUNDS			0.32%			0.29%
NET INTEREST INCOME		$25,752			$19,780	
NET INTEREST MARGIN			3.75%			3.67%

(1) Effective tax rates were determined as though interest earned on the Company’s investments in municipal bonds and loans was fully taxable.

(2) Loans held-for-sale and non-accruing loans have been included in average loans.

Net interest income increased $5,701,000, or 30% (an increase of $5,972,000 or 30% on a tax-equivalent basis), for the quarter ended September 30, 2016 compared with the same quarter of 2015. The increased level of net interest income during the third quarter of 2016 compared with the third quarter of 2015 was primarily driven by a higher level of earning assets resulting from the acquisition of River Valley and from organic loan growth.

The net interest margin represents tax-equivalent net interest income expressed as a percentage of average earning assets. The tax equivalent net interest margin was 3.75% for the third quarter of 2016 compared to 3.67% during the third quarter of 2015. The tax equivalent yield on earning assets totaled 4.07% during the quarter ended September 30, 2016 compared to 3.96% in the same period of 2015, while the cost of funds (expressed as a percentage of average earning assets) totaled 0.32% during the quarter ended September 30, 2016 compared to 0.29% in the same period of 2015.

The increase in the net interest margin during the third quarter of 2016 was primarily attributable to an increase in the amount of accretion of loan discounts on acquired loans combined with an increased loan yield stemming largely from the addition of the River Valley loan portfolio partially offset by a higher cost of funds. Accretion of loan discounts on acquired loans contributed approximately 9 basis points to the net interest margin on an annualized basis in the third quarter of 2016 and 4 basis points in the third quarter of 2015. The increase in accretion in the third quarter of 2016 was largely attributable to the loans acquired in the River Valley transaction.

The following table summarizes net interest income (on a tax-equivalent basis). For tax-equivalent adjustments, an effective tax rate of 35% was used for all periods presented[1].

	Average Balance Sheet (Tax-equivalent basis; dollars in thousands)					
	Nine Months Ended September 30, 2016			Nine Months Ended September 30, 2015		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
ASSETS						
Federal Funds Sold and Other Short-term Investments	$23,000	$62	0.36%	$19,755	$10	0.07%
Securities:						
Taxable	483,476	7,055	1.95%	460,499	6,830	1.98%
Non-taxable	234,674	8,465	4.81%	172,007	6,490	5.03%
Total Loans and Leases[2]	1,871,134	64,021	4.57%	1,464,632	49,815	4.55%
TOTAL INTEREST EARNING ASSETS	2,612,284	79,603	4.07%	2,116,893	63,145	3.98%
Other Assets	200,478			145,749		
Less: Allowance for Loan Losses	(15,085)			(15,247)		
TOTAL ASSETS	$2,797,677			$2,247,395		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing Demand, Savings and Money Market Deposits	$1,292,439	$1,807	0.19%	$1,033,107	$986	0.13%
Time Deposits	414,754	1,997	0.64%	352,444	2,016	0.76%
FHLB Advances and Other Borrowings	251,029	2,445	1.30%	177,138	1,481	1.12%
TOTAL INTEREST-BEARING LIABILITIES	1,958,222	6,249	0.43%	1,562,689	4,483	0.38%
Demand Deposit Accounts	497,620			425,379		
Other Liabilities	25,940			21,223		
TOTAL LIABILITIES	2,481,782			2,009,291		
Shareholders' Equity	315,895			238,104		
TOTAL LIBABILITIES AND SHAREHOLDERS' EQUITY	$2,797,677			$2,247,395		
COST OF FUNDS			0.32%			0.28%
NET INTEREST INCOME		$73,354			$58,662	
NET INTEREST MARGIN			3.75%			3.70%

(1) Effective tax rates were determined as though interest earned on the Company's investments in municipal bonds and loans was fully taxable.

(2) Loans held-for-sale and non-accruing loans have been included in average loans.

Net interest income increased $13,901,000, or 25% (an increase of $14,692,000 or 25% on a tax-equivalent basis), for the nine months ended September 30, 2016 compared with the same period of 2015. The increased level of net interest income during 2016 compared with 2015 was driven primarily by a higher level of earning assets resulting from the acquisition of River Valley and from organic loan growth, which excludes the purchased River Valley loan portfolio.

