

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 June 30, 2019

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 every Interactive Data File required to be submitted 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 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 ☒

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

| Title of each class        | Trading Symbol(s) | Name of each exchange on which registered |
|----------------------------|-------------------|-------------------------------------------|
| Common Stock, no par value | GABC              | NASDAQ Global Select Market               |

As of August 1, 2019, the registrant had 26,660,878 outstanding shares of Common Stock, no par value.

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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, 2018, in Item 1, “Business – Forward-Looking Statements and Associated Risks” and our discussion of risk factors in Item 1A, “Risk Factors” of that Annual Report on Form 10-K, as updated from time to time in our subsequent SEC filings, including by Item 2 of Part I of this Report (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”) at the conclusion of that Item 2 under the heading “Forward-Looking Statements and Associated Risks.”

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## INDEX

|          |                                                                                                                |                    |
|----------|----------------------------------------------------------------------------------------------------------------|--------------------|
| PART I.  | FINANCIAL INFORMATION                                                                                          | <a href="#">4</a>  |
| Item 1.  | Unaudited Financial Statements                                                                                 | <a href="#">4</a>  |
|          | Consolidated Balance Sheets – June 30, 2019 and December 31, 2018                                              | <a href="#">4</a>  |
|          | Consolidated Statements of Income – Three Months Ended June 30, 2019 and 2018                                  | <a href="#">5</a>  |
|          | Consolidated Statements of Income – Six Months Ended June 30, 2019 and 2018                                    | <a href="#">6</a>  |
|          | Consolidated Statements of Comprehensive Income – Three and Six Months Ended June 30, 2019 and 2018            | <a href="#">7</a>  |
|          | Consolidated Statements of Changes in Shareholders' Equity - Three and Six Months Ended June 30, 2019 and 2018 | <a href="#">8</a>  |
|          | Consolidated Statements of Cash Flows – Six Months Ended June 30, 2019 and 2018                                | <a href="#">9</a>  |
|          | Notes to Consolidated Financial Statements – June 30, 2019                                                     | <a href="#">10</a> |
| Item 2.  | Management's Discussion and Analysis of Financial Condition and Results of Operations                          | <a href="#">40</a> |
| Item 3.  | Quantitative and Qualitative Disclosures About Market Risk                                                     | <a href="#">54</a> |
| Item 4.  | Controls and Procedures                                                                                        | <a href="#">55</a> |
| PART II. | OTHER INFORMATION                                                                                              | <a href="#">56</a> |
| Item 1.  | Legal Proceedings                                                                                              | <a href="#">56</a> |
| Item 1A. | Risk Factors                                                                                                   | <a href="#">56</a> |
| Item 2.  | Unregistered Sales of Equity Securities and Use of Proceeds                                                    | <a href="#">56</a> |
| Item 3.  | Defaults Upon Senior Securities                                                                                | <a href="#">56</a> |
| Item 4.  | Mine Safety Disclosures                                                                                        | <a href="#">56</a> |
| Item 5.  | Other Information                                                                                              | <a href="#">56</a> |
| Item 6.  | Exhibits                                                                                                       | <a href="#">57</a> |
|          | SIGNATURES                                                                                                     | <a href="#">59</a> |

**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)

|                                                                            | June 30,<br>2019    | December 31,<br>2018 |
|----------------------------------------------------------------------------|---------------------|----------------------|
| <b>ASSETS</b>                                                              |                     |                      |
| Cash and Due from Banks                                                    | \$ 48,634           | \$ 64,549            |
| Federal Funds Sold and Other Short-term Investments                        | 41,373              | 32,001               |
| Cash and Cash Equivalents                                                  | 90,007              | 96,550               |
| Interest-bearing Time Deposits with Banks                                  | 250                 | 250                  |
| Securities Available-for-Sale, at Fair Value                               | 840,692             | 812,611              |
| Other Investments                                                          | 353                 | 353                  |
| Loans Held-for-Sale, at Fair Value                                         | 14,184              | 4,263                |
| Loans                                                                      | 2,720,674           | 2,731,741            |
| Less: Unearned Income                                                      | (3,646)             | (3,682)              |
| Allowance for Loan Losses                                                  | (16,239)            | (15,823)             |
| Loans, Net                                                                 | 2,700,789           | 2,712,236            |
| Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost          | 13,048              | 13,048               |
| Premises, Furniture and Equipment, Net                                     | 89,413              | 80,627               |
| Other Real Estate                                                          | 635                 | 286                  |
| Goodwill                                                                   | 103,799             | 103,681              |
| Intangible Assets                                                          | 9,510               | 9,964                |
| Company Owned Life Insurance                                               | 59,536              | 59,896               |
| Accrued Interest Receivable and Other Assets                               | 48,523              | 35,325               |
| <b>TOTAL ASSETS</b>                                                        | <b>\$ 3,970,739</b> | <b>\$ 3,929,090</b>  |
| <b>LIABILITIES</b>                                                         |                     |                      |
| Non-interest-bearing Demand Deposits                                       | \$ 725,367          | \$ 715,972           |
| Interest-bearing Demand, Savings, and Money Market Accounts                | 1,805,694           | 1,768,177            |
| Time Deposits                                                              | 597,771             | 588,483              |
| Total Deposits                                                             | 3,128,832           | 3,072,632            |
| FHLB Advances and Other Borrowings                                         | 305,940             | 376,409              |
| Accrued Interest Payable and Other Liabilities                             | 36,556              | 21,409               |
| <b>TOTAL LIABILITIES</b>                                                   | <b>3,471,328</b>    | <b>3,470,450</b>     |
| <b>SHAREHOLDERS' EQUITY</b>                                                |                     |                      |
| Common Stock, no par value, \$1 stated value; 45,000,000 shares authorized | 24,992              | 24,967               |
| Additional Paid-in Capital                                                 | 229,943             | 229,347              |
| Retained Earnings                                                          | 233,269             | 211,424              |
| Accumulated Other Comprehensive Income (Loss)                              | 11,207              | (7,098)              |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                          | <b>499,411</b>      | <b>458,640</b>       |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                          | <b>\$ 3,970,739</b> | <b>\$ 3,929,090</b>  |
| End of period shares issued and outstanding                                | 24,992,238          | 24,967,458           |

See accompanying notes to consolidated financial statements.



