

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 March 31, 2017

Commission File Number 001-15877

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

Indiana
(State or other jurisdiction of
incorporation or organization)

35-1547518
(I.R.S. Employer
Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES ☒ NO ☐

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

YES ☒ NO ☐

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

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

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

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

YES ☐ NO ☒

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 May 1, 2017
Common Shares, no par value	22,929,417

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, 2016, in Item 1, “Business – Forward-Looking Statements and Associated Risks” and our discussion of risk factors in Item 1A, “Risk Factors” of that Annual Report on Form 10-K, as updated from time to time in our subsequent SEC filings, including by Item 2 of Part I of this Report (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”) at the conclusion of that Item 2 under the heading “Forward-Looking Statements and Associated Risks.”

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited, dollars in thousands except share and per share data)

	March 31, 2017	December 31, 2016
ASSETS		
Cash and Due from Banks	\$ 30,151	\$ 48,467
Federal Funds Sold and Other Short-term Investments	7,288	16,349
Cash and Cash Equivalents	37,439	64,816
Securities Available-for-Sale, at Fair Value	726,352	709,786
Loans Held-for-Sale, at Fair Value	6,856	15,273
Loans	1,986,929	1,993,404
Less: Unearned Income	(3,357)	(3,449)
Allowance for Loan Losses	(15,166)	(14,808)
Loans, Net	1,968,406	1,975,147
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,048	13,048
Premises, Furniture and Equipment, Net	49,718	48,230
Other Real Estate	208	242
Goodwill	54,058	54,058
Intangible Assets	2,791	2,835
Company Owned Life Insurance	46,903	46,642
Accrued Interest Receivable and Other Assets	27,365	25,917
TOTAL ASSETS	\$ 2,933,144	\$ 2,955,994
LIABILITIES		
Non-interest-bearing Demand Deposits	\$ 572,874	\$ 571,989
Interest-bearing Demand, Savings, and Money Market Accounts	1,389,763	1,399,381
Time Deposits	363,835	378,181
Total Deposits	2,326,472	2,349,551
FHLB Advances and Other Borrowings	241,358	258,114
Accrued Interest Payable and Other Liabilities	24,098	18,062
TOTAL LIABILITIES	2,591,928	2,625,727
SHAREHOLDERS' EQUITY		
Preferred Stock, no par value; 500,000 shares authorized, no shares issued	—	—
Common Stock, no par value, \$1 stated value; 45,000,000 shares authorized ⁽¹⁾	15,287	15,261
Additional Paid-in Capital	172,013	171,744
Retained Earnings	156,322	149,666
Accumulated Other Comprehensive Loss	(2,406)	(6,404)
TOTAL SHAREHOLDERS' EQUITY	341,216	330,267
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,933,144	\$ 2,955,994
End of period shares issued and outstanding ⁽¹⁾	22,929,417	22,904,157

⁽¹⁾ Share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

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 March 31,	
	2017	2016
INTEREST INCOME		
Interest and Fees on Loans	\$ 22,262	\$ 18,664
Interest on Federal Funds Sold and Other Short-term Investments	27	17
Interest and Dividends on Securities:		
Taxable	2,719	2,277
Non-taxable	2,025	1,722
TOTAL INTEREST INCOME	27,033	22,680
INTEREST EXPENSE		
Interest on Deposits	1,443	1,155
Interest on FHLB Advances and Other Borrowings	865	741
TOTAL INTEREST EXPENSE	2,308	1,896
NET INTEREST INCOME	24,725	20,784
Provision for Loan Losses	500	850
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,225	19,934
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,243	1,021
Service Charges on Deposit Accounts	1,484	1,233
Insurance Revenues	2,640	2,727
Company Owned Life Insurance	254	215
Interchange Fee Income	1,023	788
Other Operating Income	857	513
Net Gains on Sales of Loans	687	720
Net Gains on Securities	—	—
TOTAL NON-INTEREST INCOME	8,188	7,217
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	11,444	11,601
Occupancy Expense	1,549	1,379
Furniture and Equipment Expense	633	508
FDIC Premiums	239	328
Data Processing Fees	1,011	2,165
Professional Fees	803	1,318
Advertising and Promotion	778	544
Intangible Amortization	253	208
Other Operating Expenses	2,326	2,189
TOTAL NON-INTEREST EXPENSE	19,036	20,240
Income before Income Taxes	13,377	6,911
Income Tax Expense	3,821	1,765
NET INCOME	\$ 9,556	\$ 5,146
Basic Earnings per Share ⁽¹⁾	\$ 0.42	\$ 0.25
Diluted Earnings per Share ⁽¹⁾	\$ 0.42	\$ 0.25
Dividends per Share ⁽¹⁾	\$ 0.13	\$ 0.12

⁽¹⁾ Per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2017	2016
NET INCOME	<u>\$ 9,556</u>	<u>\$ 5,146</u>
Other Comprehensive Income:		
Unrealized Gains on Securities		
Unrealized Holding Gain Arising During the Period	6,179	6,209
Reclassification Adjustment for Losses (Gains) Included in Net Income	—	—
Tax Effect	(2,181)	(2,180)
Net of Tax	<u>3,998</u>	<u>4,029</u>
Total Other Comprehensive Income	<u>3,998</u>	<u>4,029</u>
COMPREHENSIVE INCOME	<u>\$ 13,554</u>	<u>\$ 9,175</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 9,556	\$ 5,146
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	808	823
Depreciation and Amortization	1,127	1,048
Loans Originated for Sale	(24,566)	(22,256)
Proceeds from Sales of Loans Held-for-Sale	33,615	25,225
Provision for Loan Losses	500	850
Gain on Sale of Loans, net	(687)	(720)
Loss on Disposition and Donation of Premises and Equipment	—	2
Increase in Cash Surrender Value of Company Owned Life Insurance	(261)	(235)
Equity Based Compensation	295	261
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	(1,602)	1,462
Interest Payable and Other Liabilities	3,857	(407)
Net Cash from Operating Activities	22,642	11,199
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturity of Other Short-term Investments	—	(1,000)
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	21,154	20,743
Proceeds from Sales of Securities Available-for-Sale	—	62,975
Purchase of Securities Available-for-Sale	(32,351)	(23,706)
Proceeds from Maturities of Securities Held-to-Maturity	—	95
Purchase of Federal Home Loan Bank Stock	—	(1,350)
Purchase of Loans	(59)	(4,263)
Loans Made to Customers, net of Payments Received	6,182	(29,023)
Proceeds from Sales of Other Real Estate	152	717
Property and Equipment Expenditures	(2,433)	(459)
Acquisition of River Valley Bank	—	(793)
Net Cash from Investing Activities	(7,355)	23,936
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	(23,003)	8,826
Change in Short-term Borrowings	(40,985)	(29,463)
Advances in Long-term Debt	25,000	—
Repayments of Long-term Debt	(776)	(15,070)
Dividends Paid	(2,900)	(2,391)
Net Cash from Financing Activities	(42,664)	(38,098)
Net Change in Cash and Cash Equivalents	(27,377)	(2,963)
Cash and Cash Equivalents at Beginning of Year	64,816	52,009
Cash and Cash Equivalents at End of Period	\$ 37,439	\$ 49,046
Cash Paid During the Period for		
Interest	\$ 2,361	\$ 1,736
Income Taxes	—	1,503
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	\$ 118	\$ 9

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017
(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, 2016. 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 March 31,	
	2017	2016
Basic Earnings per Share:		
Net Income	\$ 9,556	\$ 5,146
Weighted Average Shares Outstanding ⁽¹⁾	22,908,648	20,887,284
Basic Earnings per Share	\$ 0.42	\$ 0.25
Diluted Earnings per Share:		
Net Income	\$ 9,556	\$ 5,146
Weighted Average Shares Outstanding ⁽¹⁾	22,908,648	20,887,284
Potentially Dilutive Shares, Net	—	6,115
Diluted Weighted Average Shares Outstanding ⁽¹⁾	22,908,648	20,893,399
Diluted Earnings per Share	\$ 0.42	\$ 0.25

⁽¹⁾ Share and per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

For the three months ended March 31, 2017 and 2016, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017
(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 March 31, 2017 and December 31, 2016, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2017				
Obligations of State and Political Subdivisions	\$ 254,587	\$ 5,169	\$ (2,413)	\$ 257,343
MBS/CMO - Residential	475,002	1,095	(7,441)	468,656
Equity Securities	353	—	—	353
Total	<u>\$ 729,942</u>	<u>\$ 6,264</u>	<u>\$ (9,854)</u>	<u>\$ 726,352</u>
December 31, 2016				
Obligations of State and Political Subdivisions	\$ 247,350	\$ 3,847	\$ (3,678)	\$ 247,519
MBS/CMO - Residential	471,852	480	(10,418)	461,914
Equity Securities	353	—	—	353
Total	<u>\$ 719,555</u>	<u>\$ 4,327</u>	<u>\$ (14,096)</u>	<u>\$ 709,786</u>

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 amortized cost and fair value of securities at March 31, 2017 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	\$ 3,443	\$ 3,481
Due after one year through five years	19,478	20,316
Due after five years through ten years	73,007	75,307
Due after ten years	158,659	158,239
MBS/CMO - Residential	475,002	468,656
Equity Securities	353	353
Total	<u>\$ 729,942</u>	<u>\$ 726,352</u>

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended March 31, 2017	Three Months Ended March 31, 2016
Proceeds from Sales	\$ —	\$ 62,975
Gross Gains on Sales	—	—
Income Taxes on Gross Gains	—	—

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$180,960 and \$186,572 as of March 31, 2017 and December 31, 2016, respectively.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 3 - Securities (continued)

Below is a summary of securities with unrealized losses as of March 31, 2017 and December 31, 2016, presented by length of time the securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2017						
Obligations of State and Political Subdivisions	\$ 79,834	\$ (2,413)	\$ —	\$ —	\$ 79,834	\$ (2,413)
MBS/CMO - Residential	331,861	(5,992)	45,218	(1,449)	377,079	(7,441)
Equity Securities	—	—	—	—	—	—
Total	\$ 411,695	\$ (8,405)	\$ 45,218	\$ (1,449)	\$ 456,913	\$ (9,854)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2016						
Obligations of State and Political Subdivisions	\$ 108,918	\$ (3,678)	\$ —	\$ —	\$ 108,918	\$ (3,678)
MBS/CMO - Residential	356,040	(8,782)	47,271	(1,636)	403,311	(10,418)
Equity Securities	—	—	—	—	—	—
Total	\$ 464,958	\$ (12,460)	\$ 47,271	\$ (1,636)	\$ 512,229	\$ (14,096)

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 and collateralized mortgage obligations (MBS/CMO - Residential) in the Company's portfolio are guaranteed by government sponsored entities, are investment grade, and are performing as expected.

The Company's equity securities consist of one non-controlling investment in a single banking organization at March 31, 2017 and December 31, 2016. The original investment totaled \$1,350 and other-than-temporary impairment was previously recorded totaling \$997. When a decline in fair value below cost is deemed to be other-than-temporary, the unrealized loss must be recognized as a charge to earnings.

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 \$83.0 million at March 31, 2017 and \$67.9 million at December 31, 2016. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions with approved, reputable, independent counterparties with substantially matching terms. The agreements are considered stand alone derivatives and changes in the fair value of derivatives are reported in earnings as non-interest income.