The tax equivalent net interest margin was 3.75% for the first nine months of 2016 compared to 3.70% during the same period of 2015. The tax equivalent yield on earning assets totaled 4.07% during the nine months ended September 30, 2016 compared to 3.98% in the same period of 2015, while the cost of funds (expressed as a percentage of average earning assets) totaled 0.32% during the nine months ended September 30, 2016 compared to 0.28% in the same period of 2015.

The increase in the net interest margin during the nine months ended September 30, 2016 was primarily attributable to an increase in the amount of accretion of loan discounts on acquired loans combined with an increased loan yield stemming largely from the addition of the River Valley loan portfolio and a securities portfolio mix shift to a higher percentage of total securities in non-taxable securities rather than in taxable securities, partially offset by a higher cost of funds. Accretion of loan discounts on acquired loans contributed approximately 13 basis points to the net interest margin on an annualized basis in the first nine months of 2016 and 5 basis points in the same period of 2015. The increase in accretion in the nine months ended September 30, 2016 was largely attributable to loans acquired in the River Valley merger transaction.The increase in the cost of funds was largely attributable to the increase in short-term market interest rates that occurred late in the fourth quarter of 2015 and to the addition of the River Valley deposit portfolio.

Provision for Loan Losses:

The Company provides for loan losses through regular provisions to the allowance for loan losses. The provision is affected by net charge-offs on loans and changes in specific and general allocations of the allowance. During the quarter ended September 30, 2016, the Company recorded no provision for loan losses compared to a negative provision for loan losses of $500,000 in the third quarter of 2015. The provision for loan losses totaled $1,200,000 for the nine months ended September 30, 2016, compared with no provision during the nine months ended September 30, 2015. During the first nine months of 2016, the provision for loan loss represented approximately 9 basis points of average loans on an annualized basis. The increased level of provision during the first nine months of 2016 was done in accordance with the Company's standard methodology for determining the adequacy of its allowance for loan loss and was largely related to an increased level of allowance for loan loss that has been allocated to the Company's agricultural loan portfolio.

Net charge-offs totaled $150,000 or 3 basis points on an annualized basis of average loans outstanding during the three months ended September 30, 2016, compared with a net recovery of $12,000 during the same period of 2015. The Company realized net charge-offs of $484,000 or 3 basis points on an annualized basis of average loans outstanding during the nine months ended September 30, 2016, compared with net charge-offs of $159,000 or 1 basis point on an annualized basis of average loans outstanding during the same period of 2015.

The provision for loan losses made during the three and nine months ended September 30, 2016 was made at a level deemed necessary by management to absorb changes in estimated, probable incurred losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for loan losses is completed quarterly by management, the results of which are used to determine provision for loan losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors.

Non-interest Income:

During the quarter ended September 30, 2016, non-interest income totaled $8,384,000, an increase of $627,000, or 8%, compared with the third quarter of 2015. The increase during the third quarter of 2016 was largely attributable to the the acquisition of River Valley and an increase in the level of gains on the sale of securities. The third quarter of 2016 included a full quarter of River Valley operations while third quarter of 2015 had no operations of River Valley included.

Non-interest Income (dollars in thousands)	Three Months Ended September 30,		Change From Prior Period	
	2016	2015	Amount Change	Percent Change
Trust and Investment Product Fees	$ 1,191	$ 1,051	$ 140	13 %
Service Charges on Deposit Accounts	1,612	1,237	375	30
Insurance Revenues	1,661	1,752	(91)	(5)
Company Owned Life Insurance	247	205	42	20
Interchange Fee Income	688	547	141	26
Other Operating Income	1,523	2,134	(611)	(29)
Subtotal	6,922	6,926	(4)	n/m (1)
Net Gains on Sales of Loans	1,004	831	173	21
Net Gains on Securities	458	—	458	n/m (1)
Total Non-interest Income	$ 8,384	$ 7,757	$ 627	8

[1]n/m = not meaningful

Other operating income declined $611,000, or 29%, during the third quarter of 2016 compared with the third quarter of 2015.The decline in the third quarter of 2016 compared with the third quarter of 2015 was attributable to the donation of a building and accompanying real estate to an economic development foundation in one of the Company's market areas that resulted in a net gain on the disposition of fixed assets of approximately $1.4 million, partially mitigated by increased swap transaction fees with loan customers.

The Company realized gains on sales of securities during the third quarter of quarter of 2016 of $458,000 related to the sale of $35.6 million of securities compared with no sales of securities during the third quarter of 2015.