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

|                                                                 | <b>Three Months Ended<br/>June 30,</b> |                  |
|-----------------------------------------------------------------|----------------------------------------|------------------|
|                                                                 | <b>2019</b>                            | <b>2018</b>      |
| <b>INTEREST INCOME</b>                                          |                                        |                  |
| Interest and Fees on Loans                                      | \$ 35,046                              | \$ 26,308        |
| Interest on Federal Funds Sold and Other Short-term Investments | 85                                     | 54               |
| Interest and Dividends on Securities:                           |                                        |                  |
| Taxable                                                         | 3,555                                  | 2,962            |
| Non-taxable                                                     | 2,350                                  | 2,209            |
| <b>TOTAL INTEREST INCOME</b>                                    | <b>41,036</b>                          | <b>31,533</b>    |
| <b>INTEREST EXPENSE</b>                                         |                                        |                  |
| Interest on Deposits                                            | 5,759                                  | 2,848            |
| Interest on FHLB Advances and Other Borrowings                  | 1,636                                  | 1,216            |
| <b>TOTAL INTEREST EXPENSE</b>                                   | <b>7,395</b>                           | <b>4,064</b>     |
| <b>NET INTEREST INCOME</b>                                      | <b>33,641</b>                          | <b>27,469</b>    |
| Provision for Loan Losses                                       | 250                                    | 1,220            |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>      | <b>33,391</b>                          | <b>26,249</b>    |
| <b>NON-INTEREST INCOME</b>                                      |                                        |                  |
| Trust and Investment Product Fees                               | 1,913                                  | 1,677            |
| Service Charges on Deposit Accounts                             | 2,024                                  | 1,643            |
| Insurance Revenues                                              | 1,929                                  | 1,696            |
| Company Owned Life Insurance                                    | 304                                    | 260              |
| Interchange Fee Income                                          | 2,332                                  | 1,714            |
| Other Operating Income                                          | 461                                    | 913              |
| Net Gains on Sales of Loans                                     | 1,030                                  | 905              |
| Net Gains on Securities                                         | 516                                    | 74               |
| <b>TOTAL NON-INTEREST INCOME</b>                                | <b>10,509</b>                          | <b>8,882</b>     |
| <b>NON-INTEREST EXPENSE</b>                                     |                                        |                  |
| Salaries and Employee Benefits                                  | 14,117                                 | 12,019           |
| Occupancy Expense                                               | 2,279                                  | 1,811            |
| Furniture and Equipment Expense                                 | 933                                    | 716              |
| FDIC Premiums                                                   | 245                                    | 238              |
| Data Processing Fees                                            | 1,803                                  | 1,398            |
| Professional Fees                                               | 1,174                                  | 1,361            |
| Advertising and Promotion                                       | 936                                    | 857              |
| Intangible Amortization                                         | 802                                    | 306              |
| Other Operating Expenses                                        | 3,329                                  | 3,002            |
| <b>TOTAL NON-INTEREST EXPENSE</b>                               | <b>25,618</b>                          | <b>21,708</b>    |
| Income before Income Taxes                                      | 18,282                                 | 13,423           |
| Income Tax Expense                                              | 3,011                                  | 2,326            |
| <b>NET INCOME</b>                                               | <b>\$ 15,271</b>                       | <b>\$ 11,097</b> |
| Basic Earnings per Share                                        | \$ 0.61                                | \$ 0.48          |
| Diluted Earnings per Share                                      | \$ 0.61                                | \$ 0.48          |



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

|                                                                 | <b>Six Months Ended<br/>June 30,</b> |                  |
|-----------------------------------------------------------------|--------------------------------------|------------------|
|                                                                 | <b>2019</b>                          | <b>2018</b>      |
| <b>INTEREST INCOME</b>                                          |                                      |                  |
| Interest and Fees on Loans                                      | \$ 70,165                            | \$ 50,258        |
| Interest on Federal Funds Sold and Other Short-term Investments | 226                                  | 110              |
| Interest and Dividends on Securities:                           |                                      |                  |
| Taxable                                                         | 7,154                                | 5,960            |
| Non-taxable                                                     | 4,680                                | 4,350            |
| <b>TOTAL INTEREST INCOME</b>                                    | <b>82,225</b>                        | <b>60,678</b>    |
| <b>INTEREST EXPENSE</b>                                         |                                      |                  |
| Interest on Deposits                                            | 11,175                               | 5,131            |
| Interest on FHLB Advances and Other Borrowings                  | 3,818                                | 2,468            |
| <b>TOTAL INTEREST EXPENSE</b>                                   | <b>14,993</b>                        | <b>7,599</b>     |
| <b>NET INTEREST INCOME</b>                                      | <b>67,232</b>                        | <b>53,079</b>    |
| Provision for Loan Losses                                       | 925                                  | 1,570            |
| <b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>      | <b>66,307</b>                        | <b>51,509</b>    |
| <b>NON-INTEREST INCOME</b>                                      |                                      |                  |
| Trust and Investment Product Fees                               | 3,480                                | 3,450            |
| Service Charges on Deposit Accounts                             | 3,924                                | 3,114            |
| Insurance Revenues                                              | 5,134                                | 4,626            |
| Company Owned Life Insurance                                    | 1,188                                | 572              |
| Interchange Fee Income                                          | 4,427                                | 3,196            |
| Other Operating Income                                          | 1,332                                | 1,517            |
| Net Gains on Sales of Loans                                     | 2,011                                | 1,555            |
| Net Gains on Securities                                         | 671                                  | 344              |
| <b>TOTAL NON-INTEREST INCOME</b>                                | <b>22,167</b>                        | <b>18,374</b>    |
| <b>NON-INTEREST EXPENSE</b>                                     |                                      |                  |
| Salaries and Employee Benefits                                  | 29,161                               | 24,145           |
| Occupancy Expense                                               | 4,570                                | 3,555            |
| Furniture and Equipment Expense                                 | 1,861                                | 1,381            |
| FDIC Premiums                                                   | 533                                  | 475              |
| Data Processing Fees                                            | 3,386                                | 2,525            |
| Professional Fees                                               | 2,501                                | 2,232            |
| Advertising and Promotion                                       | 1,806                                | 1,558            |
| Intangible Amortization                                         | 1,645                                | 512              |
| Other Operating Expenses                                        | 6,914                                | 5,780            |
| <b>TOTAL NON-INTEREST EXPENSE</b>                               | <b>52,377</b>                        | <b>42,163</b>    |
| Income before Income Taxes                                      | 36,097                               | 27,720           |
| Income Tax Expense                                              | 5,759                                | 4,810            |
| <b>NET INCOME</b>                                               | <b>\$ 30,338</b>                     | <b>\$ 22,910</b> |
| Basic Earnings per Share                                        | \$ 1.21                              | \$ 1.00          |
| Diluted Earnings per Share                                      | \$ 1.21                              | \$ 1.00          |



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

|                                                              | <b>Three Months Ended<br/>June 30,</b> |                  |
|--------------------------------------------------------------|----------------------------------------|------------------|
|                                                              | <b>2019</b>                            | <b>2018</b>      |
| <b>NET INCOME</b>                                            | <b>\$ 15,271</b>                       | <b>\$ 11,097</b> |
| Other Comprehensive Income (Loss):                           |                                        |                  |
| Unrealized Gains (Losses) on Securities:                     |                                        |                  |
| Unrealized Holding Gain (Loss) Arising During the Period     | 11,838                                 | (1,840)          |
| Reclassification Adjustment for Gains Included in Net Income | (516)                                  | (74)             |
| Tax Effect                                                   | (2,431)                                | 413              |
| Net of Tax                                                   | 8,891                                  | (1,501)          |
| Total Other Comprehensive Income (Loss)                      | 8,891                                  | (1,501)          |
| <b>COMPREHENSIVE INCOME</b>                                  | <b>\$ 24,162</b>                       | <b>\$ 9,596</b>  |

|                                                              | <b>Six Months Ended<br/>June 30,</b> |                  |
|--------------------------------------------------------------|--------------------------------------|------------------|
|                                                              | <b>2019</b>                          | <b>2018</b>      |
| <b>NET INCOME</b>                                            | <b>\$ 30,338</b>                     | <b>\$ 22,910</b> |
| Other Comprehensive Income (Loss):                           |                                      |                  |
| Unrealized Gains (Losses) on Securities:                     |                                      |                  |
| Unrealized Holding Gain (Loss) Arising During the Period     | 24,039                               | (13,292)         |
| Reclassification Adjustment for Gains Included in Net Income | (671)                                | (344)            |
| Tax Effect                                                   | (5,063)                              | 2,917            |
| Net of Tax                                                   | 18,305                               | (10,719)         |
| Total Other Comprehensive Income (Loss)                      | 18,305                               | (10,719)         |
| <b>COMPREHENSIVE INCOME</b>                                  | <b>\$ 48,643</b>                     | <b>\$ 12,191</b> |

See accompanying notes to consolidated financial statements.