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

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017
(unaudited, dollars in thousands except share and per share data)

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

	March 31, 2017		December 31, 2016	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$ 83,047	\$ 1,548	\$ 67,902	\$ 1,291
Included in Other Liabilities:				
Interest Rate Swaps	\$ 83,047	\$ 1,579	\$ 67,902	\$ 1,238

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

	Three Months Ended March 31,	
	2017	2016
Interest Rate Swaps:		
Included in Other Operating Income	\$ 348	\$ 54

NOTE 5 – Loans

Loans were comprised of the following classifications at March 31, 2017 and December 31, 2016:

	March 31, 2017	December 31, 2016
Commercial:		
Commercial and Industrial Loans and Leases	\$ 450,501	\$ 457,372
Commercial Real Estate Loans	865,717	856,094
Agricultural Loans	292,615	303,128
Retail:		
Home Equity Loans	135,352	133,575
Consumer Loans	58,938	59,945
Residential Mortgage Loans	183,806	183,290
Subtotal	1,986,929	1,993,404
Less: Unearned Income	(3,357)	(3,449)
Allowance for Loan Losses	(15,166)	(14,808)
Loans, Net	<u>\$ 1,968,406</u>	<u>\$ 1,975,147</u>

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ended March 31, 2017 and 2016:

March 31, 2017	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 3,725	\$ 5,452	\$ 4,094	\$ 283	\$ 235	\$ 329	\$ 690	\$ 14,808
Provision for Loan Losses	(115)	278	267	17	118	19	(84)	500
Recoveries	2	5	—	—	60	27	—	94
Loans Charged-off	—	(39)	—	(1)	(169)	(27)	—	(236)
Ending Balance	<u>\$ 3,612</u>	<u>\$ 5,696</u>	<u>\$ 4,361</u>	<u>\$ 299</u>	<u>\$ 244</u>	<u>\$ 348</u>	<u>\$ 606</u>	<u>\$ 15,166</u>

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 5 - Loans (continued)

March 31, 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	105	120	414	31	27	155	(2)	850
Recoveries	4	1	—	1	45	5	—	56
Loans Charged-off	(5)	—	—	(63)	(72)	(43)	—	(183)
Ending Balance	<u>\$ 4,346</u>	<u>\$ 6,463</u>	<u>\$ 2,529</u>	<u>\$ 352</u>	<u>\$ 230</u>	<u>\$ 531</u>	<u>\$ 710</u>	<u>\$ 15,161</u>

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.

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.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017
(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 March 31, 2017 and December 31, 2016:

March 31, 2017	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	\$ 533	\$ 23	\$ 510	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively Evaluated for Impairment	14,517	3,586	5,126	4,313	299	239	348	606
Acquired with Deteriorated Credit Quality	116	3	60	48	—	5	—	—
Total Ending Allowance Balance	\$ 15,166	\$ 3,612	\$ 5,696	\$ 4,361	\$ 299	\$ 244	\$ 348	\$ 606
Loans:								
Loans Individually Evaluated for Impairment	\$ 2,924	\$ 85	\$ 2,182	\$ 657	\$ —	\$ —	\$ —	n/m ⁽²⁾
Loans Collectively Evaluated for Impairment	1,981,754	450,341	858,027	295,235	135,828	59,035	183,288	n/m ⁽²⁾
Loans Acquired with Deteriorated Credit Quality	10,348	1,251	7,426	688	—	53	930	n/m ⁽²⁾
Total Ending Loans Balance ⁽¹⁾	\$ 1,995,026	\$ 451,677	\$ 867,635	\$ 296,580	\$ 135,828	\$ 59,088	\$ 184,218	n/m ⁽²⁾

⁽¹⁾ Total recorded investment in loans includes \$8,097 in accrued interest.

⁽²⁾ n/m = not meaningful

December 31, 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	\$ 255	\$ 24	\$ 231	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively Evaluated for Impairment	14,448	3,698	5,172	4,046	283	230	329	690
Acquired with Deteriorated Credit Quality	105	3	49	48	—	5	—	—
Total Ending Allowance Balance	\$ 14,808	\$ 3,725	\$ 5,452	\$ 4,094	\$ 283	\$ 235	\$ 329	\$ 690
Loans:								
Loans Individually Evaluated for Impairment	\$ 1,239	\$ 113	\$ 832	\$ 294	\$ —	\$ —	\$ —	n/m ⁽²⁾
Loans Collectively Evaluated for Impairment	1,989,128	456,769	849,510	305,946	134,032	60,046	182,825	n/m ⁽²⁾
Loans Acquired with Deteriorated Credit Quality	11,048	1,656	7,688	706	—	53	945	n/m ⁽²⁾
Total Ending Loans Balance ⁽¹⁾	\$ 2,001,415	\$ 458,538	\$ 858,030	\$ 306,946	\$ 134,032	\$ 60,099	\$ 183,770	n/m ⁽²⁾

⁽¹⁾ Total recorded investment in loans includes \$8,011 in accrued interest.

⁽²⁾ n/m = not meaningful

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NOTE 5 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2017 and December 31, 2016:

March 31, 2017	Unpaid Principal Balance ⁽¹⁾	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 57	\$ 57	\$ —
Commercial Real Estate Loans	921	808	—
Agricultural Loans	700	657	—
Subtotal	1,678	1,522	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	140	137	26
Commercial Real Estate Loans	2,487	2,314	570
Agricultural Loans	587	587	48
Subtotal	3,214	3,038	644
Total	\$ 4,892	\$ 4,560	\$ 644
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 599	\$ 584	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 1,053	\$ 1,052	\$ 111

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

December 31, 2016	Unpaid Principal Balance ⁽¹⁾	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 85	\$ 29	\$ —
Commercial Real Estate Loans	1,278	784	—
Agricultural Loans	356	294	—
Subtotal	1,719	1,107	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	148	107	27
Commercial Real Estate Loans	839	827	280
Agricultural Loans	588	497	48
Subtotal	1,575	1,431	355
Total	\$ 3,294	\$ 2,538	\$ 355
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 1,018	\$ 531	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 910	\$ 768	\$ 100

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

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NOTE 5 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans for the three month period ended March 31, 2017 and 2016:

March 31, 2017	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 16	\$ —	\$ —
Commercial Real Estate Loans	522	4	4
Agricultural Loans	719	5	—
Subtotal	1,257	9	4
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	103	1	1
Commercial Real Estate Loans	2,423	6	6
Agricultural Loans	497	—	—
Subtotal	3,023	7	7
Total	\$ 4,280	\$ 16	\$ 11
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)			
	\$ 209	\$ —	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)			
	\$ 1,007	\$ 7	\$ 7

March 31, 2016	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 827	\$ 23	\$ 11
Commercial Real Estate Loans	1,213	18	3
Agricultural Loans	259	1	1
Subtotal	2,299	42	15
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	129	—	—
Commercial Real Estate Loans	2,235	1	—
Agricultural Loans	—	—	—
Subtotal	2,364	1	—
Total	\$ 4,663	\$ 43	\$ 15
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)			
	\$ 782	\$ 8	\$ 1
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

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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 March 31, 2017 and December 31, 2016:

	Non-Accrual Loans		Loans Past Due 90 Days or More & Still Accruing	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Commercial and Industrial Loans and Leases	\$ 84	\$ 86	\$ —	\$ 2
Commercial Real Estate Loans	2,496	1,408	—	—
Agricultural Loans	767	792	1,238	—
Home Equity Loans	88	73	—	—
Consumer Loans	322	85	—	—
Residential Mortgage Loans	753	1,349	—	—
Total	\$ 4,510	\$ 3,793	\$ 1,238	\$ 2
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 1,051	\$ 1,264	\$ —	\$ —

The following tables present the aging of the recorded investment in past due loans by class of loans as of March 31, 2017 and December 31, 2016:

March 31, 2017	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	\$ 451,677	\$ 1,278	\$ 7	\$ 73	\$ 1,358	\$ 450,319
Commercial Real Estate Loans	867,635	838	55	221	1,114	866,521
Agricultural Loans	296,580	397	—	1,842	2,239	294,341
Home Equity Loans	135,828	309	52	88	449	135,379
Consumer Loans	59,088	281	80	322	683	58,405
Residential Mortgage Loans	184,218	4,331	131	369	4,831	179,387
Total ⁽¹⁾	\$ 1,995,026	\$ 7,434	\$ 325	\$ 2,915	\$ 10,674	\$ 1,984,352
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 10,348	\$ 129	\$ —	\$ 577	\$ 706	\$ 9,642

⁽¹⁾ Total recorded investment in loans includes \$8,097 in accrued interest.

December 31, 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	\$ 458,538	\$ 20	\$ 4	\$ 77	\$ 101	\$ 458,437
Commercial Real Estate Loans	858,030	1,509	21	330	1,860	856,170
Agricultural Loans	306,946	84	50	610	744	306,202
Home Equity Loans	134,032	707	16	73	796	133,236
Consumer Loans	60,099	175	147	85	407	59,692
Residential Mortgage Loans	183,770	3,470	1,251	806	5,527	178,243
Total ⁽¹⁾	\$ 2,001,415	\$ 5,965	\$ 1,489	\$ 1,981	\$ 9,435	\$ 1,991,980
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 11,048	\$ 130	\$ —	\$ 627	\$ 757	\$ 10,291
Loans Acquired in Current Year (Included in the Total Above)	\$ 262,809	\$ 2,752	\$ 862	\$ 1,126	\$ 4,740	\$ 258,069

⁽¹⁾ Total recorded investment in loans includes \$8,011 in accrued interest.

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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 months ended March 31, 2017 there was one loan modified as troubled debt restructuring. During the three months ended March 31, 2016, 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 March 31, 2017 and December 31, 2016:

March 31, 2017	Total	Performing	Non-Accrual ⁽¹⁾
Commercial and Industrial Loans and Leases	\$ —	\$ —	\$ —
Commercial Real Estate Loans	28	28	—
Total	<u>\$ 28</u>	<u>\$ 28</u>	<u>\$ —</u>
December 31, 2016	Total	Performing	Non-Accrual ⁽¹⁾
Commercial and Industrial Loans and Leases	\$ 28	\$ 28	\$ —
Commercial Real Estate Loans	—	—	—
Total	<u>\$ 28</u>	<u>\$ 28</u>	<u>\$ —</u>

⁽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 March 31, 2017 and December 31, 2016 to customers with outstanding loans that are classified as troubled debt restructurings.

The following tables present loans by class modified as troubled debt restructurings that occurred during the three months ending March 31, 2017 and 2016:

March 31, 2017	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial Loans and Leases	—	\$ —	\$ —
Commercial Real Estate Loans	1	28	28
Total	<u>1</u>	<u>\$ 28</u>	<u>\$ 28</u>

The troubled debt restructurings described above increased the allowance for loan losses by \$2 and resulted in charge-offs of \$0 during the three months ending March 31, 2017.

March 31, 2016	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial Loans and Leases	—	\$ —	\$ —
Commercial Real Estate Loans	—	—	—
Total	<u>—</u>	<u>\$ —</u>	<u>\$ —</u>

The troubled debt restructurings described above increased the allowance for loan losses by \$0 and resulted in charge-offs of \$0 during the three months ending March 31, 2016.