During the nine months ended September 30, 2016, non-interest income totaled $23,656,000, an increase of $2,636,000, or 13%, compared with the first nine months of 2015. The increase during nine months ended September 30, 2016 compared with 2015 was largely the result of the acquisition of River Valley and an increase in the level of gains on the sale of securities. The nine months ended September 30, 2016 included seven months of River Valley operations while the same period of 2015 had no operations of River Valley included.

Non-interest Income (dollars in thousands)	Nine Months Ended September 30,		Change From Prior Period	
	2016	2015	Amount Change	Percent Change
Trust and Investment Product Fees	$3,435	$2,974	$461	16 %
Service Charges on Deposit Accounts	4,379	3,594	785	22
Insurance Revenues	5,993	5,812	181	3
Company Owned Life Insurance	709	617	92	15
Interchange Fee Income	1,824	1,593	231	15
Other Operating Income	3,283	3,341	(58)	(2)
Subtotal	19,623	17,931	1,692	9
Net Gains on Sales of Loans	2,607	2,364	243	10
Net Gains on Securities	1,426	725	701	97
Total Non-interest Income	$23,656	$21,020	$2,636	13

The Company realized gains on sales of securities during the nine months ended September 30, 2016 of $1,426,000 related to the sale of $77.1 million of securities compared with a net gain on the sale of securities of $725,000 in the same period of 2015 related to the sale of $18.3 million of securities.

Non-interest Expense:

During the quarter ended September 30, 2016, non-interest expense totaled $18,653,000, an increase of $1,687,000, or 10%, compared with the third quarter of 2015. The majority of the increase in operating expenses during the third quarter of 2016 compared to the third quarter of 2015 were related to the operating costs of River Valley. The third quarter of 2016 included a full quarter of River Valley operations while the third quarter of 2015 had no operations of River Valley included.

Non-interest Expense (dollars in thousands)	Three Months Ended September 30,		Change From Prior Period	
	2016	2015	Amount Change	Percent Change
Salaries and Employee Benefits	$10,572	$8,998	$1,574	17 %
Occupancy, Furniture and Equipment Expense	2,224	1,761	463	26
FDIC Premiums	373	284	89	31
Data Processing Fees	1,261	901	360	40
Professional Fees	777	787	(10)	(1)
Advertising and Promotion	687	2,198	(1,511)	(69)
Intangible Amortization	280	183	97	53
Other Operating Expenses	2,479	1,854	625	34
Total Non-interest Expense	$18,653	$16,966	$1,687	10

Advertising and promotion declined $1,511,000, or 69%, during the quarter ended September 30, 2016 compared with the third quarter of 2015. The decline in advertising and promotion during the third quarter of 2016 compared with the third quarter of 2015 was related to the recognition of a $1,750,000 contribution expense during the third quarter of 2015 in connection with the donation of a building and accompanying real estate to an economic development foundation in one of the Company's market areas.

During the nine months ended September 30, 2016, non-interest expense totaled $57,232,000, an increase of $11,118,000, or 24%, compared with the first nine months of 2015. During the nine months ended September 30, 2016, the Company recorded costs related to the River Valley merger transaction that totaled $4,318,000. The majority of the remainder of the increase in operating expenses during the first nine months of 2016 compared with the same period of 2015 were related to the operating costs of River Valley. The nine months ended September 30, 2016 included seven months of River Valley operations while 2015 had no operations of River Valley included.

Non-interest Expense (dollars in thousands)	Nine Months Ended September 30,		Change From Prior Period	
	2016	2015	Amount Change	Percent Change
Salaries and Employee Benefits	$32,357	$26,082	$6,275	24 %
Occupancy, Furniture and Equipment Expense	6,329	5,149	1,180	23
FDIC Premiums	1,040	850	190	22
Data Processing Fees	4,607	2,608	1,999	77
Professional Fees	2,875	2,073	802	39
Advertising and Promotion	1,860	3,125	(1,265)	(40)
Intangible Amortization	800	630	170	27
Other Operating Expenses	7,364	5,597	1,767	32
Total Non-interest Expense	$57,232	$46,114	$11,118	24

Salaries and benefits increased $6,275,000, or 24%, in the first nine months of 2016 compared with same period of 2015. Included in the increase in 2016 was $1,934,000 of merger costs related to the settlement of various employment and benefit arrangements. The remainder of the increase was primarily related to a higher number of full-time equivalent employees stemming from the acquisition of River Valley.