**GERMAN AMERICAN BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
(unaudited, dollars in thousands)

|                                    | <b>Common Stock</b> |               |                                       |                              |                                                              |                                       |  |
|------------------------------------|---------------------|---------------|---------------------------------------|------------------------------|--------------------------------------------------------------|---------------------------------------|--|
|                                    | <b>Shares</b>       | <b>Amount</b> | <b>Additional<br/>Paid-in Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Total Shareholders'<br/>Equity</b> |  |
| <b>Balances, December 31, 2018</b> | 24,967,458          | \$ 24,967     | \$ 229,347                            | \$ 211,424                   | \$ (7,098)                                                   | \$ 458,640                            |  |
| Net Income                         |                     |               |                                       | 15,067                       |                                                              | 15,067                                |  |
| Other Comprehensive Income (Loss)  |                     |               |                                       |                              | 9,414                                                        | 9,414                                 |  |
| Cash Dividends (\$0.17 per share)  |                     |               |                                       | (4,245)                      |                                                              | (4,245)                               |  |
| Issuance of Common Stock for:      |                     |               |                                       |                              |                                                              |                                       |  |
| Restricted Share Grants            | 24,780              | 25            | 286                                   |                              |                                                              | 311                                   |  |
| <b>Balances, March 31, 2019</b>    | 24,992,238          | \$ 24,992     | \$ 229,633                            | \$ 222,246                   | \$ 2,316                                                     | \$ 479,187                            |  |
| Net Income                         |                     |               |                                       | 15,271                       |                                                              | 15,271                                |  |
| Other Comprehensive Income (Loss)  |                     |               |                                       |                              | 8,891                                                        | 8,891                                 |  |
| Cash Dividends (\$0.17 per share)  |                     |               |                                       | (4,248)                      |                                                              | (4,248)                               |  |
| Issuance of Common Stock for:      |                     |               |                                       |                              |                                                              |                                       |  |
| Restricted Share Grants            |                     |               | 310                                   |                              |                                                              | 310                                   |  |
| <b>Balances, June 30, 2019</b>     | 24,992,238          | \$ 24,992     | \$ 229,943                            | \$ 233,269                   | \$ 11,207                                                    | \$ 499,411                            |  |

|                                    | <b>Common Stock</b> |               |                                       |                              |                                                              |                                       |  |
|------------------------------------|---------------------|---------------|---------------------------------------|------------------------------|--------------------------------------------------------------|---------------------------------------|--|
|                                    | <b>Shares</b>       | <b>Amount</b> | <b>Additional<br/>Paid-in Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Total Shareholders'<br/>Equity</b> |  |
| <b>Balances, December 31, 2017</b> | 22,934,403          | \$ 22,934     | \$ 165,288                            | \$ 178,969                   | \$ (2,620)                                                   | \$ 364,571                            |  |
| Net Income                         |                     |               |                                       | 11,813                       |                                                              | 11,813                                |  |
| Other Comprehensive Income (Loss)  |                     |               |                                       |                              | (9,218)                                                      | (9,218)                               |  |
| Cash Dividends (\$0.15 per share)  |                     |               |                                       | (3,440)                      |                                                              | (3,440)                               |  |
| Issuance of Common Stock for:      |                     |               |                                       |                              |                                                              |                                       |  |
| Restricted Share Grants            | 34,410              | 35            | 244                                   |                              |                                                              | 279                                   |  |
| <b>Balances, March 31, 2018</b>    | 22,968,813          | \$ 22,969     | \$ 165,532                            | \$ 187,342                   | \$ (11,838)                                                  | \$ 364,005                            |  |
| Net Income                         |                     |               |                                       | 11,097                       |                                                              | 11,097                                |  |
| Other Comprehensive Income (Loss)  |                     |               |                                       |                              | (1,501)                                                      | (1,501)                               |  |
| Cash Dividends (\$0.15 per share)  |                     |               |                                       | (3,445)                      |                                                              | (3,445)                               |  |
| Issuance of Common Stock for:      |                     |               |                                       |                              |                                                              |                                       |  |
| Restricted Share Grants            | (915)               | (1)           | 385                                   |                              |                                                              | 384                                   |  |
| <b>Balances, June 30, 2018</b>     | 22,967,898          | \$ 22,968     | \$ 165,917                            | \$ 194,994                   | \$ (13,339)                                                  | \$ 370,540                            |  |

See accompanying notes to consolidated financial statements.

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

|                                                                            | <b>Six Months Ended<br/>June 30,</b> |                  |
|----------------------------------------------------------------------------|--------------------------------------|------------------|
|                                                                            | <b>2019</b>                          | <b>2018</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |                                      |                  |
| Net Income                                                                 | \$ 30,338                            | \$ 22,910        |
| Adjustments to Reconcile Net Income to Net Cash from Operating Activities: |                                      |                  |
| Net Amortization on Securities                                             | 1,784                                | 1,793            |
| Depreciation and Amortization                                              | 4,073                                | 2,601            |
| Loans Originated for Sale                                                  | (78,128)                             | (65,071)         |
| Proceeds from Sales of Loans Held-for-Sale                                 | 70,003                               | 63,710           |
| Provision for Loan Losses                                                  | 925                                  | 1,570            |
| Gain on Sale of Loans, net                                                 | (2,011)                              | (1,555)          |
| Gain on Securities, net                                                    | (671)                                | (344)            |
| Gain on Sales of Other Real Estate and Repossessed Assets                  | —                                    | (13)             |
| Loss (Gain) on Disposition and Donation of Premises and Equipment          | —                                    | (36)             |
| Gain on Disposition of Land                                                | (262)                                | —                |
| Increase in Cash Surrender Value of Company Owned Life Insurance           | (659)                                | (521)            |
| Equity Based Compensation                                                  | 621                                  | 663              |
| Change in Assets and Liabilities:                                          |                                      |                  |
| Interest Receivable and Other Assets                                       | (14,718)                             | 2,924            |
| Interest Payable and Other Liabilities                                     | 1,584                                | 90               |
| <b>Net Cash from Operating Activities</b>                                  | <b>12,879</b>                        | <b>28,721</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                |                                      |                  |
| Proceeds from Maturities of Securities Available-for-Sale                  | 45,980                               | 37,481           |
| Proceeds from Sales of Securities Available-for-Sale                       | 22,274                               | 17,515           |
| Purchase of Securities Available-for-Sale                                  | (74,078)                             | (68,923)         |
| Purchase of Loans                                                          | (521)                                | —                |
| Proceeds from Sales of Loans                                               | —                                    | 6,000            |
| Loans Made to Customers, net of Payments Received                          | 10,335                               | (66,922)         |
| Proceeds from Sales of Other Real Estate                                   | 359                                  | 54               |
| Property and Equipment Expenditures                                        | (3,172)                              | (8,862)          |
| Proceeds from Sales of Property and Equipment                              | —                                    | 40               |
| Proceeds from Sale of Land                                                 | 722                                  | —                |
| Proceeds from Life Insurance                                               | 1,019                                | —                |
| Acquire Bank Branches                                                      | —                                    | 41,392           |
| <b>Net Cash from Investing Activities</b>                                  | <b>2,918</b>                         | <b>(42,225)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                |                                      |                  |
| Change in Deposits                                                         | 56,707                               | (58,239)         |
| Change in Short-term Borrowings                                            | (107,456)                            | 89,640           |
| Advances in Long-term Debt                                                 | 65,000                               | 35,000           |
| Repayments of Long-term Debt                                               | (28,098)                             | (45,089)         |
| Dividends Paid                                                             | (8,493)                              | (6,885)          |
| <b>Net Cash from Financing Activities</b>                                  | <b>(22,340)</b>                      | <b>14,427</b>    |
| <b>Net Change in Cash and Cash Equivalents</b>                             | <b>(6,543)</b>                       | <b>923</b>       |
| Cash and Cash Equivalents at Beginning of Year                             | 96,550                               | 70,359           |
| Cash and Cash Equivalents at End of Period                                 | <u>\$ 90,007</u>                     | <u>\$ 71,282</u> |
| <b>Cash Paid During the Period for</b>                                     |                                      |                  |
| Interest                                                                   | \$ 14,891                            | \$ 7,641         |

|                                                               |        |       |
|---------------------------------------------------------------|--------|-------|
| Income Taxes                                                  | 4,525  | 2,150 |
| <b>Supplemental Non Cash Disclosures</b>                      |        |       |
| Loans Transferred to Other Real Estate                        | \$ 708 | \$ 27 |
| Right of Use Asset Obtained in Exchange for Lease Liabilities | 9,034  | —     |
| See accompanying notes to consolidated financial statements.  |        |       |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(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, 2018. 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 – Revenue Recognition**