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NOTE 5 - Loans (continued)

Additionally, there were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three months ending March 31, 2017 and 2016.

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 \$250. 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 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:

March 31, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	\$ 432,133	\$ 9,119	\$ 10,425	\$ —	\$ 451,677
Commercial Real Estate Loans	824,473	25,355	17,807	—	867,635
Agricultural Loans	270,373	22,868	3,339	—	296,580
Total	\$ 1,526,979	\$ 57,342	\$ 31,571	\$ —	\$ 1,615,892
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 1,489	\$ 3,121	\$ 4,755	\$ —	\$ 9,365
December 31, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	\$ 437,353	\$ 10,454	\$ 10,731	\$ —	\$ 458,538
Commercial Real Estate Loans	814,033	26,549	17,448	—	858,030
Agricultural Loans	287,975	14,670	4,301	—	306,946
Total	\$ 1,539,361	\$ 51,673	\$ 32,480	\$ —	\$ 1,623,514
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 1,897	\$ 3,121	\$ 5,032	\$ —	\$ 10,050
Loans Acquired in Current Year (Included in the Total Above)	\$ 175,915	\$ 11,638	\$ 8,145	\$ —	\$ 195,698

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NOTE 5 - Loans (continued)

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 March 31, 2017 and December 31, 2016:

March 31, 2017	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	\$ 135,740	\$ 58,766	\$ 183,465
Nonperforming	88	322	753
Total	\$ 135,828	\$ 59,088	\$ 184,218
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ —	\$ 53	\$ 930

December 31, 2016	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	\$ 133,959	\$ 60,014	\$ 182,421
Nonperforming	73	85	1,349
Total	\$ 134,032	\$ 60,099	\$ 183,770
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ —	\$ 53	\$ 945

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:

	March 31, 2017	December 31, 2016
Commercial and Industrial Loans	\$ 1,251	\$ 1,656
Commercial Real Estate Loans	7,426	7,688
Agricultural Loans	688	706
Consumer Loans	53	53
Residential Mortgage Loans	930	945
Total	\$ 10,348	\$ 11,048
Carrying Amount, Net of Allowance	\$ 10,232	\$ 10,943

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

	2017	2016
Balance at January 1	\$ 2,521	\$ 1,279
New Loans Purchased	—	1,395
Accretion of Income	(42)	(61)
Reclassifications from Non-accretable Difference	311	—
Charge-off of Accretable Yield	—	—
Balance at March 31	\$ 2,790	\$ 2,613

For those purchased loans disclosed above, the Company increased the allowance for loan losses by \$11 and \$0 during the three months ended March 31, 2017 and 2016. No allowance for loan losses were reversed during the same period.

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NOTE 5 - Loans (continued)

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 \$168 as of March 31, 2017 and \$202 as of December 31, 2016.

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 \$ 35,564 and \$42,412 as of March 31, 2017 and December 31, 2016, 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 March 31, 2017. 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.

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NOTE 7 - Segment Information (continued)

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Three Months Ended					
March 31, 2017					
Net Interest Income	\$ 24,909	\$ 1	\$ 2	\$ (187)	\$ 24,725
Net Gains on Sales of Loans	687	—	—	—	687
Net Gains on Securities	—	—	—	—	—
Trust and Investment Product Fees	1	1,244	—	(2)	1,243
Insurance Revenues	2	5	2,633	—	2,640
Noncash Items:					
Provision for Loan Losses	500	—	—	—	500
Depreciation and Amortization	1,041	3	19	64	1,127
Income Tax Expense (Benefit)	3,622	34	427	(262)	3,821
Segment Profit (Loss)	8,965	44	673	(126)	9,556
Segment Assets at March 31, 2017	2,934,056	1,865	9,532	(12,309)	2,933,144

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Three Months Ended					
March 31, 2016					
Net Interest Income	\$ 20,898	\$ (1)	\$ 2	\$ (115)	\$ 20,784
Net Gains on Sales of Loans	720	—	—	—	720
Net Gains on Securities	—	—	—	—	—
Trust and Investment Product Fees	1	1,020	—	—	1,021
Insurance Revenues	4	8	2,715	—	2,727
Noncash Items:					
Provision for Loan Losses	850	—	—	—	850
Depreciation and Amortization	973	3	26	46	1,048
Income Tax Expense (Benefit)	1,681	14	510	(440)	1,765
Segment Profit (Loss)	5,081	7	790	(732)	5,146
Segment Assets at December 31, 2016	2,958,585	1,851	8,494	(12,936)	2,955,994

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 911,631 of the outstanding shares of common stock of the Company (as adjusted for subsequent stock dividends and splits). 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 March 31, 2017, the Company had purchased 502,447 shares under the program (as adjusted for subsequent stock dividends and splits). No shares were purchased under the program during the three months ended March 31, 2017 and 2016.

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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 March 31, 2017, the Company has reserved 412,104 shares of common stock (as adjusted for subsequent stock dividends/splits 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 ended March 31, 2017 and 2016, the Company granted no options. The Company recorded no stock compensation expense applicable to options during the three months ended March 31, 2017 and 2016 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 March 31, 2017 and 2016, the Company granted awards of 37,890 and 48,375 shares of restricted stock (as adjusted for subsequent stock split), respectively. Total unvested restricted stock awards at March 31, 2017 and December 31, 2016 were 91,053 and 53,163, respectively (as adjusted for subsequent stock split).

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 March 31,	
	2017	2016
Restricted Stock Expense	\$ 306	\$ 588
Cash Entitlement Expense	158	142
Tax Effect	(182)	(296)
Net of Tax	<u>\$ 282</u>	<u>\$ 434</u>

Unrecognized expense associated with the restricted stock grants and cash entitlements totaled \$3,201 and \$2,820 as of March 31, 2017 and 2016, 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 750,000 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. At March 31, 2017, there were 577,426 shares available for future issuance under this plan. (Both of such numbers are as adjusted for subsequent stock split.) Funding for the purchase of common stock is from employee and Company contributions.

There was no expense recorded for the employee stock purchase plan during the three months ended March 31, 2017. There was no expense recorded for the employee stock purchase plan during the three months ended March 31, 2016. There was no unrecognized compensation expense as of March 31, 2017 and 2016 for the Employee Stock Purchase Plan.

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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 March 31, 2017, the Company held \$6.8 million in Level 3 securities which consist of \$6.4 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.

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.

Loan Servicing Rights: On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount resulting in a Level 2 classification. The valuation model utilizes interest rate, prepayment

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NOTE 10 - Fair Value (continued)

speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data.

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 March 31, 2017 Using						
	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	Total
Assets:						
Obligations of State and Political Subdivisions	\$	—	\$	250,896	\$ 6,447	\$ 257,343
MBS/CMO - Residential		—		468,656	—	468,656
Equity Securities		—		—	353	353
Total Securities	\$	—	\$	719,552	\$ 6,800	\$ 726,352
Loans Held-for-Sale	\$	—	\$	6,856	\$ —	\$ 6,856
Derivative Assets	\$	—	\$	1,548	\$ —	\$ 1,548
Mortgage Servicing Rights	\$	—	\$	593	\$ —	\$ 593
Derivative Liabilities	\$	—	\$	1,579	\$ —	\$ 1,579
Fair Value Measurements at December 31, 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:						
Obligations of State and Political Subdivisions	\$	—	\$	240,224	\$ 7,295	\$ 247,519
MBS/CMO - Residential		—		461,914	—	461,914
Equity Securities		—		—	353	353
Total Securities	\$	—	\$	702,138	\$ 7,648	\$ 709,786
Loans Held-for-Sale	\$	—	\$	15,273	\$ —	\$ 15,273
Derivative Assets	\$	—	\$	1,291	\$ —	\$ 1,291
Mortgage Servicing Rights	\$	—	\$	611	\$ —	\$ 611
Derivative Liabilities	\$	—	\$	1,238	\$ —	\$ 1,238

There were no transfers between Level 1 and Level 2 for the periods ended March 31, 2017 and December 31, 2016.

At March 31, 2017, the aggregate fair value of the Loans Held-for-Sale was \$6,856 . Aggregate contractual principal balance was \$6,697 with a difference of \$159 . At December 31, 2016, the aggregate fair value of the Loans Held-for-Sale was \$15,273 . Aggregate contractual principal balance was \$14,983 with a difference of \$290 .

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NOTE 10 - Fair Value (continued)

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2017 and 2016:

	Obligations of State and Political Subdivisions		Equity Securities	
	2017	2016	2017	2016
Balance of Recurring Level 3 Assets at January 1	\$ 7,295	\$ 9,020	\$ 353	\$ 353
Total Gains or Losses (realized/unrealized) Included in Other Comprehensive Income	17	121	—	—
Maturities / Calls	(865)	(845)	—	—
Purchases	—	—	—	—
Balance of Recurring Level 3 Assets at March 31	<u>\$ 6,447</u>	<u>\$ 8,296</u>	<u>\$ 353</u>	<u>\$ 353</u>

Of the total gain/loss included in earnings for the three months ended March 31, 2017, \$17 was attributable to other changes in fair value. Of the total gain/loss included in earnings for the three months ended March 31, 2016, \$121 was attributable to other changes in fair value. The three months ended March 31, 2017 and 2016 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 March 31, 2017 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	\$ —	\$ —	\$ 57	\$ 57
Commercial Real Estate Loans	—	—	1,395	1,395

Fair Value Measurements at December 31, 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	\$ —	\$ —	\$ 60	\$ 60
Commercial Real Estate Loans	—	—	348	348

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$1,985 with a valuation allowance of \$533, resulting in an increase to the provision for loan losses of \$278 for the period ended March 31, 2017. For the three months ended March 31, 2016, impaired loans resulted in a reduction to the provision for loan losses of \$5. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$663 with a valuation allowance of \$255, resulting in an increase to the provision for loan losses of \$115 for the year ended December 31, 2016.

There was no Other Real Estate carried at fair value less costs to sell at March 31, 2017. No charge to earnings was included in the three months ended March 31, 2017 and 2016. There was no Other Real Estate carried at fair value less costs to sell at December 31, 2016. A charge to earnings through Other Operating Income of \$ 75 was included in the year ended December 31, 2016.