Occupancy, furniture and equipment expense increased $1,180,000, or 23%, in the nine months ended September 30, 2016 compared with the same period of 2015. This increase was related to the operation of River Valley's 15 branch network during 2016.

Data processing fees increased $1,999,000, or 77%, in the nine months ended September 30, 2016 compared with the same period of 2015. Included in the increase in the first half of 2016 was $1,288,000 of merger costs related to the consolidation of various data processing and information systems.

Professional fees increased $802,000, or 39%, in the nine months ended September 30, 2016 compared with the same period of 2015. Included in the increase in 2016 was $770,000 of merger related costs.

Advertising and promotion declined $1,265,000, or 40%, during the nine months ended September 30, 2016 compared with the nine months ended September 30, 2015. The decline in advertising and promotion during 2016 compared with 2015 was related to the recognition of a $1,750,000 contribution expense during 2015 in connection with the donation of a building and accompanying real estate to an economic development foundation in one of the Company's market areas.

Other operating expenses increased $1,767,000, or 32%, in the first nine months of 2016 compared with same period of 2015. Included in the increase in 2016 was $284,000 of merger related costs. The inclusion of River Valley's operations was the primary driver of the remainder of the increase.

Income Taxes:

The Company’s effective income tax rate was 28.7% and 23.9%, respectively, during the three months ended September 30, 2016 and 2015. The Company’s effective income tax rate was 28.7% and 27.9%, respectively, during the nine months ended September 30, 2016 and 2015. The effective tax rate in all periods presented was lower than the blended statutory rate resulting primarily from the Company’s tax-exempt investment income on securities, loans and company-owned life insurance, income tax credits generated from affordable housing projects, and income generated by subsidiaries domiciled in a state with no state or local income tax.

FINANCIAL CONDITION

Total assets for the Company increased to $2.980 billion at September 30, 2016, representing an increase of $605.8 million compared with December 31, 2015. This increase was largely attributable to the acquisition of River Valley and its banking subsidiary, River Valley Financial Bank, effective March 1, 2016. River Valley's total assets as of the effective date of the merger totaled approximately $516.3 million.

September 30, 2016 total loans increased $438.0 million compared with year-end 2015. At the time of acquisition, the fair value of loans acquired from from River Valley totaled $317.8 million which contributed significantly to the overall loan portfolio growth.

Total loans from the Company's existing branch network, excluding the River Valley branch network, grew by approximately $123.9 million, or 11% on an annualized basis, during the nine months ended September 30, 2016 compared with year-end 2015 total loans. Included in this 2016 loan growth, excluding River Valley, was an increase of approximately $97.1 million, or 12% on annualized basis, of commercial real estate and commercial and industrial loans while agricultural loans increased approximately $11.1 million, or 6% on an annualized basis. Retail loans which include home equity, consumer and residential loans, excluding River Valley, grew by approximately $15.7 million, or 7% on an annualized basis, during the first nine months of 2016.

End of Period Loan Balances: (dollars in thousands)	September 30, 2016	December 31, 2015	Current Period Change
Commercial & Industrial Loans	$469,255	$418,154	$51,101
Commercial Real Estate Loans	862,998	618,788	244,210
Agricultural Loans	299,080	246,886	52,194
Home Equity & Consumer Loans	186,854	147,931	38,923
Residential Mortgage Loans	187,903	136,316	51,587
Total Loans	$2,006,090	$1,568,075	$438,015

The following table indicates the breakdown of the allowance for loan losses for the periods indicated (dollars in thousands):

	September 30, 2016	December 31, 2015
Commercial and Industrial Loans	$ 3,813	$ 4,242
Commercial Real Estate Loans	5,424	6,342
Agricultural Loans	4,102	2,115
Home Equity and Consumer Loans	603	613
Residential Mortgage Loans	537	414
Unallocated	675	712
Total Allowance for Loan Loss	$ 15,154	$ 14,438

The Company’s allowance for loan losses totaled $15.2 million at September 30, 2016 compared to $14.4 million at December 31, 2015 representing an increase of $716,000, or 7% on an annualized basis. As of September 30, 2016, compared with year-end 2015, the overall allowance for loan and lease losses was increased in the agricultural sector primarily 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. Partially mitigating this increase was the repayment of a single non-accrual commercial real estate credit during the third quarter of 2016 that had a specific allocation assigned prior to repayment.