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). On January 1, 2018, the Company adopted ASU 2014-09 and all subsequent amendments to the ASU that modified Topic 606. Topic 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. Since the guidance does not apply to revenue associated with financial instruments, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The majority of the Company's revenues are from financial instruments and are not within the scope of Topic 606. The Company completed its overall assessment of revenue streams and related contracts, including service charges on deposit accounts, interchange income, and trust and investment brokerage fees. Based on the assessment, the Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams. The Company also completed its evaluation of certain costs related to these revenue streams to determine whether certain revenue streams should be reported gross versus net of certain expenses. Based on its evaluation, the Company determined that the classification of certain debit card related costs should change and now be reported as expenses versus contra-revenue. This reclassification change resulted in an immaterial impact to both revenue and expense. The Company adopted ASU 2014-09 and its related amendments utilizing the modified retrospective approach. Since there was no net income impact upon adoption of this guidance, a cumulative adjustment to retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts for the debit card costs noted above.

A description of the Company's revenue streams accounted for under Topic 606 follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as stop payment charges and statement rendering, are recognized at the time the transaction is executed (the point in time the Company fills the customer's request). Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs.

Interchange Fee Income: The Company earns interchange fees from debit/credit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Trust and Investment Product Fees: The Company earns trust and investment brokerage fees from its contracts with trust and brokerage customers to manage assets for investment and/or to transact their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on the market value of assets under management at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (trade date).

Insurance Revenues: The Company earns insurance revenue from commissions derived from the sale of personal and corporate property and casualty insurance products. These commissions are primarily earned over time as the Company provides the contracted insurance product to customers.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 2 - Revenue Recognition (continued)**

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and six months ended June 30, 2019 and 2018. Trust and investment product fees are included in the trust and investment advisory services segment while insurance revenues are included in the insurance segment. All other revenue streams are primarily included in the banking segment.

|                                                 | <b>Three Months Ended</b> |                 |
|-------------------------------------------------|---------------------------|-----------------|
|                                                 | <b>June 30,</b>           |                 |
| <b>Non-interest Income</b>                      | <b>2019</b>               | <b>2018</b>     |
| In-Scope of Topic 606:                          |                           |                 |
| Trust and Investment Product Fees               | \$ 1,913                  | \$ 1,677        |
| Service Charges on Deposit Accounts             | 2,024                     | 1,643           |
| Insurance Revenues                              | 1,929                     | 1,696           |
| Interchange Fee Income                          | 2,332                     | 1,714           |
| Other Operating Income                          | 481                       | 442             |
| Non-interest Income (in-scope of Topic 606)     | 8,679                     | 7,172           |
| Non-interest Income (out-of-scope of Topic 606) | 1,830                     | 1,710           |
| Total Non-interest Income                       | <u>\$ 10,509</u>          | <u>\$ 8,882</u> |

|                                                 | <b>Six Months Ended</b> |                  |
|-------------------------------------------------|-------------------------|------------------|
|                                                 | <b>June 30,</b>         |                  |
| <b>Non-interest Income</b>                      | <b>2019</b>             | <b>2018</b>      |
| In-Scope of Topic 606:                          |                         |                  |
| Trust and Investment Product Fees               | \$ 3,480                | \$ 3,450         |
| Service Charges on Deposit Accounts             | 3,924                   | 3,114            |
| Insurance Revenues                              | 5,134                   | 4,626            |
| Interchange Fee Income                          | 4,427                   | 3,196            |
| Other Operating Income                          | 930                     | 820              |
| Non-interest Income (in-scope of Topic 606)     | 17,895                  | 15,206           |
| Non-interest Income (out-of-scope of Topic 606) | 4,272                   | 3,168            |
| Total Non-interest Income                       | <u>\$ 22,167</u>        | <u>\$ 18,374</u> |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 3 – Per Share Data**

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

|                                             | <b>Three Months Ended<br/>June 30,</b> |                |
|---------------------------------------------|----------------------------------------|----------------|
|                                             | <b>2019</b>                            | <b>2018</b>    |
| Basic Earnings per Share:                   |                                        |                |
| Net Income                                  | \$ 15,271                              | \$ 11,097      |
| Weighted Average Shares Outstanding         | 24,992,238                             | 22,968,178     |
| Basic Earnings per Share                    | <u>\$ 0.61</u>                         | <u>\$ 0.48</u> |
| Diluted Earnings per Share:                 |                                        |                |
| Net Income                                  | \$ 15,271                              | \$ 11,097      |
| Weighted Average Shares Outstanding         | 24,992,238                             | 22,968,178     |
| Potentially Dilutive Shares, Net            | —                                      | —              |
| Diluted Weighted Average Shares Outstanding | 24,992,238                             | 22,968,178     |
| Diluted Earnings per Share                  | <u>\$ 0.61</u>                         | <u>\$ 0.48</u> |

For the three months ended June 30, 2019 and 2018, there were no anti-dilutive shares.

|                                             | <b>Six Months Ended<br/>June 30,</b> |                |
|---------------------------------------------|--------------------------------------|----------------|
|                                             | <b>2019</b>                          | <b>2018</b>    |
| Basic Earnings per Share:                   |                                      |                |
| Net Income                                  | \$ 30,338                            | \$ 22,910      |
| Weighted Average Shares Outstanding         | 24,982,107                           | 22,954,367     |
| Basic Earnings per Share                    | <u>\$ 1.21</u>                       | <u>\$ 1.00</u> |
| Diluted Earnings per Share:                 |                                      |                |
| Net Income                                  | \$ 30,338                            | \$ 22,910      |
| Weighted Average Shares Outstanding         | 24,982,107                           | 22,954,367     |
| Potentially Dilutive Shares, Net            | —                                    | —              |
| Diluted Weighted Average Shares Outstanding | 24,982,107                           | 22,954,367     |
| Diluted Earnings per Share                  | <u>\$ 1.21</u>                       | <u>\$ 1.00</u> |

For the six months ended June 30, 2019 and 2018, there were no anti-dilutive shares.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 4 – 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 June 30, 2019 and December 31, 2018, were as follows:

| <b>Securities Available-for-Sale:</b>           | <b>Amortized Cost</b> | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Fair Value</b> |
|-------------------------------------------------|-----------------------|-------------------------------|--------------------------------|-------------------|
| <b>June 30, 2019</b>                            |                       |                               |                                |                   |
| Obligations of State and Political Subdivisions | \$ 290,053            | \$ 13,271                     | \$ (40)                        | \$ 303,284        |
| MBS/CMO - Residential                           | 535,914               | 4,605                         | (3,111)                        | 537,408           |
| Total                                           | <u>\$ 825,967</u>     | <u>\$ 17,876</u>              | <u>\$ (3,151)</u>              | <u>\$ 840,692</u> |
| <b>December 31, 2018</b>                        |                       |                               |                                |                   |
| Obligations of State and Political Subdivisions | \$ 291,449            | \$ 4,407                      | \$ (1,323)                     | \$ 294,533        |
| MBS/CMO - Residential                           | 529,805               | 1,029                         | (12,756)                       | 518,078           |
| Total                                           | <u>\$ 821,254</u>     | <u>\$ 5,436</u>               | <u>\$ (14,079)</u>             | <u>\$ 812,611</u> |

All mortgage-backed securities in the above table (identified above and throughout this Note 4 as "MBS/CMO - Residential") are residential mortgage-backed securities and guaranteed by government sponsored entities.