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NOTE 10 - Fair Value (continued)

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 March 31, 2017 and December 31, 2016:

March 31, 2017	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired Loans - Commercial and Industrial Loans	\$ 57	Sales comparison approach	Adjustment for physical condition of comparable properties sold	0%-100% (89%)
Impaired Loans - Commercial Real Estate Loans	\$ 1,395	Sales comparison approach	Adjustment for physical condition of comparable properties sold	30%-76% (64%)
December 31, 2016	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired Loans - Commercial and Industrial Loans	\$ 60	Sales comparison approach	Adjustment for physical condition of comparable properties sold	0%-100% (89%)
Impaired Loans - Commercial Real Estate Loans	\$ 348	Sales comparison approach	Adjustment for physical condition of comparable properties sold	33%-77% (56%)

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 March 31, 2017 and December 31, 2016. 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 March 31, 2017 Using				
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	\$ 37,439	\$ 30,151	\$ 7,288	\$ —	\$ 37,439
Securities Held-to-Maturity	—	—	—	—	—
Loans, Net	1,966,954	—	—	1,968,693	1,968,693
FHLB Stock and Other Restricted Stock	13,048	N/A	N/A	N/A	N/A
Accrued Interest Receivable	11,816	—	3,660	8,156	11,816
Financial Liabilities:					
Demand, Savings, and Money Market Deposits	(1,962,637)	(1,962,637)	—	—	(1,962,637)
Time Deposits	(363,835)	—	(362,964)	—	(362,964)
Short-term Borrowings	(96,569)	—	(96,569)	—	(96,569)
Long-term Debt	(144,789)	—	(133,465)	(10,859)	(144,324)
Accrued Interest Payable	(736)	—	(722)	(14)	(736)

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NOTE 10 - Fair Value (continued)

	Fair Value Measurements at December 31, 2016 Using				
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	\$ 64,816	\$ 48,467	\$ 16,349	\$ —	\$ 64,816
Securities Held-to-Maturity	—	—	—	—	—
Loans, Net	1,974,074	—	—	1,980,523	1,980,523
FHLB Stock and Other Restricted Stock	13,048	N/A	N/A	N/A	N/A
Accrued Interest Receivable	11,413	—	3,289	8,124	11,413
Financial Liabilities:					
Demand, Savings, and Money Market Deposits	(1,971,370)	(1,971,370)	—	—	(1,971,370)
Time Deposits	(378,181)	—	(378,000)	—	(378,000)
Short-term Borrowings	(137,554)	—	(137,554)	—	(137,554)
Long-term Debt	(120,560)	—	(109,709)	(10,793)	(120,502)
Accrued Interest Payable	(789)	—	(775)	(14)	(789)

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.

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.

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NOTE 10 - Fair Value (continued)

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 months ended March 31, 2017 and 2016, net of tax:

March 31, 2017	Unrealized Gains and Losses on Available-for-Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at January 1, 2017	\$ (6,312)	\$ (92)	\$ (6,404)
Other Comprehensive Income (Loss) Before Reclassification	3,998	—	3,998
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	—	—
Net Current Period Other Comprehensive Income (Loss)	3,998	—	3,998
Ending Balance at March 31, 2017	<u>\$ (2,314)</u>	<u>\$ (92)</u>	<u>\$ (2,406)</u>

March 31, 2016	Unrealized Gains and Losses on Available-for-Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at January 1, 2016	\$ 3,890	\$ (78)	\$ 3,812
Other Comprehensive Income (Loss) Before Reclassification	4,029	—	4,029
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	—	—	—
Net Current Period Other Comprehensive Income (Loss)	4,029	—	4,029
Ending Balance at March 31, 2016	<u>\$ 7,919</u>	<u>\$ (78)</u>	<u>\$ 7,841</u>

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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 months ended March 31, 2017 and 2016:

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 March 31, 2017	\$ —	

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 March 31, 2016	\$ —	

NOTE 12 - Newly Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") amended existing guidance (ASU 2014-09 Revenue From Contracts With Customers) related to revenue from contracts with customers. This amendment supersedes and replaces nearly all existing revenue recognition guidance, including industry-specific guidance, establishes a new control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, provides new and more detailed guidance on specific topics and expands and improves disclosures about revenue. In addition, this amendment specifies the accounting for some costs to obtain or fulfill a contract with a customer. These amendments are effective for public business entities for fiscal periods beginning after December 15, 2017, including interim periods within that reporting period. The Company does not expect this pronouncement to have a material impact on the Company's consolidated results of operations and financial condition as the Company's core revenue does not fall under this guidance.

In January 2016, the FASB amended existing guidance (ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities) that requires existing guidance that requires equity investments (except those accounted for under the equity method of account, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. It requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). It eliminates that requirement for public business entities 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. These amendments are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The Company notes that the impact of adoption is to carry the equity security at fair value through the income statement or at cost, less impairment when fair value is not readily determinable, with observable price changes being recognized in earnings. The Company doesn't expect the impact to be material. For additional information on this equity security, see Note 3 - Securities.

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NOTE 12 - Newly Issued Accounting Pronouncements (continued)

In February 2016, the FASB amended existing guidance (ASU No. 2016-02, Leases (Topic 842)) that requires lessees recognize the following for all leases (with the exception of short-term leases) at the commencement date (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) 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. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. These amendments are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that reporting period. Based on our leases outstanding as of March 31, 2017, the Company does not expect this new guidance to have a material impact on the consolidated results of operation. However as a result of this new guidance, the Company anticipates an estimated increase in its Consolidated Balance Sheet of approximately \$6,000. This impact will vary based on the Company's future decisions to enter into new lease agreements or exit/renew current lease agreements prior to the date of implementation.

In June 2016, the FASB issued guidance (ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326)) to replace the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. These amendments are effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that reporting period. The Company recognizes that there may be a cumulative adjustment at the time of adoption, but can not estimate the amount at this time.

In August 2016, the FASB issued this ASU (ASU No. 2016-15, Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments) to address the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows including the following:

- Debt Prepayment or Debt Extinguishment Costs;
- Settlement of Zero-Coupon Bonds or Debt with Coupon Interest Rates That Are Insignificant in Relation to the Effective Interest Rate;
- Contingent Consideration payments Made Soon After a Business Combination;
- Proceeds From the Settlement of Insurance Claims;
- Proceeds From the Settlement of BOLI and COLI Policies;
- Distributions Received From Equity Method Investees;
- Beneficial Interests in Securitization Transactions; and
- Application of the Predominance Principle.

These amendments are effective for public business entities for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. This guidance currently has no material impact on the Company's Consolidated Statements of Cash Flows; however, the Company will continue to monitor it going forward.

In March 2017, the FASB issued this ASU (ASU No. 2017-08, Premium Amortization on Purchased Callable Debt Securities) to align the accounting with the economics of a callable debt security and to align the amortization period with expectations that already are included in market pricing on the callable debt securities. This ASU will shorten the amortization period for premiums on purchased callable debt securities by requiring that premiums be amortized to the first (or earliest) call date instead of as an adjustment to the yield over the contractual life. This guidance is effective for for public business entities for fiscal years beginning after December 15, 2018, including interim period within that reporting period. As a result of the Company's analysis, the Company doesn't expect this pronouncement to have a material impact on its consolidated results of operations and financial condition.

NOTE 13 - Subsequent Events

On March 27, 2017, the Company declared a 3-for-2 stock split on the Company's authorized and outstanding common shares. The stock split was distributed on April 21, 2017, to shareholders of record as of April 6, 2017. All share and per share data in this Quarterly Report on Form 10-Q have been adjusted to retroactively reflect the stock split.

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 March 31, 2017 and December 31, 2016 and the consolidated results of operations for the three months ended March 31, 2017 and 2016. 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, 2016.

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, 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.

Net income for the quarter ended March 31, 2017 totaled \$9,556,000, or \$0.42 per share, which represented an increase of approximately 68% on a per share basis compared with the first quarter 2016 net income of \$5,146,000, or \$0.25 per share. The first quarter of 2016 results of operations included one month's operations of River Valley Bancorp and were impacted by merger related charges associated with the closing of the River Valley transaction which was effective March 1, 2016. These merger related charges totaled approximately \$3,884,000, or \$2,448,000 on an after tax basis, which represented approximately \$0.12 per share during the first quarter of 2016.

On March 27, 2017, the Company declared a 3-for-2 stock split on the Company's authorized and outstanding common shares. The stock split was distributed on April 21, 2017 to shareholders of record as of April 6, 2017. All share and per share data in this Quarterly Report on Form 10-Q have been adjusted and are reflective of the stock split.

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, income tax expense, and the valuation of goodwill and other intangible assets.

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 March 31, 2017, gross unrealized gains on the securities available-for-sale portfolio totaled approximately \$6,264,000 and gross unrealized losses totaled approximately \$9,854,000.

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.

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. The Company has selected December 31 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Other intangible assets consist of core deposit and acquired customer relationship intangible assets. They are initially measured at fair value and then are amortized over their estimated useful lives, which range from 6 to 10 years.

RESULTS OF OPERATIONS

Net Income:

Net income for the quarter ended March 31, 2017 totaled \$9,556,000, or \$0.42 per share, which represented a decline of approximately 5% on a per share basis compared with the fourth quarter 2016 net income of \$10,065,000, or \$0.44 per share, and represented an increase of approximately 68% on a per share basis compared with the first quarter 2016 net income \$5,146,000, or \$0.25 per share. The first quarter of 2016 results of operations included one month's operations of River Valley Bancorp and were impacted by merger related charges associated with the closing of the River Valley transaction which was effective March 1, 2016. These merger related charges totaled approximately \$3,884,000, or \$2,448,000 on an after tax basis, which represented approximately \$0.12 per share during the first quarter 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 March 31, 2017			Three Months Ended March 31, 2016		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
ASSETS						
Federal Funds Sold and Other Short-term Investments	\$ 12,554	\$ 27	0.88%	\$ 20,377	\$ 17	0.34%
Securities:						
Taxable	479,875	2,719	2.27%	479,428	2,277	1.90%
Non-taxable	251,996	3,115	4.94%	216,747	2,649	4.89%
Total Loans and Leases ⁽²⁾	1,974,846	22,440	4.60%	1,694,643	18,755	4.45%
TOTAL INTEREST EARNING ASSETS	2,719,271	28,301	4.20%	2,411,195	23,698	3.95%
Other Assets	221,829			159,798		
Less: Allowance for Loan Losses	(15,005)			(14,562)		
TOTAL ASSETS	\$ 2,926,095			\$ 2,556,431		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing Demand, Savings and Money Market Deposits	\$ 1,385,347	\$ 738	0.22%	\$ 1,143,434	\$ 464	0.16%
Time Deposits	401,155	705	0.71%	400,353	691	0.69%
FHLB Advances and Other Borrowings	226,786	865	1.55%	243,030	741	1.23%
TOTAL INTEREST-BEARING LIABILITIES	2,013,288	2,308	0.47%	1,786,817	1,896	0.43%
Demand Deposit Accounts	557,912			467,516		
Other Liabilities	19,309			23,615		
TOTAL LIABILITIES	2,590,509			2,277,948		
Shareholders' Equity	335,586			278,483		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,926,095			\$ 2,556,431		
COST OF FUNDS						
			0.34%			0.32%
NET INTEREST INCOME		\$ 25,993			\$ 21,802	
NET INTEREST MARGIN			3.86%			3.63%

⁽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 \$3,491,000, or 19% (an increase of \$4,191,000 or 19% on a tax-equivalent basis), for the quarter ended March 31, 2017 compared with the same quarter of 2016. The increased level of net interest income during the first quarter of 2017 compared with the first quarter of 2016 was primarily driven by a higher level of average earning assets resulting from the acquisition of River Valley and from an improved net interest margin.

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 3.86% for the first quarter of 2017 compared to 3.63% during the first quarter of 2016. The tax equivalent yield on earning assets totaled 4.20% during the quarter ended March 31, 2017 compared to 3.95% in the same period of 2016, while the cost of funds (expressed as a percentage of average earning assets) totaled 0.34% during the quarter ended March 31, 2017 compared to 0.32% in the same period of 2016.

The increase in the net interest margin during the first quarter of 2017 was attributable to an increase in the amount of accretion of loan discounts on acquired loans, an increased loan yield stemming partially from the addition of the River Valley loan portfolio and a general increase in market interest rates, and an improved yield on the securities portfolio related to generally higher market interest rates 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 17 basis points to the net interest margin on an annualized basis in the first quarter of 2017 and 6 basis points in the first quarter of 2016. The increase in accretion in the first quarter of 2017 was attributable to the loans acquired in the River Valley transaction as well as transactions closed in prior years.