The total allowance for loan losses represented 0.76% of period-end loans at September 30, 2016 compared with 0.92% of period-end loans at December 31, 2015. The decline in the allowance for loan loss as a percent of total loans was the result of the acquisition of River Valley. Under acquisition accounting treatment, loans acquired are recorded at fair value which includes a credit risk component, and therefore the allowance on loans acquired is not carried over from the seller. The Company held a discount on acquired loans of $11.1 million as of September 30, 2016 and $3.0 million at December 31, 2015.

The following is an analysis of the Company's non-performing assets at September 30, 2016 and December 31, 2015:

Non-performing Assets: (dollars in thousands)	September 30, 2016	December 31, 2015
Non-accrual Loans	$ 4,906	$ 3,143
Past Due Loans (90 days or more and still accruing)	191	143
Total Non-performing Loans	5,097	3,286
Other Real Estate	355	169
Total Non-performing Assets	$ 5,452	$ 3,455
Restructured Loans	$ 50	$ 2,203
Non-performing Loans to Total Loans	0.25 %	0.21 %
Allowance for Loan Loss to Non-performing Loans	297.31 %	439.38 %

The following tables present non-accrual loans and loans past due 90 days or more still on accrual by class of loans:

	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	$ 142	$ 96
Commercial Real Estate Loans	2,161	2,047	—	47
Agricultural Loans	797	—	49	—
Home Equity Loans	204	204	—	—
Consumer Loans	104	90	—	—
Residential Mortgage Loans	1,472	668	—	—
Total	$ 4,906	$ 3,143	$ 191	$ 143

Non-performing assets totaled $5.5 million, or 0.18% of total assets at September 30, 2016 compared to $3.5 million, or 0.15% of total assets at December 31, 2015. Non-performing loans totaled $5.1 million, or 0.25% of total loans at September 30, 2016 compared to $3.3 million, or 0.21% of total loans at December 31, 2015. The increase in non-performing assets and non-performing loans during the 2016 was primarily attributable to the merger transaction with River Valley which included $2.8 million of non-accrual loans and $0.2 million of loans greater than 90 days past due and still accruing at September 30, 2016.

Loan impairment is reported when repayment under the terms of the loan is not expected. If a loan is impaired, a portion of the allowance is specifically 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.

Total deposits increased $503.3 million as of September 30, 2016 compared with December 31, 2015 total deposits. The increase during 2016 was largely attributable to the acquisition of River Valley which had total deposits as of the closing date of the merger of approximately $405.4 million.

End of Period Deposit Balances: (dollars in thousands)	September 30, 2016	December 31, 2015	Current Period Change
Non-interest-bearing Demand Deposits	$534,620	$465,357	$69,263
Interest-bearing Demand, Savings, & Money Market Accounts	1,361,522	1,054,983	306,539
Time Deposits < $100,000	214,235	186,859	27,376
Time Deposits of $100,000 or more	219,286	119,177	100,109
Total Deposits	$2,329,663	$1,826,376	$503,287

Capital Resources:

As of September 30, 2016, shareholders’ equity increased by $88.7 million to $341.0 million compared with $252.3 million at year-end 2015. The increase in shareholders' equity was largely attributable to the issuance of the Company's common shares in the acquisition of River Valley. Approximately 1,942,000 shares were issued to River Valley shareholders resulting in an increase to shareholders' equity of $62.2 million. The increase in shareholders' equity was also attributable to an increase of $17.2 million in retained earnings and an increase of $8.3 million in accumulated other comprehensive income primarily related to the increase in value of the Company's available-for-sale securities portfolio. Shareholders’ equity represented 11.4% of total assets at September 30, 2016 and 10.6% of total assets at December 31, 2015. Shareholders’ equity included $56.8 million of goodwill and other intangible assets at September 30, 2016 compared to $21.8 million of goodwill and other intangible assets at December 31, 2015. The increase in goodwill and other intangible assets was attributable to the acquisition of River Valley.

Federal banking regulations provide guidelines for determining the capital adequacy of bank holding companies and banks. These guidelines provide for a more narrow definition of core capital and assign a measure of risk to the various categories of assets. The Company is required to maintain minimum levels of capital in proportion to total risk-weighted assets and off-balance sheet exposures.