The amortized cost and fair value of securities at June 30, 2019 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 securities are not due at a single maturity date and are shown separately.

| <b>Securities Available-for-Sale:</b>  | <b>Amortized Cost</b> | <b>Fair Value</b> |
|----------------------------------------|-----------------------|-------------------|
| Due in one year or less                | \$ 2,332              | \$ 2,343          |
| Due after one year through five years  | 16,151                | 16,531            |
| Due after five years through ten years | 73,764                | 76,979            |
| Due after ten years                    | 197,806               | 207,431           |
| MBS/CMO - Residential                  | 535,914               | 537,408           |
| Total                                  | <u>\$ 825,967</u>     | <u>\$ 840,692</u> |

Proceeds from the Sales of Securities are summarized below:

|                             | <b>Three Months Ended<br/>June 30, 2019</b> | <b>Three Months Ended<br/>June 30, 2018</b> |
|-----------------------------|---------------------------------------------|---------------------------------------------|
| Proceeds from Sales         | \$ 10,459                                   | \$ 10,220                                   |
| Gross Gains on Sales        | 516                                         | 74                                          |
| Income Taxes on Gross Gains | 108                                         | 16                                          |
|                             | <b>Six Months Ended<br/>June 30, 2019</b>   | <b>Six Months Ended<br/>June 30, 2018</b>   |
| Proceeds from Sales         | \$ 22,274                                   | \$ 17,515                                   |
| Gross Gains on Sales        | 671                                         | 344                                         |
| Income Taxes on Gross Gains | 141                                         | 73                                          |

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$204,067 and \$211,239 as of June 30, 2019 and December 31, 2018, respectively.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 4 - Securities (continued)**

Below is a summary of securities with unrealized losses as of June 30, 2019 and December 31, 2018, 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    |
| <b>June 30, 2019</b>                            |                     |                 |                   |                    |                   |                    |
| Obligations of State and Political Subdivisions | \$ 4,889            | \$ (30)         | \$ 1,331          | \$ (10)            | \$ 6,220          | \$ (40)            |
| MBS/CMO - Residential                           | 10,154              | (36)            | 264,051           | (3,075)            | 274,205           | (3,111)            |
| Total                                           | <u>\$ 15,043</u>    | <u>\$ (66)</u>  | <u>\$ 265,382</u> | <u>\$ (3,085)</u>  | <u>\$ 280,425</u> | <u>\$ (3,151)</u>  |
|                                                 | Less than 12 Months |                 | 12 Months or More |                    | Total             |                    |
|                                                 | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss    | Fair Value        | Unrealized Loss    |
| <b>December 31, 2018</b>                        |                     |                 |                   |                    |                   |                    |
| Obligations of State and Political Subdivisions | \$ 37,936           | \$ (286)        | \$ 49,071         | \$ (1,037)         | \$ 87,007         | \$ (1,323)         |
| MBS/CMO - Residential                           | 56,386              | (601)           | 356,218           | (12,155)           | 412,604           | (12,756)           |
| Total                                           | <u>\$ 94,322</u>    | <u>\$ (887)</u> | <u>\$ 405,289</u> | <u>\$ (13,192)</u> | <u>\$ 499,611</u> | <u>\$ (14,079)</u> |

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 are listed as Other Investments on the Consolidated Balance Sheets and consist of one non-controlling investment in a single banking organization at June 30, 2019 and December 31, 2018. The original investment totaled \$1,350 and other-than-temporary impairment was previously recorded totaling \$997. The Company's equity securities are considered not to have readily determinable fair value and are carried at cost and evaluated for impairment. At June 30, 2019, there was no additional impairment recognized through earnings.

**NOTE 5 – 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 \$84.4 million at June 30, 2019 and \$85.6 million at December 31, 2018. 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**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 5 - Derivatives (continued)**

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

|                                | June 30, 2019   |            | December 31, 2018 |            |
|--------------------------------|-----------------|------------|-------------------|------------|
|                                | Notional Amount | Fair Value | Notional Amount   | Fair Value |
| Included in Other Assets:      |                 |            |                   |            |
| Interest Rate Swaps            | \$ 84,381       | \$ 2,381   | \$ 85,587         | \$ 1,713   |
| Included in Other Liabilities: |                 |            |                   |            |
| Interest Rate Swaps            | \$ 84,381       | \$ 2,607   | \$ 85,587         | \$ 1,734   |

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

|                                    | Three Months Ended<br>June 30, |       | Six Months Ended<br>June 30, |        |
|------------------------------------|--------------------------------|-------|------------------------------|--------|
|                                    | 2019                           | 2018  | 2019                         | 2018   |
| Interest Rate Swaps:               |                                |       |                              |        |
| Included in Other Operating Income | \$ (132)                       | \$ 26 | \$ (206)                     | \$ 116 |

**NOTE 6 – Loans**

Loans were comprised of the following classifications at June 30, 2019 and December 31, 2018:

|                                            | June 30,<br>2019    | December 31,<br>2018 |
|--------------------------------------------|---------------------|----------------------|
| Commercial:                                |                     |                      |
| Commercial and Industrial Loans and Leases | \$ 554,290          | \$ 543,761           |
| Commercial Real Estate Loans               | 1,213,579           | 1,208,646            |
| Agricultural Loans                         | 364,116             | 365,208              |
| Retail:                                    |                     |                      |
| Home Equity Loans                          | 203,351             | 207,987              |
| Consumer Loans                             | 77,612              | 77,547               |
| Residential Mortgage Loans                 | 307,726             | 328,592              |
| Subtotal                                   | 2,720,674           | 2,731,741            |
| Less: Unearned Income                      | (3,646)             | (3,682)              |
| Allowance for Loan Losses                  | (16,239)            | (15,823)             |
| Loans, Net                                 | <u>\$ 2,700,789</u> | <u>\$ 2,712,236</u>  |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 6 - Loans (continued)**