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 March 31, 2017, the Company recorded a provision for loan loss of \$500,000 compared with a provision of \$850,000 in the first quarter of 2016. The level of provision during the first quarter of 2017 was impacted by the down-grade of a single commercial real estate relationship to non-accrual status and two agricultural relationships down-graded during the first quarter of 2017 from pass graded credits to special mention credits. The higher level of provision during the first quarter of 2016 was largely related to a single agricultural relationship that was down-graded during the first quarter of 2016 from a pass rated credit to a special mention credit. The provision during all periods was done in accordance with the Company's standard methodology for determining the adequacy of its allowance for loan loss.

The Company recorded net charge-offs of \$142,000, or 3 basis points on an annualized basis of average loans outstanding, during the three months ended March 31, 2017, compared with net charge-offs of \$128,000, or 3 basis points of average loans, during the same period of 2016. The provision for loan losses recorded during the quarter ended March 31, 2017 represented 10 basis points on an annualized basis of average loans outstanding compared with 20 basis points on an annualized basis of average loans outstanding during the first quarter of 2016.

The provision for loan losses made during the three months ended March 31, 2017 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 March 31, 2017, non-interest income totaled \$8,188,000, an increase of \$971,000, or 13%, compared with the first quarter of 2016. The increase during the first quarter of 2017 was largely impacted by the acquisition of River Valley. The first quarter of 2017 included a full quarter of River Valley operations while first quarter of 2016 included one month of operations of River Valley.

Non-interest Income (dollars in thousands)	Three Months Ended March 31,		Change From Prior Period	
	2017	2016	Amount Change	Percent Change
Trust and Investment Product Fees	\$ 1,243	\$ 1,021	\$ 222	22 %
Service Charges on Deposit Accounts	1,484	1,233	251	20
Insurance Revenues	2,640	2,727	(87)	(3)
Company Owned Life Insurance	254	215	39	18
Interchange Fee Income	1,023	788	235	30
Other Operating Income	857	513	344	67
Subtotal	7,501	6,497	1,004	15
Net Gains on Sales of Loans	687	720	(33)	(5)
Net Gains on Securities	—	—	—	n/m ⁽¹⁾
Total Non-interest Income	\$ 8,188	\$ 7,217	\$ 971	13

⁽¹⁾ n/m = not meaningful

Trust and investment product fees increased \$222,000, or 22%, during the first quarter of 2017 compared with the first quarter of 2016. The increase was primarily attributable to fees generated from increased assets under management generated both from the Company's existing market areas prior to the River Valley transaction and from increased fees generated related to a full quarter of operations from River Valley included in 2017.

Service charges on deposit accounts increased \$251,000, or 20%, during the first quarter of 2017 compared with the first quarter of 2016. The increase was primarily attributable to a full quarter of operations from River Valley included in 2017.

Insurance revenues declined \$87,000, or 3%, during the quarter ended March 31, 2017, compared with the first quarter of 2016. The decline during the first quarter of 2017 compared with the first quarter of 2016 was due to decreased contingency revenue. Contingency revenue during the first quarter of 2017 totaled \$992,000 compared with \$1,113,000 during the first quarter of 2016.

The fluctuation in contingency revenue is a normal course of business variance and is reflective of claims and loss experience with insurance carriers that the Company represents through its property and casualty insurance agency. Typically, the majority of contingency revenue is recognized during the first quarter of the year.

Interchange fee income increased \$235,000, or 30%, during the first quarter of 2017 compared with the first quarter of 2016. The increase was attributable to a full quarter of operations from River Valley included in 2017 and increased card utilization by customers.

Other operating income increased \$344,000, or 67%, during the first quarter of 2017 compared with the first quarter of 2016. The increase in the first quarter of 2017 compared with the first quarter of 2016 was largely attributable to increased fees associated with swap transactions with loan customers and was also attributable to the River Valley transaction.

Non-interest Expense:

During the quarter ended March 31, 2017, non-interest expense totaled \$19,036,000, a decrease of \$1,204,000, or 6%, compared with the first quarter of 2016. During the first quarter of 2016, the Company recorded costs related to the River Valley merger transaction that totaled \$3,884,000.

Non-interest Expense (dollars in thousands)	Three Months Ended March 31,		Change From Prior Period	
	2017	2016	Amount Change	Percent Change
Salaries and Employee Benefits	\$ 11,444	\$ 11,601	\$ (157)	(1)%
Occupancy, Furniture and Equipment Expense	2,182	1,887	295	16
FDIC Premiums	239	328	(89)	(27)
Data Processing Fees	1,011	2,165	(1,154)	(53)
Professional Fees	803	1,318	(515)	(39)
Advertising and Promotion	778	544	234	43
Intangible Amortization	253	208	45	22
Other Operating Expenses	2,326	2,189	137	6
Total Non-interest Expense	\$ 19,036	\$ 20,240	\$ (1,204)	(6)

Salaries and benefits declined \$157,000, or 1%, during the quarter ended March 31, 2017 compared with the first quarter of 2016. The decline in the first quarter of 2017 compared with the first quarter of 2016 was primarily attributable to the settlement of various employment and benefit arrangements which totaled \$1,934,000 related to the River Valley merger in the first quarter of 2016, partially offset by having River Valley's operations included for a full quarter in 2017 as compared to one month in 2016.

Occupancy, furniture and equipment expense increased \$295,000, or 16%, during the three months ended March 31, 2017 compared with the same period of 2016. This increase was related to the operation of River Valley's 15 branch network during all of the first quarter of 2017 compared with one month in the first quarter of 2016.

Data processing fees declined \$1,154,000, or 53%, in the first quarter of 2017 compared with the first quarter of 2016. The decline during the first quarter of 2017 compared with first quarter of 2016 was primarily related to expenses totaling \$1,198,000 associated with the acquisition of River Valley that were incurred during the first quarter of 2016.

Professional fees declined \$515,000, or 39%, during the first quarter of 2017 compared with the first quarter of 2016. The decline during 2017 compared with 2016 was primarily related to expenses totaling \$599,000 associated with the acquisition of River Valley that were incurred during the first quarter of 2016.

Advertising and promotion increased \$234,000, or 43%, during the quarter ended March 31, 2017 compared with the first quarter of 2016. The increase in advertising and promotion was largely related to charitable contribution activity in the first quarter of 2017.

Income Taxes:

The Company's effective income tax rate was 28.6% and 25.5%, respectively, during the three months ended March 31, 2017 and 2016. The effective tax rate in both 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 decreased to \$2.933 billion at March 31, 2017, representing a decline of \$22.9 million, or 3% on an annualized basis, compared with December 31, 2016.

March 31, 2017 total loans declined \$6.5 million, or 1% on an annualized basis, compared with December 31, 2016. The modest decline during the first quarter of 2017 was largely related to a seasonal decline in agricultural loans of approximately \$10.5 million, or 14% on annualized basis.

End of Period Loan Balances: (dollars in thousands)	March 31, 2017	December 31, 2016	Current Period Change
Commercial & Industrial Loans and Leases	\$ 450,501	\$ 457,372	\$ (6,871)
Commercial Real Estate Loans	865,717	856,094	9,623
Agricultural Loans	292,615	303,128	(10,513)
Home Equity & Consumer Loans	194,290	193,520	770
Residential Mortgage Loans	183,806	183,290	516
Total Loans	\$ 1,986,929	\$ 1,993,404	\$ (6,475)

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

	March 31, 2017	December 31, 2016
Commercial and Industrial Loans and Leases	\$ 3,612	\$ 3,725
Commercial Real Estate Loans	5,696	5,452
Agricultural Loans	4,361	4,094
Home Equity and Consumer Loans	543	518
Residential Mortgage Loans	348	329
Unallocated	606	690
Total Allowance for Loan Loss	\$ 15,166	\$ 14,808

The Company's allowance for loan losses totaled \$15.2 million at March 31, 2017 compared to \$14.8 million at December 31, 2016 representing an increase of \$358,000, or 10% on an annualized basis. The increase in the allowance for loan loss during the first quarter of 2017 was primarily related to the down-grade of a single commercial real estate relationship to non-accrual status and two agricultural relationships down-graded during the first quarter of 2017 from pass graded credits to special mention credits. The allowance for loan losses represented 0.76% of period-end loans at March 31, 2017 compared with 0.74% of period-end loans at December 31, 2016. 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 \$9.2 million as of March 31, 2017, \$10.0 million at December 31, 2016.

The following is an analysis of the Company's non-performing assets at March 31, 2017 and December 31, 2016:

Non-performing Assets: (dollars in thousands)	March 31, 2017	December 31, 2016
Non-accrual Loans	\$ 4,510	\$ 3,793
Past Due Loans (90 days or more)	1,183	2
Total Non-performing Loans	5,693	3,795
Other Real Estate	208	242
Total Non-performing Assets	\$ 5,901	\$ 4,037
Restructured Loans	\$ 28	\$ 28
Non-performing Loans to Total Loans	0.29%	0.19%
Allowance for Loan Loss to Non-performing Loans	266.40%	390.20%

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		Loans Past Due 90 Days or More & Still Accruing	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Commercial and Industrial Loans and Leases	\$ 84	\$ 86	\$ —	\$ 2
Commercial Real Estate Loans	2,496	1,408	—	—
Agricultural Loans	767	792	1,183	—
Home Equity Loans	88	73	—	—
Consumer Loans	322	85	—	—
Residential Mortgage Loans	753	1,349	—	—
Total	\$ 4,510	\$ 3,793	\$ 1,183	\$ 2

Non-performing assets totaled \$5.9 million at March 31, 2017 compared to \$4.0 million of non-performing assets at December 31, 2016. Non-performing assets represented 0.20% of total assets at March 31, 2017 compared to 0.14% of total assets at December 31, 2016. Non-performing loans totaled \$5.7 million at March 31, 2017 compared to \$3.8 million at December 31, 2016. Non-performing loans represented 0.29% of total loans at March 31, 2017 compared to 0.19% at December 31, 2016. The increase in non-performing assets and non-performing loans during the first quarter of 2017 compared with December 31, 2016 levels was attributable to a single commercial real estate credit relationship that was placed on non-accrual status and a single agricultural relationship that was more than 90 days past due at quarter-end.

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 declined \$23.1 million, or 4% on an annualized basis, as of March 31, 2017 compared with December 31, 2016.

End of Period Deposit Balances: (dollars in thousands)	March 31, 2017	December 31, 2016	Current Period Change
Non-interest-bearing Demand Deposits	\$ 572,874	\$ 571,989	\$ 885
Interest-bearing Demand, Savings, & Money Market Accounts	1,389,763	1,399,381	(9,618)
Time Deposits < \$100,000	206,171	207,824	(1,653)
Time Deposits of \$100,000 or more	157,664	170,357	(12,693)
Total Deposits	\$ 2,326,472	\$ 2,349,551	\$ (23,079)

Capital Resources:

As of March 31, 2017, shareholders' equity increased by \$10.9 million to \$341.2 million compared with \$330.3 million at year-end 2016. The increase in shareholders' equity was primarily attributable to an increase of \$6.7 million in retained earnings and an increase of \$4.0 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 11.6% of total assets at March 31, 2017 and 11.2% of total assets at December 31, 2016. Shareholders' equity included \$56.8 million of goodwill and other intangible assets at March 31, 2017 compared to \$56.9 million of goodwill and other intangible assets at December 31, 2016.