As of January 1, 2015, the Company and its subsidiary bank adopted the new Basel III regulatory capital framework. The adoption of this new framework modified the regulatory capital calculations, minimum capital levels and well-capitalized thresholds and added the new Common Equity Tier 1 capital ratio. Additionally, under the new rules, in order to avoid limitations on capital distributions, including dividend payments, the Company will be required to maintain a capital conservation buffer above the adequately capitalized regulatory capital ratios. The capital conservation buffer is being phased in from 0.00% in 2015 to 2.50% in 2019. For September 30, 2016, the capital conservation buffer is 0.625%. At September 30, 2016, the capital levels for the Company and its subsidiary bank remained well in excess of of the minimum amounts needed for capital adequacy purposes and the bank's capital levels met the necessary requirements to be considered well-capitalized.

The table below presents the Company’s consolidated and the subsidiary bank's capital ratios under regulatory guidelines:

	9/30/2016 Ratio		12/31/2015 Ratio		Minimum for Capital Adequacy Purposes		Well-Capitalized Guidelines	
Common Equity Tier 1 Capital Ratio								
Consolidated	11.83	%	12.63	%	4.50	%	N/A	
Bank	11.39	%	11.28	%	4.50	%	6.50	%
Tier 1 Capital Ratio								
Consolidated	12.29	%	12.92	%	6.00	%	N/A	
Bank	11.39	%	11.28	%	6.00	%	8.00	%
Total Capital Ratio								
Consolidated	12.94	%	13.71	%	8.00	%	N/A	
Bank	12.05	%	12.08	%	8.00	%	10.00	%
Tier 1 Leverage Ratio								
Consolidated	9.94	%	10.15	%	4.00	%	N/A	
Bank	9.22	%	8.87	%	4.00	%	5.00	%

Under the the final rules provided for by Basel III, accumulated other comprehensive income ("AOCI") was to be included in a banking organization's Common Equity Tier 1 capital. The final rules allowed community banks to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election was to be made in the first regulatory filings (call report and FRY-9) that were made after the banking organizations became subject to the final rules. The Company elected to opt-out and continue the existing treatment of AOCI for regulatory capital purposes.

Liquidity:

The Consolidated Statement of Cash Flows details the elements of changes in the Company's consolidated cash and cash equivalents. Total cash and cash equivalents increased $2.8 million during the nine months ended September 30, 2016 ending at $54.8 million. During the nine months ended September 30, 2016, operating activities resulted in net cash inflows of $32.8 million. Investing activities resulted in net cash outflows of $76.1 million during the nine months ended September 30, 2016. Financing activities resulted in net cash inflows for the nine months ended September 30, 2016 of $46.1 million.

The parent company is a corporation separate and distinct from its bank and other subsidiaries. The Company uses funds at the parent-company level to pay dividends to its shareholders, to acquire or make other investments in other businesses or their securities or assets, to repurchase its stock from time to time, and for other general corporate purposes including debt service. The parent company does not have access at the parent-company level to the deposits and certain other sources of funds that are available to its bank subsidiary to support its operations. Instead, the parent company has historically derived most of its revenues from dividends paid to the parent company by its bank subsidiary. The Company's banking subsidiary is subject to statutory restrictions on its ability to pay dividends to the parent company. The parent company has in recent years supplemented the dividends received from its subsidiaries with borrowings. As of September 30, 2016, the parent company had approximately $12.5 million of cash and cash equivalents available to meet its cash flow needs.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

The Company from time to time in its oral and written communications makes statements relating to its expectations regarding the future. These types of statements are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The Company may include forward-looking statements in filings with the Securities and Exchange Commission ("SEC"), such as this Form 10-Q, in other written materials, and in oral statements made by senior management to analysts, investors, representatives of the media, and others. Such forward looking statements can include statements about the Company's net interest income or net interest margin; its adequacy of allowance for loan losses, levels of provisions for loan losses, and the quality of the Company's loans, investment securities and other assets; simulations of changes in interest rates; expected results from mergers with or acquisitions of other businesses; litigation results; tax estimates and recognition; dividend policy; parent company cash resources and cash requirements, and parent company capital resources; estimated cost savings, plans and objectives for future operations; and expectations about the Company's financial and business performance and other business matters as well as economic and market conditions and trends. They often can be identified by the use of words like "expect," "may," "will," "would," "could," "should," "intend," "project," "estimate," "believe" or "anticipate," or similar expressions.

Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward-looking statement is made.