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ended June 30, 2019 and 2018:

| <b>June 30, 2019</b>      | <b>Commercial and Industrial Loans and Leases</b> | <b>Commercial Real Estate Loans</b> | <b>Agricultural Loans</b> | <b>Home Equity Loans</b> | <b>Consumer Loans</b> | <b>Residential Mortgage Loans</b> | <b>Unallocated</b> | <b>Total</b>     |
|---------------------------|---------------------------------------------------|-------------------------------------|---------------------------|--------------------------|-----------------------|-----------------------------------|--------------------|------------------|
| Beginning Balance         | \$ 3,317                                          | \$ 5,741                            | \$ 5,453                  | \$ 214                   | \$ 483                | \$ 429                            | \$ 606             | \$ 16,243        |
| Provision for Loan Losses | (303)                                             | 104                                 | 272                       | 54                       | 124                   | (47)                              | 46                 | 250              |
| Recoveries                | 34                                                | 14                                  | —                         | —                        | 93                    | 3                                 | —                  | 144              |
| Loans Charged-off         | (56)                                              | (18)                                | —                         | (10)                     | (278)                 | (36)                              | —                  | (398)            |
| Ending Balance            | <u>\$ 2,992</u>                                   | <u>\$ 5,841</u>                     | <u>\$ 5,725</u>           | <u>\$ 258</u>            | <u>\$ 422</u>         | <u>\$ 349</u>                     | <u>\$ 652</u>      | <u>\$ 16,239</u> |

| <b>June 30, 2018</b>      | <b>Commercial and Industrial Loans and Leases</b> | <b>Commercial Real Estate Loans</b> | <b>Agricultural Loans</b> | <b>Home Equity Loans</b> | <b>Consumer Loans</b> | <b>Residential Mortgage Loans</b> | <b>Unallocated</b> | <b>Total</b>     |
|---------------------------|---------------------------------------------------|-------------------------------------|---------------------------|--------------------------|-----------------------|-----------------------------------|--------------------|------------------|
| Beginning Balance         | \$ 3,603                                          | \$ 4,622                            | \$ 4,825                  | \$ 272                   | \$ 316                | \$ 327                            | \$ 495             | \$ 14,460        |
| Provision for Loan Losses | (44)                                              | 335                                 | 753                       | 86                       | 107                   | 19                                | (36)               | 1,220            |
| Recoveries                | 4                                                 | 5                                   | —                         | 8                        | 68                    | 29                                | —                  | 114              |
| Loans Charged-off         | —                                                 | (4)                                 | —                         | —                        | (144)                 | (9)                               | —                  | (157)            |
| Ending Balance            | <u>\$ 3,563</u>                                   | <u>\$ 4,958</u>                     | <u>\$ 5,578</u>           | <u>\$ 366</u>            | <u>\$ 347</u>         | <u>\$ 366</u>                     | <u>\$ 459</u>      | <u>\$ 15,637</u> |

The following tables present the activity in the allowance for loan losses by portfolio class for the six months ended June 30, 2019 and 2018:

| <b>June 30, 2019</b>      | <b>Commercial and Industrial Loans and Leases</b> | <b>Commercial Real Estate Loans</b> | <b>Agricultural Loans</b> | <b>Home Equity Loans</b> | <b>Consumer Loans</b> | <b>Residential Mortgage Loans</b> | <b>Unallocated</b> | <b>Total</b>     |
|---------------------------|---------------------------------------------------|-------------------------------------|---------------------------|--------------------------|-----------------------|-----------------------------------|--------------------|------------------|
| Beginning Balance         | \$ 2,953                                          | \$ 5,291                            | \$ 5,776                  | \$ 229                   | \$ 420                | \$ 472                            | \$ 682             | \$ 15,823        |
| Provision for Loan Losses | 44                                                | 669                                 | (51)                      | 39                       | 333                   | (79)                              | (30)               | 925              |
| Recoveries                | 51                                                | 19                                  | —                         | —                        | 214                   | 6                                 | —                  | 290              |
| Loans Charged-off         | (56)                                              | (138)                               | —                         | (10)                     | (545)                 | (50)                              | —                  | (799)            |
| Ending Balance            | <u>\$ 2,992</u>                                   | <u>\$ 5,841</u>                     | <u>\$ 5,725</u>           | <u>\$ 258</u>            | <u>\$ 422</u>         | <u>\$ 349</u>                     | <u>\$ 652</u>      | <u>\$ 16,239</u> |

| <b>June 30, 2018</b>      | <b>Commercial and Industrial Loans and Leases</b> | <b>Commercial Real Estate Loans</b> | <b>Agricultural Loans</b> | <b>Home Equity Loans</b> | <b>Consumer Loans</b> | <b>Residential Mortgage Loans</b> | <b>Unallocated</b> | <b>Total</b>     |
|---------------------------|---------------------------------------------------|-------------------------------------|---------------------------|--------------------------|-----------------------|-----------------------------------|--------------------|------------------|
| Beginning Balance         | \$ 4,735                                          | \$ 4,591                            | \$ 4,894                  | \$ 330                   | \$ 298                | \$ 343                            | \$ 503             | \$ 15,694        |
| Provision for Loan Losses | 323                                               | 360                                 | 684                       | 42                       | 204                   | 1                                 | (44)               | 1,570            |
| Recoveries                | 5                                                 | 11                                  | —                         | 10                       | 157                   | 31                                | —                  | 214              |
| Loans Charged-off         | (1,500)                                           | (4)                                 | —                         | (16)                     | (312)                 | (9)                               | —                  | (1,841)          |
| Ending Balance            | <u>\$ 3,563</u>                                   | <u>\$ 4,958</u>                     | <u>\$ 5,578</u>           | <u>\$ 366</u>            | <u>\$ 347</u>         | <u>\$ 366</u>                     | <u>\$ 459</u>      | <u>\$ 15,637</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.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 6 - Loans (continued)**

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 the loan. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral if repayment is expected solely from the collateral. Commercial and industrial loans, commercial real estate loans, and agricultural loans are evaluated individually for impairment. Smaller balance homogeneous loans are evaluated for impairment in total. Such loans include real estate loans secured by one-to-four family residences and loans to individuals for household, family and other personal expenditures. Individually evaluated loans on non-accrual are generally considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Specific allocations on impaired loans are determined by comparing the loan balance to the present value of expected cash flows or expected collateral proceeds. Allocations are also applied to categories of loans not considered individually impaired but for which the rate of loss is expected to be greater than historical averages, including non-performing consumer or residential real estate loans. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values.

The 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 June 30, 2019 and December 31, 2018:

| <b>June 30, 2019</b>                            | <b>Total</b>        | <b>Commercial and Industrial Loans and Leases</b> | <b>Commercial Real Estate Loans</b> | <b>Agricultural Loans</b> | <b>Home Equity Loans</b> | <b>Consumer Loans</b> | <b>Residential Mortgage Loans</b> | <b>Unallocated</b>       |
|-------------------------------------------------|---------------------|---------------------------------------------------|-------------------------------------|---------------------------|--------------------------|-----------------------|-----------------------------------|--------------------------|
| Allowance for Loan Losses:                      |                     |                                                   |                                     |                           |                          |                       |                                   |                          |
| Ending Allowance Balance                        |                     |                                                   |                                     |                           |                          |                       |                                   |                          |
| Attributable to Loans:                          |                     |                                                   |                                     |                           |                          |                       |                                   |                          |
| Individually Evaluated for Impairment           | \$ 1,550            | \$ 139                                            | \$ 1,411                            | \$ —                      | \$ —                     | \$ —                  | \$ —                              | \$ —                     |
| Collectively Evaluated for Impairment           | 14,327              | 2,853                                             | 4,073                               | 5,725                     | 258                      | 422                   | 344                               | 652                      |
| Acquired with Deteriorated Credit Quality       | 362                 | —                                                 | 357                                 | —                         | —                        | —                     | 5                                 | —                        |
| Total Ending Allowance Balance                  | <u>\$ 16,239</u>    | <u>\$ 2,992</u>                                   | <u>\$ 5,841</u>                     | <u>\$ 5,725</u>           | <u>\$ 258</u>            | <u>\$ 422</u>         | <u>\$ 349</u>                     | <u>\$ 652</u>            |
| Loans:                                          |                     |                                                   |                                     |                           |                          |                       |                                   |                          |
| Loans Individually Evaluated for Impairment     | \$ 6,047            | \$ 2,115                                          | \$ 3,932                            | \$ —                      | \$ —                     | \$ —                  | \$ —                              | n/m <sup>(2)</sup>       |
| Loans Collectively Evaluated for Impairment     | 2,716,376           | 552,938                                           | 1,207,345                           | 367,030                   | 203,982                  | 77,824                | 307,257                           | n/m <sup>(2)</sup>       |
| Loans Acquired with Deteriorated Credit Quality | 10,029              | 882                                               | 5,629                               | 1,882                     | 368                      | —                     | 1,268                             | n/m <sup>(2)</sup>       |
| Total Ending Loans Balance <sup>(1)</sup>       | <u>\$ 2,732,452</u> | <u>\$ 555,935</u>                                 | <u>\$ 1,216,906</u>                 | <u>\$ 368,912</u>         | <u>\$ 204,350</u>        | <u>\$ 77,824</u>      | <u>\$ 308,525</u>                 | <u>n/m<sup>(2)</sup></u> |

<sup>(1)</sup>Total recorded investment in loans includes \$11,778 in accrued interest.