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 is 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 March 31, 2017, the capital conservation buffer was 1.25% and for December 31, 2016, the capital conservation buffer was 0.625%. At March 31, 2017, the capital levels for the Company and its subsidiary bank remained well in excess 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:

	3/31/2017 Ratio	12/31/2016 Ratio	Minimum for Capital Adequacy Purposes	Well-Capitalized Guidelines
Total Capital (to Risk Weighted Assets)				
Consolidated	13.54%	13.30%	8.00%	N/A
Bank	12.42%	12.48%	8.00%	10.00%
Tier 1 (Core) Capital (to Risk Weighted Assets)				
Consolidated	12.89%	12.66%	6.00%	N/A
Bank	11.77%	11.84%	6.00%	8.00%
Common Tier 1, (CET 1) Capital Ratio (to Risk Weighted Assets)				
Consolidated	12.42%	12.19%	4.50%	N/A
Bank	11.77%	11.84%	4.50%	6.50%
Tier 1 Capital (to Average Assets)				
Consolidated	10.40%	10.09%	4.00%	N/A
Bank	9.51%	9.46%	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 the 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 Company elected, in its March 31, 2015 regulatory filings (Call Report and FR Y-9), 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 decreased \$27.4 million during the three months ended March 31, 2017 ending at \$37.4 million. During three months ended March 31, 2017, operating activities resulted in net cash inflows of \$22.6 million. Investing activities resulted in net cash outflows of \$7.3 million during the three months ended March 31, 2017. Financing activities resulted in net cash outflows for the three months ended March 31, 2017 of \$42.7 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 March 31, 2017, the parent company had approximately \$18.1 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, 2016, 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 March 31, 2017 - Net Interest Income

Changes in Rates	Net Interest Income	
	Amount	% Change
+2%	\$ 95,444	(3.55)%
+1%	97,117	(1.86)%
Base	98,956	—
-1%	94,384	(4.62)%
-2%	91,425	(7.61)%

The above table is a measurement of the Company's net interest income at risk, assuming a static balance sheet as of March 31, 2017 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 March 31, 2017 - Net Portfolio Value

Changes in Rates	Net Portfolio Value		Net Portfolio Value as a % of Present Value of Assets	
	Amount	% Change	NPV Ratio	Change
+2%	\$ 370,426	(9.43)%	13.56%	(65) b.p.
+1%	390,861	(4.44)%	13.94%	(27) b.p.
Base	409,004	—	14.21%	—
-1%	389,481	(4.77)%	13.25%	(96) b.p.
-2%	327,081	(20.03)%	11.03%	(318) 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 March 31, 2017, 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 first fiscal quarter of 2017 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, 2016.

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 March 31, 2017.

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⁾
January 2017	—	—	—	409,184
February 2017	—	—	—	409,184
March 2017	—	—	—	409,184

⁽¹⁾ On April 26, 2001, the Company announced that its Board of Directors had approved a stock repurchase program for up to 911,631 of its outstanding common shares, of which the Company had purchased 502,447 common shares through March 31, 2017 (both such numbers adjusted for subsequent stock dividends and splits). The Board of Directors established no expiration date for this program. The Company purchased no shares under this program during the three months ended March 31, 2017.

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: May 9, 2017

By/s/Mark A. Schroeder

Mark A. Schroeder

Chairman and Chief Executive Officer

(Principal Executive Officer)

Date: May 9, 2017

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 German American Bancorp, Inc., as amended.
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 March 31, 2017, 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.

**ARTICLES OF INCORPORATION
OF
GERMAN AMERICAN BANCORP, INC.**

ARTICLE I

NAME

The name of the Corporation is German American Bancorp, Inc.

ARTICLE II

PURPOSES AND POWERS

Section 2.01 Purposes of the Corporation. The purposes for which the Corporation is formed are to transact any or all lawful business permitted by applicable law and for which corporations may now or hereafter be incorporated under the Corporation Law.

Section 2.02 Powers of the Corporation. The Corporation shall have (a) all powers now or hereafter authorized by or vested in corporations pursuant to the provisions of the Corporation Law, (b) all powers now or hereafter vested in corporations by common law or any other statute or act, and (c) all powers authorized by or vested in the Corporation by the provisions of these Articles of Incorporation or by the provisions of its Bylaws as from time to time in effect.

ARTICLE III

TERM OF EXISTENCE

The period during which the Corporation shall continue is perpetual.

ARTICLE IV

REGISTERED OFFICE

The street address of the Corporation's registered office is 711 Main Street, P.O. Box 810, Jasper, Indiana 47546.

ARTICLE V

SHARES

The total number of shares of capital stock the Corporation has authority to issue shall be 45,750,000 shares consisting of 45,000,000 common shares (the "Common Shares") and 750,000 preferred shares (the "Preferred Shares"). The Corporation's shares shall have no par value. Solely for the purpose of any statute or regulation imposing any tax or fee based upon the capitalization of the Corporation, however, all of the shares shall be deemed to have a stated value of \$1.00 per share.

ARTICLE VI

TERMS OF SHARES

Section 6.01. General Terms of All Shares. The Corporation shall have the power to acquire (by purchase, redemption, or otherwise), hold, own, pledge, sell, transfer, assign, reissue, cancel, or otherwise dispose of the shares of the Corporation in the manner and to the extent now or hereafter permitted by the laws of the State of Indiana. The power to purchase, redeem, or otherwise acquire the Corporation's own shares, directly or indirectly, may be exercised without pro rata treatment of the owners or holders of any class or series of shares. The Corporation may not purchase, redeem or otherwise acquire the Corporation's own shares if, after giving effect thereto, the Corporation would not be able to pay its debts as they become due in the usual course of business or the Corporation's total assets would be less than its total liabilities (without regard to any amounts that would be needed, if the Corporation were to be dissolved at the time of the purchase, redemption, or other acquisition, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those of the holders of the shares of the Corporation being purchased, redeemed, or otherwise acquired, unless otherwise expressly provided with respect to a series of Preferred Shares in the provisions of these Articles of Incorporation adopted by the Board of Directors pursuant to Section 6.03(a) of this Article VI describing the terms of such series). Shares of the Corporation purchased, redeemed, or otherwise acquired by it shall constitute authorized but unissued shares, unless the Board of Directors shall at any time adopt a resolution providing that such shares constitute authorized and issued but not outstanding shares.

The Board of Directors of the Corporation may dispose of, issue, and sell shares in accordance with, and in such amounts as may be permitted by, the laws of the State of Indiana and the provisions of these Articles of Incorporation and for such consideration, at such price or prices, at such time or times and upon such terms and conditions (including the privilege of selectively repurchasing the same) as the Board of Directors of the Corporation shall determine, without the authorization or approval by any shareholders of the Corporation. Shares may be disposed of, issued, and sold to such persons, firms, or corporations as the Board of Directors may determine, without any preemptive or other right on the part of the owners or holders of other shares of the Corporation of any class or kind to acquire such shares by reason of their ownership of such other shares.

The Corporation shall have the power to declare and pay dividends or other distributions upon the issued and outstanding shares of the Corporation, subject to the limitation that a dividend or other distribution may not be made if, after giving it effect, the Corporation would not be able to pay its debts as they become due in the usual course of business or the Corporation's total assets would be less than its total liabilities (without regard to any amounts that would be needed, if the Corporation were to be dissolved at the time of the dividend or other distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those of the holders of shares receiving the dividend or other distribution, unless otherwise expressly provided with respect to a series of Preferred Shares in the provisions of these Articles of Incorporation adopted by the Board of Directors pursuant to Section 6.03(a) of this Article VI describing the terms of such series). The Corporation shall have the power to issue shares of one class or series as a share dividend or other distribution in respect of that class or series or one or more other classes or series, except as may be otherwise provided with respect to a series of Preferred Shares in the provisions of these Articles of Incorporation adopted by the Board of Directors pursuant to Section 6.03(a) of this Article VI describing the terms of such series.

Section 6.02. Terms of Common Shares. The Common Shares shall be equal in every respect insofar as their relationship to the Corporation is concerned, but such equality of rights shall not imply equality of treatment as to redemption or other acquisition of shares by the Corporation. Subject to the rights of the holders of any issued and outstanding Preferred Shares under this Article VI, the holders of Common Shares shall be entitled to share ratably in such dividends or other distributions (other than purchases, redemptions, or other acquisitions of Common Shares of the Corporation), if any, as are declared and paid from time to time on the Common Shares at the discretion of the Board of Directors. In the event of any liquidation, dissolution, or winding up of the Corporation, either voluntary or involuntary, after payment shall have been made to the holders of the Preferred Shares of the full amount to which they shall be entitled under this Article VI, the holders of Common Shares shall be entitled, to the exclusion of the

holders of the Preferred Shares of any and all series, to share, ratably according to the number of Common Shares held by them, in all remaining assets of the Corporation available for distribution to its shareholders.

Section 6.03. Terms of Preferred Shares.

(a) Preferred Shares may be issued from time to time in one or more series, each such series to have such distinctive designation and such preferences, limitations, and relative voting and other rights as shall be set forth in these Articles of Incorporation. Subject to the requirements of the Corporation Law and subject to all other provisions of these Articles of Incorporation, the Board of Directors of the Corporation may create one or more series of Preferred Shares and may determine the preferences, limitations, and relative voting and other rights of one or more series of Preferred Shares before the issuance of any shares of that series by the adoption of an amendment to these Articles of Incorporation that specifies the terms of that series of Preferred Shares. All shares of a series of Preferred Shares must have preferences, limitations, and relative voting and other rights identical to those of other shares of the same series. No series of Preferred Shares need have preferences, limitations, or relative voting or other rights identical with those of any other series of Preferred Shares. Before issuing any shares of a series of Preferred Shares, the Board of Directors shall adopt an amendment to these Articles of Incorporation, which shall be effective without any shareholder approval or other action, that fixes and sets forth the distinctive designation of such series; the number of shares that shall constitute such series, which number may be increased or decreased (but not below the number of shares thereof then outstanding) from time to time by action of the Board of Directors; and the preferences, limitations, and relative voting and other rights of the series. Authority is hereby expressly vested in the Board of Directors, by such amendment, to fix all of the preferences or rights, and any qualifications, limitations, or restrictions of such preferences or rights, of such series to the full extent permitted by the Corporation Law; provided, however, that no such preferences, rights, qualifications, limitations, or restrictions shall be in conflict with these Articles of Incorporation or any amendment hereof.

(b) Preferred Shares of any series that have been redeemed (whether through the operation of a sinking fund or otherwise) or purchased by the Corporation, or that, if convertible, have been converted into shares of the Corporation of any other class or series, may be reissued as a part of such series or of any other series of Preferred Shares, subject to such limitations (if any) as may be fixed by the Board of Directors with respect to such series of Preferred Shares in accordance with Section 6.03(a) of this Article VI.