Readers are cautioned that, by their nature, all forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially and adversely from the expectations of the Company that are expressed or implied by any forward-looking statement. The discussions in this Item 2 list some of the factors that could cause the Company's actual results to vary materially from those expressed or implied by any forward-looking statements. Other risks, uncertainties, and factors that could cause the Company's actual results to vary materially from those expressed or implied by any forward-looking statement include the unknown future direction of interest rates and the timing and magnitude of any changes in interest rates; changes in competitive conditions; the introduction, withdrawal, success and timing of asset/liability management strategies or of mergers and acquisitions and other business initiatives and strategies; changes in customer borrowing, repayment, investment and deposit practices; changes in fiscal, monetary and tax policies; changes in financial and capital markets; deterioration in general economic conditions, either nationally or locally, resulting in, among other things, credit quality deterioration; capital management activities, including possible future sales of new securities, or possible repurchases or redemptions by the Company of outstanding debt or equity securities; risks of expansion through acquisitions and mergers, such as unexpected credit quality problems of the acquired loans or other assets, unexpected attrition of the customer base of the acquired institution or branches, and difficulties in integration of the acquired operations; factors driving impairment charges on investments; the impact, extent and timing of technological changes; potential cyber-attacks, information security breaches and other criminal activities; litigation liabilities, including related costs, expenses, settlements and judgments, or the outcome of matters before regulatory agencies, whether pending or commencing in the future; actions of the Federal Reserve Board; changes in accounting principles and interpretations; potential increases of federal deposit insurance premium expense, and possible future special assessments of FDIC premiums, either industry wide or specific to the Company’s banking subsidiary; actions of the regulatory authorities under the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Federal Deposit Insurance Act and other possible legislative and regulatory actions and reforms; and the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends. Such statements reflect our views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements.

Investors should consider these risks, uncertainties, and other factors, in addition to those mentioned by the Company in its Annual Report on Form 10-K for its fiscal year ended December 31, 2015, and other SEC filings from time to time, when considering any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk is reviewed on a regular basis by the Asset/Liability Committee and Boards of Directors of the parent company and its subsidiary bank. Primary market risks which impact the Company's operations are liquidity risk and interest rate risk.

The liquidity of the parent company is dependent upon the receipt of dividends from its subsidiary bank, which is subject to certain regulatory limitations. The Bank's source of funding is predominately core deposits, maturities of securities, repayments of loan principal and interest, federal funds purchased, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank.

The Company monitors interest rate risk by the use of computer simulation modeling to estimate the potential impact on its net interest income under various interest rate scenarios, and by estimating its static interest rate sensitivity position. Another method by which the Company's interest rate risk position can be estimated is by computing estimated changes in its net portfolio value ("NPV"). This method estimates interest rate risk exposure from movements in interest rates by using interest rate sensitivity analysis to determine the change in the NPV of discounted cash flows from assets and liabilities. NPV represents the market value of portfolio equity and is equal to the estimated market value of assets minus the estimated market value of liabilities.

Computations for measuring both net interest income and NPV are based on a number of assumptions, including the relative levels of market interest rates and prepayments in mortgage loans and certain types of investments. These computations do not contemplate any actions management may undertake in response to changes in interest rates, and should not be relied upon as indicative of actual results. In addition, certain shortcomings are inherent in the method of computing both net interest income and NPV. Should interest rates remain or decrease below current levels, the proportion of adjustable rate loans could decrease in future periods due to refinancing activity. In the event of an interest rate change, prepayment levels would likely be different from those assumed in the modeling. Lastly, the ability of many borrowers to repay their adjustable rate debt may decline during a rising interest rate environment.

The Company from time to time utilizes derivatives to manage interest rate risk. Management continuously evaluates the merits of such interest rate risk products but does not anticipate the use of such products to become a major part of the Company's risk management strategy.

The table below provides an assessment of the risk to net interest income over the next 12 months in the event of a sudden and sustained 1% and 2% increase and decrease in prevailing interest rates (dollars in thousands).

Interest Rate Sensitivity as of September 30, 2016 - Net Interest Income

	Net Interest Income	
Changes in Rates	Amount	% Change
+2%	$94,783	(4.06)%
+1%	96,804	(2.01)%
Base	98,794	—

-1%	96,648	(2.17)%
-2%	95,346	(3.49)%

The above table is a measurement of the Company’s net interest income at risk, assuming a static balance sheet as of September 30, 2016 and instantaneous parallel changes in interest rates. The Company also monitors interest rate risk under other scenarios including a more gradual movement in market interest rates. This type of scenario can at times produce different modeling results in measuring interest rate risk sensitivity.