<sup>(2)</sup>n/m = not meaningful

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 6 - Loans (continued)**

| <b>December 31, 2018</b>                        | <b>Total</b>        | <b>Commercial and Industrial Loans and Leases</b> | <b>Commercial Real Estate Loans</b> | <b>Agricultural Loans</b> | <b>Home Equity Loans</b> | <b>Consumer Loans</b> | <b>Residential Mortgage Loans</b> | <b>Unallocated</b>       |
|-------------------------------------------------|---------------------|---------------------------------------------------|-------------------------------------|---------------------------|--------------------------|-----------------------|-----------------------------------|--------------------------|
| Allowance for Loan Losses:                      |                     |                                                   |                                     |                           |                          |                       |                                   |                          |
| Ending Allowance Balance Attributable to Loans: |                     |                                                   |                                     |                           |                          |                       |                                   |                          |
| Individually Evaluated for Impairment           | \$ 1,823            | \$ 143                                            | \$ 1,680                            | \$ —                      | \$ —                     | \$ —                  | \$ —                              | \$ —                     |
| Collectively Evaluated for Impairment           | 13,992              | 2,810                                             | 3,608                               | 5,776                     | 229                      | 420                   | 467                               | 682                      |
| Acquired with Deteriorated Credit Quality       | 8                   | —                                                 | 3                                   | —                         | —                        | —                     | 5                                 | —                        |
| Total Ending Allowance Balance                  | <u>\$ 15,823</u>    | <u>\$ 2,953</u>                                   | <u>\$ 5,291</u>                     | <u>\$ 5,776</u>           | <u>\$ 229</u>            | <u>\$ 420</u>         | <u>\$ 472</u>                     | <u>\$ 682</u>            |
| Loans:                                          |                     |                                                   |                                     |                           |                          |                       |                                   |                          |
| Loans Individually Evaluated for Impairment     | \$ 9,619            | \$ 3,536                                          | \$ 6,083                            | \$ —                      | \$ —                     | \$ —                  | \$ —                              | n/m <sup>(2)</sup>       |
| Loans Collectively Evaluated for Impairment     | 2,722,867           | 540,768                                           | 1,198,806                           | 368,817                   | 208,644                  | 77,761                | 328,071                           | n/m <sup>(2)</sup>       |
| Loans Acquired with Deteriorated Credit Quality | 11,556              | 1,038                                             | 6,993                               | 1,877                     | 365                      | —                     | 1,283                             | n/m <sup>(2)</sup>       |
| Total Ending Loans Balance <sup>(1)</sup>       | <u>\$ 2,744,042</u> | <u>\$ 545,342</u>                                 | <u>\$ 1,211,882</u>                 | <u>\$ 370,694</u>         | <u>\$ 209,009</u>        | <u>\$ 77,761</u>      | <u>\$ 329,354</u>                 | <u>n/m<sup>(2)</sup></u> |

<sup>(1)</sup>Total recorded investment in loans includes \$12,301 in accrued interest.

<sup>(2)</sup>n/m = not meaningful

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2019 and December 31, 2018:

| <b>June 30, 2019</b>                                                                                                | <b>Unpaid Principal Balance<sup>(1)</sup></b> | <b>Recorded Investment</b> | <b>Allowance for Loan Losses Allocated</b> |
|---------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|----------------------------|--------------------------------------------|
| With No Related Allowance Recorded:                                                                                 |                                               |                            |                                            |
| Commercial and Industrial Loans and Leases                                                                          | \$ 2,346                                      | \$ 142                     | \$ —                                       |
| Commercial Real Estate Loans                                                                                        | 4,003                                         | 2,615                      | —                                          |
| Agricultural Loans                                                                                                  | 1,742                                         | 1,475                      | —                                          |
| Subtotal                                                                                                            | <u>8,091</u>                                  | <u>4,232</u>               | <u>—</u>                                   |
| With An Allowance Recorded:                                                                                         |                                               |                            |                                            |
| Commercial and Industrial Loans and Leases                                                                          | 1,974                                         | 1,974                      | 139                                        |
| Commercial Real Estate Loans                                                                                        | 4,314                                         | 3,981                      | 1,768                                      |
| Agricultural Loans                                                                                                  | —                                             | —                          | —                                          |
| Subtotal                                                                                                            | <u>6,288</u>                                  | <u>5,955</u>               | <u>1,907</u>                               |
| Total                                                                                                               | <u>\$ 14,379</u>                              | <u>\$ 10,187</u>           | <u>\$ 1,907</u>                            |
| Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)    |                                               |                            |                                            |
|                                                                                                                     | \$ 6,884                                      | \$ 3,320                   | \$ —                                       |
| Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above) |                                               |                            |                                            |
|                                                                                                                     | \$ 1,142                                      | \$ 820                     | \$ 357                                     |

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

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 6 - Loans (continued)**

| <b>December 31, 2018</b>                                                                                            | <b>Unpaid Principal<br/>Balance<sup>(1)</sup></b> | <b>Recorded<br/>Investment</b> | <b>Allowance for Loan<br/>Losses Allocated</b> |
|---------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|--------------------------------|------------------------------------------------|
| With No Related Allowance Recorded:                                                                                 |                                                   |                                |                                                |
| Commercial and Industrial Loans and Leases                                                                          | \$ 3,721                                          | \$ 1,183                       | \$ —                                           |
| Commercial Real Estate Loans                                                                                        | 5,828                                             | 4,383                          | —                                              |
| Agricultural Loans                                                                                                  | 1,726                                             | 1,450                          | —                                              |
| Subtotal                                                                                                            | 11,275                                            | 7,016                          | —                                              |
| With An Allowance Recorded:                                                                                         |                                                   |                                |                                                |
| Commercial and Industrial Loans and Leases                                                                          | 2,353                                             | 2,353                          | 143                                            |
| Commercial Real Estate Loans                                                                                        | 4,404                                             | 4,212                          | 1,683                                          |
| Agricultural Loans                                                                                                  | —                                                 | —                              | —                                              |
| Subtotal                                                                                                            | 6,757                                             | 6,565                          | 1,826                                          |
| Total                                                                                                               | \$ 18,032                                         | \$ 13,581                      | \$ 1,826                                       |
| Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)    |                                                   |                                |                                                |
|                                                                                                                     | \$ 8,060                                          | \$ 3,958                       | \$ —                                           |
| Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above) |                                                   |                                |                                                |
|                                                                                                                     | \$ 196                                            | \$ 4                           | \$ 3                                           |