ARTICLE VII

VOTING RIGHTS

Section 7.01. Common Shares. Except as otherwise provided by the Corporation Law or by the provisions of these Articles of Incorporation adopted by the Board of Directors pursuant to Section 6.03(a) of Article VI hereof describing the Preferred Shares or a series thereof, and subject to such shareholder disclosure and recognition procedures (which may include sanctions for noncompliance therewith to the fullest extent permitted by the Corporation Law) as the Corporation may by action of the Board of Directors establish, the Common Shares have unlimited voting rights. At every meeting of the shareholders of the Corporation every holder of Common Shares shall be entitled to one vote in person or by proxy for each Common Share standing in such holder's name on the share transfer records of the Corporation.

Section 7.02. Preferred Shares. Except as required by the Corporation Law or by the provisions of these Articles of Incorporation adopted by the Board of Directors pursuant to Section 6.03(a) of Article VI hereof describing the terms of Preferred Shares or a series thereof, the holders of Preferred Shares shall have no voting rights or powers. Preferred Shares shall, when validly issued by the Corporation, entitle the record holder thereof to vote on such matters, but only on such matters, as the holders thereof are entitled to vote under the Corporation Law or under these Articles of Incorporation adopted by the Board of Directors pursuant to Section 6.03(a) of Article VI hereof describing the terms of Preferred Shares or a series thereof (which provisions may provide for special, conditional, limited, or unlimited voting rights, including multiple or fractional votes per share, or for no right to vote, except to the extent required by the Corporation Law) and subject to such shareholder disclosure and recognition procedures (which may include

sanctions for noncompliance therewith to the fullest extent permitted by the Corporation Law) as the Corporation may by action of the Board of Directors establish.

ARTICLE VIII

DIRECTORS

Section 8.01. Number. The number of Directors shall be fixed by, or fixed in accordance with, the Bylaws. Whenever there are nine or more Directors, the Bylaws may also provide for staggering the terms of the members of the Board of Directors by dividing the total number of Directors into two or three groups (with each group containing one-half or one-third of the total, as near as may be) whose terms of office expire at different times.

Section 8.02. Election of Directors by Holders of Preferred Shares. The holders of one or more series of Preferred Shares may be entitled to elect all or a specified number of Directors, but only to the extent and subject to limitations as may be set forth in the provisions of these Articles of Incorporation adopted by the Board of Directors pursuant to Section 6.03(a) of Article VI hereof describing the terms of the series of Preferred Shares.

Section 8.03. Vacancies. Vacancies occurring in the Board of Directors shall be filled in the manner provided in the Bylaws or, if the Bylaws do not provide for the filling of vacancies, in the manner provided by the Corporation Law.

Section 8.04. Removal of Directors. Any or all of the members of the Board of Directors may be removed, with or without cause, at a meeting of the shareholders called expressly for that purpose, by the affirmative vote of the holders of at least 80 percent of the outstanding shares then entitled to vote at an election of Directors. However, a Director elected by the holders of a series of Preferred Shares as authorized by Section 8.02 of this Article VIII may be removed only by the affirmative vote of the holders of at least 80 percent of the outstanding shares of that series then entitled to vote at an election of Directors. Directors may not be removed by the Board of Directors.

Section 8.05. Liability of Directors. A Director's responsibility to the Corporation shall be limited to discharging his duties as a Director, including his duties as a member of any committee of the Board of Directors upon which he may serve, in good faith, with the care an ordinarily prudent person in a like position would exercise under similar circumstances, and in a manner the Director reasonably believes to be in the best interests of the Corporation, all based on the facts then known to the Director.

In discharging his duties, a Director is entitled to rely on information, opinions, reports or statements, including financial statements and other financial data, if prepared or presented by:

- (a) one or more officers or employees of the Corporation whom the Director reasonably believes to be reliable and competent in the matters presented
- (b) Legal counsel, public accountants, or other persons as to matters the Director reasonably believes are within such person's professional or expert competence; or
- (c) A committee of the Board of which the Director is not a member if the Director reasonably believes the committee merits confidence; but a Director is not acting in good faith if the Director has knowledge concerning the matter in question that makes reliance otherwise permitted by this Section 8.05 unwarranted. A Director may, in considering the best interests of the Corporation, consider the effects of any action on shareholders, employees, suppliers, and customers of the Corporation, and communities in which offices or other facilities of the Corporation are located, and any other factors the Director considers pertinent.

Directors shall be immune from personal liability for any action taken as a Director, or any failure to take any action, to the fullest extent permitted by the applicable provisions of the Corporation Law from time to time in effect and by general principles of corporate law.

ARTICLE IX

PROVISIONS FOR REGULATION OF BUSINESS AND CONDUCT OF AFFAIRS OF CORPORATION

Section 9.01. Bylaws. The Board of Directors shall have the exclusive power to make, alter, amend, or repeal, or to waive provisions of, the Bylaws of the Corporation by the affirmative vote of a majority of the number of Directors then in office, except as provided by the Corporation Law. All provisions for the regulation of the business and management of the affairs of the Corporation not stated in these Articles of Incorporation shall be stated in the Bylaws. The Board of Directors may also adopt Emergency Bylaws of the Corporation and shall have the exclusive power (except as may otherwise be provided therein) to make, alter, amend, or repeal, or to waive provisions of, the Emergency Bylaws by the affirmative vote of a majority of the entire number of Directors at the time.

Section 9.02. Amendment or Repeal.

(a) Any amendment, change or repeal of Section 8.04 of Article VIII, Sections 9.02 or 9.03 of Article IX, or Article X of these Articles of Incorporation, or any other amendment of these Articles of Incorporation which would have the effect of modifying or permitting circumvention of those provisions, shall require the affirmative vote, at a meeting of shareholders of the Corporation, by the holders of a least 80 percent of the outstanding shares of all classes of Voting Shares of the Corporation (considered for purposes of this Section 9.02(a) as a single class and as defined in Article X) and, if the amendment, change or repeal shall be proposed by or on behalf of a Related Person (as that term is defined in Article X), by an Independent Majority of Shareholders (as defined in Article X); provided, however, that this Section 9.02(a) shall not apply to, and such vote shall not be required for, any such amendment, change or repeal recommended to shareholders by the favorable vote of not less than two-thirds of the Board of Directors and, if the amendment, change or repeal shall be proposed by or on behalf of a Related Person, by the favorable vote of not less than two-thirds of the Continuing Directors (as defined in Article X and computed with reference to the Related Person who shall propose such amendment, change or repeal), and any such amendment, change or repeal so recommended shall require only the shareholder vote required under the applicable provisions of the Corporation Law.

(b) Except as otherwise expressly provided in Section 9.02(a) above, the Corporation shall be deemed, for all purposes, to have reserved the right to amend, alter, change or repeal any provision contained in these Articles of Incorporation to the extent and in the manner now or hereafter permitted or prescribed by statute, and all rights herein conferred upon shareholders are granted subject to such reservation.

Section 9.03. Removal of Chairman of the Board and President. The Chairman of the Board and the President, and each of them, may be removed from office at any time, with or without cause, at a meeting of the Board of Directors called expressly for that purpose, but only by the affirmative vote of two-thirds of all other members of the entire Board of Directors. Any vacancy created by the removal of the chairman or the President may be filled only by the affirmative vote of two-thirds of all remaining members of the Board.

ARTICLE X

APPROVAL OF BUSINESS COMBINATIONS

Section 10.01. Supermajority Vote. Except as provided in Sections 10.02 and 10.03 of this Article X, neither the Corporation nor any of its Subsidiaries shall become party to any Business Combination with a Related Person without the prior affirmative vote at a meeting of the Corporation's shareholders:

(a) By the holders of not less than 80 percent of the outstanding shares of all classes of Voting Shares of the Corporation considered for purposes of this Article X as a single class, and

(b) By an Independent Majority of Shareholders. Such favorable votes shall be in addition to any shareholder vote that would be required without reference to this Section 10.01 and shall be required notwithstanding the fact that no vote may be required, or that some lesser percentage may be specified by law or in other Articles of these Articles of Incorporation or the Bylaws of the Corporation or otherwise.

Section 10.02. Reduced Supermajority Vote for Fair Pricing. The provisions of Section 10.01 shall apply to a Business Combination, except that the percentage vote required by Section 10.01(a) shall be reduced from not less than 80 percent to not less than two-thirds, if all of the conditions set forth in subsections (a) through (d) of this Section 10.02 are satisfied.

(a) The fair market value of the property, securities or other consideration to be received per share by holders of each class or series of capital shares of the Corporation in the Business Combination is not less, as of the date of the consummation of the Business Combination (the "Consummation Date"), than the higher of the following:

(i) the highest per share price (with appropriate adjustments for recapitalizations and for share splits, share dividends and like distributions) including brokerage commissions and solicitation fees paid by the Related Person in acquiring any of its holdings of such class or series of capital shares within the two-year period immediately prior to the first public announcement of the proposed Business Combination ("Announcement Date") or in the transaction in which it became a Related Person, whichever is higher, plus interest compounded annually, from the later of the date that the Related Person became a Related Person (the "Determination Date"), or the date two years before the consummation Date, through the consummation Date, at the rate publicly announced as the "prime rate" of interest of Citibank, N.A. (or of such other major bank headquartered in New York as may be selected by a majority of the Continuing Directors) from time to time in effect, less the aggregate amount of any cash dividends paid and the fair market value of any dividends paid in other than cash on each such share from the date from which interest accrues under the preceding clause through the Consummation Date up to but not exceeding the amount of interest so payable per share; or

(ii) if such class or series is then traded on an exchange or is the subject of regularly published quotations from three or more broker/dealers who make a market in such class or series for their own accounts, the fair market value per share of such class or series on the Announcement Date, as determined by the highest closing sales price on such exchange or the highest closing bid quotation with respect to such shares during the 30-day period immediately preceding the Announcement Date. In the event of a Business Combination upon consummation of which the Corporation would be the surviving corporation or company or would continue to exist (unless it is provided, contemplated or intended that as part of such Business Combination or within one year after consummation thereof a plan of liquidation or dissolution of the Corporation will be effected), the term "other consideration to be received" shall include (without limitation) Common Shares and/or the shares of any other class of shares retained by shareholders of the Corporation other than Related Persons who are parties to such Business Combination;

(b) The consideration to be received in such Business Combination by holders of each class or series of capital shares other than the Related Person involved shall, except to the extent that a shareholder agrees otherwise as to all or part of the shares which he or she owns, be in the same form and of the same kind as the consideration paid by the Related Person in acquiring the majority of the capital shares of such class or Series already Beneficially owned by it within the two-year period ending on the Determination Date;

(c) After such Related Person became a Related Person and prior to the consummation of such Business Combination: (i) such Related Person shall have taken steps to insure that the Board of Directors of the Corporation included at all times representation by Continuing Directors proportionate to the ratio that the number of Voting Shares of the Corporation from time to time not Beneficially Owned by the Related Person bears to all Voting Shares of the Corporation outstanding at the time in question (with a Continuing Director to occupy any resulting fractional position among the Directors); (ii) such Related Person shall not have acquired from the Corporation, directly or indirectly, any shares of the Corporation (except upon conversion of convertible securities acquired by it prior to becoming a Related Person or as a result of a pro rata share dividend, share split or division of shares or in a transaction that satisfied all applicable requirements of this Article X); (iii) such Related Person shall not have acquired any additional Voting

Shares of the Corporation or securities convertible into or exchangeable for Voting Shares except as a part of the transaction which resulted in such Related Person's becoming a Related Person; and (iv) such Related Person shall not have received the benefit, directly or indirectly (except proportionately as a shareholder), of any loans, advances, guarantees, pledges or other financial assistance or tax credits provided by the Corporation or any Subsidiary, or made any major change in the Corporation's business or equity capital structure or entered into any contract, arrangement or understanding with the Corporation except any such change, contract, arrangement or understanding as may have been approved by the favorable vote of not less than a majority of the continuing Directors of the Corporation; and

(d) A proxy statement complying with the requirements of the Securities Exchange Act of 1934 and the rules and regulations of the Securities and Exchange Commission thereunder, as then in force for corporations subject to the requirements of Section 14 of such Act (even if the Corporation is not otherwise subject to Section 14 of such Act), shall have been mailed to all holders of Voting Shares for the purpose of soliciting shareholder approval of such Business Combination. Such proxy statement shall contain on the face page thereof, in a prominent place, any recommendations as to the advisability (or inadvisability) of the Business Combination which the Continuing Directors, or any of them, may have furnished in writing and, if deemed advisable by a majority of the Continuing Directors, a fair summary of an opinion of a reputable investment banking firm addressed to the Corporation as to the fairness (or lack of fairness) of the terms of such Business Combination from the point of view of the holders of Voting Shares other than any Related Person (such investment banking firm to be selected by a majority of the Continuing Directors, to be furnished with all information it reasonably requests, and to be paid a reasonable fee for its services upon receipt by the Corporation of such opinion).