The table below provides an assessment of the risk to NPV in the event of a sudden and sustained 1% and 2% increase and decrease in prevailing interest rates (dollars in thousands).

Interest Rate Sensitivity as of September 30, 2016 - Net Portfolio Value

	Net Portfolio Value		Net Portfolio Value as a % of Present Value of Assets	
Changes in Rates	Amount	% Change	NPV Ratio	Change
+2%	$330,401	(3.58)%	11.78%	7 b.p.
+1%	339,682	(0.87)%	11.85%	14 b.p.
Base	342,667	—	11.71%	—
-1%	288,202	(15.89)%	9.75 %	(196) b.p.
-2%	241,844	(29.42)%	8.15 %	(356) b.p.

This Item 3 includes forward-looking statements. See “Forward-looking Statements and Associated Risks” included in Part I, Item 2 of this Report for a discussion of certain factors that could cause the Company’s actual exposure to market risk to vary materially from that expressed or implied above. These factors include possible changes in economic conditions; interest rate fluctuations, competitive product and pricing pressures within the Company’s markets; and equity and fixed income market fluctuations. Actual experience may also vary materially to the extent that the Company’s assumptions described above prove to be inaccurate.

Item 4. Controls and Procedures

As of September 30, 2016, the Company carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, the Company’s principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures were, as of that date, effective in timely alerting them to material information required to be included in the Company’s periodic reports filed with the Securities and Exchange Commission. There are inherent limitations to the effectiveness of systems of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective systems of disclosure controls and procedures can provide only reasonable assurances of achieving their control objectives.

There was no change in the Company’s internal control over financial reporting that occurred during the Company’s third fiscal quarter of 2016 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

There are no pending legal proceedings, other than litigation incidental to the ordinary business of the Company, of a material nature to which the Company is a party or of which any of its properties are subject.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in German American Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

The following table sets forth information regarding the Company’s purchases of its common shares during each of the three months ended September 30, 2016.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs (1)
July 2016	—	—	—	272,789
August 2016	—	—	—	272,789
September 2016	—	—	—	272,789

(1) On April 26, 2001, the Company announced that its Board of Directors had approved a stock repurchase program for up to 607,754 of its outstanding common shares, of which the Company had purchased 334,965 common shares through September 30, 2016 (both such numbers adjusted for subsequent stock dividends). The Board of Directors established no expiration date for this program. The Company purchased no shares under this program during the three months ended September 30, 2016.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The exhibits described by the Exhibit Index immediately following the Signature Page of this Report are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

	GERMAN AMERICAN BANCORP, INC.
Date: November 9, 2016	By/s/Mark A. Schroeder Mark A. Schroeder Chairman and Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2016	By/s/Bradley M. Rust Bradley M. Rust Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX OF EXHIBITS

Exhibit No.	Description
3.1	Restatement of the Articles of Incorporation of the Registrant is incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on 8-K filed July 1, 2011 (SEC File No. 001-15877).
3.2	Restated Bylaws of German American Bancorp, Inc., as amended and restated July 27, 2009, is incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K filed March 9, 2015 (SEC File No. 001-15877).
4.1	No long-term debt instrument issued by the Registrant exceeds 10% of consolidated total assets or is registered. In accordance with paragraph 4 (iii) of Item 601(b) of Regulation S-K, the Registrant will furnish the Securities and Exchange Commission copies of long-term debt instruments and related agreements upon request.
4.2	Terms of Common Shares and Preferred Shares of the Registrant (included in Restatement of Articles of Incorporation) are incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed July 1, 2011 (SEC File No. 001-15877).
4.3	Specimen stock certificate for Common Shares of the Registrant is incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed October 21, 2010 (SEC File No. 001-15877).
4.4	Description of Assumed Junior Deferrable Interest Subordinated Debentures of River Valley Bancorp and Agreement to Furnish Copies of Related Instruments and Documents are incorporated by reference to Exhibit 4.4 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 filed on May 10, 2016 (SEC File No. 001-15877).
31.1*	Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman of the Board and Chief Executive Officer.
31.2*	Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer.
32.1*	Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman of the Board and Chief Executive Officer.
32.2*	Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer.
101+	The following materials from German American Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended September 30, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to Consolidated Financial Statements.

*Exhibits that are filed with this Report (other than through incorporation by reference to other disclosures or exhibits) are indicated by an asterisk.

+Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are furnished and not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.