Section 10.03. Director Approval Exception. The provisions of Sections 10.01 and 10.02 of this Article X shall not apply to, and such votes shall not be required, if:

(a) The Continuing Directors of the Corporation by a two-thirds vote (i) have expressly approved a memorandum of understanding with the Related Person with respect to the Business Combination prior to the time the Related Person became a Related Person, or (ii) have otherwise approved the Business Combination (this provision is incapable of satisfaction unless there is at least one Continuing Director); or

(b) The Business Combination is solely between the Corporation and another corporation, 100 percent of the Voting Shares of which are owned directly or indirectly by the Corporation.

Section 10.04. Definitions. For the purpose of this Article X: (a) A "Business Combination" means:

(i) the sale, exchange, lease, transfer or other disposition to or with a Related Person or any Affiliate or Associate of such Related Person by the Corporation or any of its Subsidiaries (in a single transaction or a series of Related Transactions) of all or substantially all, or any substantial Part, of its or their assets or businesses (including, without limitation, any securities issued by a Subsidiary);

(ii) The purchase, exchange, lease or other acquisition by the Corporation or any of its Subsidiaries (in a single transaction or a series of Related Transactions) of all or substantially all, or any Substantial Part, of the assets or business of a Related Person or any Affiliate or Associate of such Related Person;

(iii) Any merger or consolidation of the Corporation or any Subsidiary thereof into or with a Related Person or any Affiliate or Associate of such Related Person or into or with another Person which, after such merger or consolidation, would be an Affiliate or an Associate of a Related Person, in each case irrespective of which Person is the surviving entity in such merger or consolidation;

(iv) Any reclassification of securities, recapitalization or other transaction (other than a redemption in accordance with the terms of the security redeemed) which has the effect, directly or indirectly, of increasing the proportionate amount of Voting Shares of the Corporation or any Subsidiary thereof which are Beneficially Owned by a Related Person, or any partial or complete liquidation, spin-off, split-off or split-up of the Corporation or any

Subsidiary thereof; provided, however, that this Section 10.04(a)(iv) shall not relate to any transaction of the types specified in this Article X that has been approved by a majority of the Continuing Directors; or

(v) The acquisition upon the issuance thereof of Beneficial Ownership by a Related Person of Voting Shares or securities convertible into Voting Shares or any voting securities or securities convertible into voting securities of any Subsidiary of the Corporation, or the acquisition upon the issuance thereof of Beneficial Ownership by a Related Person of any rights, warrants or options to acquire any of the foregoing or any combination of the foregoing Voting Shares or voting securities of the Subsidiary.

(b) A “Series of Related Transactions” shall be deemed to include not only a series of transactions with the same Related Person but also a series of separate transactions with a Related Person or any Affiliate or Associate of such Related Person.

(c) A “Person” shall mean any individual, firm, corporation or other entity and any partnership, syndicate or other group.

(d) “Related Person” shall mean any Person (other than the Corporation or any of the Corporation’s Subsidiaries) who or that:

(i) is the Beneficial Owner, directly or indirectly, of more than ten percent of the voting power of the outstanding Voting Shares;

(ii) is an Affiliate of the Corporation and at any time within the two-year period immediately prior to the date in question was the Beneficial Owner, directly or indirectly, of ten percent or more of the voting power of the then outstanding shares of Voting Shares; or

(iii) is an assignee of or has otherwise succeeded to any Voting Shares which were at any time within the two-year period immediately prior to the date in question beneficially owned by any Related Person, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

A Related Person shall be deemed to have acquired a share of the Corporation at the time when such Related Person became the Beneficial Owner thereof. For the purposes of determining whether a Person is the Beneficial Owner of ten percent or more of the voting power of the then outstanding Voting Shares, the outstanding Voting Shares shall be deemed to include any Voting Shares that may be issuable to such Person pursuant to a right to acquire such Voting Shares and that is therefore deemed to be Beneficially Owned by such Person pursuant to Section 10.04(e)(ii)(a). A Person who is a Related Person at (i) the time any definitive agreement relating to a Business Combination is entered into, (ii) the record date for the determination of shareholders entitled to notice of and to vote on a Business Combination, or (iii) the time immediately prior to the consummation of a Business Combination, shall be deemed a Related Person.

(e) A Person shall be a “Beneficial Owner” of any Voting Shares:

(i) which such Person or any of its Affiliates or Associates beneficially owns, directly or indirectly; or

(ii) which such Person or any of its Affiliates or Associates has (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding; or

(iii) which are beneficially owned, directly or indirectly, by any other Person with which such Person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any Voting Shares.

(f) An “Affiliate” of, or a person Affiliated with, a specific Person, means a Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Person specified.

(g) The term “Associate” used to indicate a relationship with any Person, means (i) any corporation or organization (other than this Corporation or a majority-owned Subsidiary of this Corporation) of which such Person is an officer or partner or is, directly or indirectly, the Beneficial Owner of five percent or more of any class of equity securities, (ii) any trust or other estate in which such Person has a substantial beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity, (iii) any relative or spouse of such Person, or any relative of such spouse, who has the same home as such Person, or (iv) any investment company registered under the Investment Company Act of 1940, for which such Person or any Affiliate of such Person serves as investment advisor.

(h) “Subsidiary” means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Corporation; provided, however, that for the purposes of the definition of Related Person set forth in paragraph (d) of this Section 10.04, the term “Subsidiary” shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

(i) “Continuing Director” means any member of the Board of Directors of the Corporation (the “Board”), other than the Related Person who proposes the Business Combination in question and his Affiliates and Associates, who (i) is a member of the Board at the time this Article X first became effective or (ii) was a member of the Board prior to the time that the Related Person who proposes the Business Combination in question became a Related Person or (iii) is a successor of a Continuing Director who was recommended to succeed the Continuing Director by a majority of Continuing Directors then on the Board.

(j) “Independent Majority of Shareholders” shall mean the holders of a majority of the outstanding Voting Shares that are not Beneficially Owned or controlled, directly or indirectly, by the Related Person who proposes the Business Combination in question.

(k) “Voting Shares” shall mean all outstanding capital shares of the Corporation or another corporation entitled to vote generally in the election of Directors, and each reference to a proportion of shares of Voting Shares shall refer to such proportion of the votes entitled to be cast by such shares.

(l) “Substantial Part” means properties and assets involved in any single transaction or a series of Related Transactions having an aggregate fair market value of more than ten percent of the total consolidated assets of the Person in question as determined immediately prior to such transaction or series of Related Transactions.

Section 10.05. Director Determinations. A majority of the Continuing Directors shall have the power to determine for the purposes of this Article X, on the bases of information known to them: (i) the number of Voting Shares of which any Person is the Beneficial Owner, (ii) whether a Person is an Affiliate or Associate of another, (iii) whether a Person has an agreement, arrangement or understanding with another as to the matters referred to in the definition of “Beneficial Owner,” (iv) whether the assets subject to any Business Combination constitute a Substantial Part, (v) whether two or more transactions constitute a series of Related Transactions, and (vi) such other matters with respect to which a determination is required under this Article X.

In connection with the exercise of its judgment in determining what is in the best interests of the Corporation and its shareholders when evaluating a business combination or a proposal by another Person or Persons to make a business combination or a tender or exchange offer (regardless of whether such proposal is otherwise subject to this Article X), the Board of Directors of the Corporation shall, in addition to considering the adequacy of the consideration to be paid in connection with any such transaction, consider all of the following factors and any other factors that it deems relevant: (i) the social and economic effects of the transaction on the Corporation and its Subsidiaries, employees, depositors, loan and other customers, creditors and other elements of the communities in which the Corporation and its Subsidiaries operate or are located; (ii) the business and financial condition and earnings prospects

of the acquiring Person or Persons, including, but not limited to, debt service and other existing or likely financial obligations of the acquiring Person or Persons and their Affiliates and Associates, and the possible effect of such conditions upon the Corporation and its Subsidiaries and the other elements of the communities in which the Corporation and its Subsidiaries operate or are located; and (iii) the competence, experience, and integrity of the acquiring Person or Persons and its or their management and Affiliates and Associates.

Section 10.06. Fiduciary Obligations Unaffected. Nothing in this Article X shall be construed to relieve any Related Person from any fiduciary duty imposed by law.

Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman and Chief Executive Officer

I, Mark A. Schroeder, Chairman and Chief Executive Officer of German American Bancorp, Inc., certify that:

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

May 9, 2017

Date

/s/ Mark A. Schroeder

Mark A. Schroeder
Chairman and Chief Executive Officer
(principal executive officer)

Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer

I, Bradley M. Rust, Executive Vice President and Chief Financial Officer of German American Bancorp, Inc. certify that:

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

May 9, 2017

Date

/s/ Bradley M. Rust

Bradley M. Rust

Executive Vice President and Chief Financial Officer

(principal accounting officer and principal financial officer)

Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman and Chief Executive Officer

I, Mark A. Schroeder, Chairman and Chief Executive Officer of German American Bancorp, Inc. certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), that:

1. The Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (the "Periodic Report"), which this statement accompanies, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. Information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of German American Bancorp, Inc.

This certificate is being furnished solely for purposes of Section 906 and is not being filed as part of the Periodic Report.

May 9, 2017

Date

/s/ Mark A. Schroeder

Mark A. Schroeder
Chairman and Chief Executive Officer
(principal executive officer)

Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer

I, Bradley M. Rust, Executive Vice President and Chief Financial Officer of German American Bancorp, Inc. certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350), that:

1. The Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 (the "Periodic Report"), which this statement accompanies, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. Information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of German American Bancorp, Inc.

This certificate is being furnished solely for purposes of Section 906 and is not being filed as part of the Periodic Report.

May 9, 2017

Date

/s/ Bradley M. Rust

Bradley M. Rust

Executive Vice President and Chief Financial Officer

(principal accounting officer and principal financial officer)