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

The following tables present the average balance and related interest income of loans individually evaluated for impairment by class of loans for the three month period ended June 30, 2019 and 2018:

| <b>June 30, 2019</b>                                                                                                | <b>Average Recorded<br/>Investment</b> | <b>Interest Income<br/>Recognized</b> | <b>Cash Basis<br/>Recognized</b> |
|---------------------------------------------------------------------------------------------------------------------|----------------------------------------|---------------------------------------|----------------------------------|
| With No Related Allowance Recorded:                                                                                 |                                        |                                       |                                  |
| Commercial and Industrial Loans and Leases                                                                          | \$ 164                                 | \$ 2                                  | \$ —                             |
| Commercial Real Estate Loans                                                                                        | 2,981                                  | 11                                    | —                                |
| Agricultural Loans                                                                                                  | 1,412                                  | —                                     | —                                |
| Subtotal                                                                                                            | 4,557                                  | 13                                    | —                                |
| With An Allowance Recorded:                                                                                         |                                        |                                       |                                  |
| Commercial and Industrial Loans and Leases                                                                          | 2,128                                  | —                                     | —                                |
| Commercial Real Estate Loans                                                                                        | 3,957                                  | —                                     | —                                |
| Agricultural Loans                                                                                                  | —                                      | —                                     | —                                |
| Subtotal                                                                                                            | 6,085                                  | —                                     | —                                |
| Total                                                                                                               | \$ 10,642                              | \$ 13                                 | \$ —                             |
| Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)    |                                        |                                       |                                  |
|                                                                                                                     | \$ 3,386                               | \$ 8                                  | \$ —                             |
| Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above) |                                        |                                       |                                  |
|                                                                                                                     | \$ 744                                 | \$ —                                  | \$ —                             |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 6 - Loans (continued)**

| <b>June 30, 2018</b>                                                                                                   | <b>Average Recorded Investment</b> | <b>Interest Income Recognized</b> | <b>Cash Basis Recognized</b> |
|------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------------|------------------------------|
| With No Related Allowance Recorded:                                                                                    |                                    |                                   |                              |
| Commercial and Industrial Loans and Leases                                                                             | \$ 1,142                           | \$ 13                             | \$ —                         |
| Commercial Real Estate Loans                                                                                           | 1,180                              | 13                                | —                            |
| Agricultural Loans                                                                                                     | 546                                | —                                 | —                            |
| Subtotal                                                                                                               | 2,868                              | 26                                | —                            |
| With An Allowance Recorded:                                                                                            |                                    |                                   |                              |
| Commercial and Industrial Loans and Leases                                                                             | 2,690                              | 1                                 | —                            |
| Commercial Real Estate Loans                                                                                           | 5,130                              | 6                                 | —                            |
| Agricultural Loans                                                                                                     | —                                  | —                                 | —                            |
| Subtotal                                                                                                               | 7,820                              | 7                                 | —                            |
| Total                                                                                                                  | \$ 10,688                          | \$ 33                             | \$ —                         |
| Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded<br>(Included in the Total Above)    |                                    |                                   |                              |
|                                                                                                                        | \$ 546                             | \$ —                              | \$ —                         |
| Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded<br>(Included in the Total Above) |                                    |                                   |                              |
|                                                                                                                        | \$ 207                             | \$ 7                              | \$ —                         |

The following tables present the average balance and related interest income of loans individually evaluated for impairment by class of loans for the six month period ended June 30, 2019 and 2018:

| <b>June 30, 2019</b>                                                                                                   | <b>Average Recorded Investment</b> | <b>Interest Income Recognized</b> | <b>Cash Basis Recognized</b> |
|------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------------|------------------------------|
| With No Related Allowance Recorded:                                                                                    |                                    |                                   |                              |
| Commercial and Industrial Loans and Leases                                                                             | \$ 301                             | \$ 4                              | \$ —                         |
| Commercial Real Estate Loans                                                                                           | 3,291                              | 28                                | —                            |
| Agricultural Loans                                                                                                     | 1,409                              | —                                 | —                            |
| Subtotal                                                                                                               | 5,001                              | 32                                | —                            |
| With An Allowance Recorded:                                                                                            |                                    |                                   |                              |
| Commercial and Industrial Loans and Leases                                                                             | 2,207                              | —                                 | —                            |
| Commercial Real Estate Loans                                                                                           | 4,324                              | —                                 | —                            |
| Agricultural Loans                                                                                                     | —                                  | —                                 | —                            |
| Subtotal                                                                                                               | 6,531                              | —                                 | —                            |
| Total                                                                                                                  | \$ 11,532                          | \$ 32                             | \$ —                         |
| Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded<br>(Included in the Total Above)    |                                    |                                   |                              |
|                                                                                                                        | \$ 4,414                           | \$ 15                             | \$ —                         |
| Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded<br>(Included in the Total Above) |                                    |                                   |                              |
|                                                                                                                        | \$ 3,861                           | \$ —                              | \$ —                         |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 6 - Loans (continued)**

| <b>June 30, 2018</b>                                                                                                   | <b>Average Recorded Investment</b> | <b>Interest Income Recognized</b> | <b>Cash Basis Recognized</b> |
|------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------------|------------------------------|
| With No Related Allowance Recorded:                                                                                    |                                    |                                   |                              |
| Commercial and Industrial Loans and Leases                                                                             | \$ 1,163                           | \$ 26                             | \$ 1                         |
| Commercial Real Estate Loans                                                                                           | 1,294                              | 26                                | 6                            |
| Agricultural Loans                                                                                                     | 623                                | —                                 | —                            |
| Subtotal                                                                                                               | 3,080                              | 52                                | 7                            |
| With An Allowance Recorded:                                                                                            |                                    |                                   |                              |
| Commercial and Industrial Loans and Leases                                                                             | 3,487                              | 2                                 | —                            |
| Commercial Real Estate Loans                                                                                           | 4,876                              | 9                                 | —                            |
| Agricultural Loans                                                                                                     | —                                  | —                                 | —                            |
| Subtotal                                                                                                               | 8,363                              | 11                                | —                            |
| Total                                                                                                                  | \$ 11,443                          | \$ 63                             | \$ 7                         |
| Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded<br>(Included in the Total Above)    |                                    |                                   |                              |
|                                                                                                                        | \$ 548                             | \$ —                              | \$ —                         |
| Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded<br>(Included in the Total Above) |                                    |                                   |                              |
|                                                                                                                        | \$ 211                             | \$ 11                             | \$ —                         |

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 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 June 30, 2019 and December 31, 2018:

|                                                                               | <b>Non-Accrual Loans</b> |                     | <b>Loans Past Due 90 Days or More &amp; Still Accruing</b> |                     |
|-------------------------------------------------------------------------------|--------------------------|---------------------|------------------------------------------------------------|---------------------|
|                                                                               | <b>June 30,</b>          | <b>December 31,</b> | <b>June 30,</b>                                            | <b>December 31,</b> |
|                                                                               | <b>2019</b>              | <b>2018</b>         | <b>2019</b>                                                | <b>2018</b>         |
| Commercial and Industrial Loans and Leases                                    | \$ 1,997                 | \$ 2,430            | \$ 455                                                     | \$ —                |
| Commercial Real Estate Loans                                                  | 5,748                    | 6,833               | 114                                                        | 368                 |
| Agricultural Loans                                                            | 1,475                    | 1,449               | 435                                                        | 274                 |
| Home Equity Loans                                                             | 90                       | 88                  | —                                                          | —                   |
| Consumer Loans                                                                | 113                      | 162                 | —                                                          | —                   |
| Residential Mortgage Loans                                                    | 1,506                    | 1,617               | —                                                          | —                   |
| Total                                                                         | \$ 10,929                | \$ 12,579           | \$ 1,004                                                   | \$ 642              |
| Loans Acquired With Deteriorated Credit Quality (Included in the Total Above) | \$ 4,452                 | \$ 4,162            | \$ 78                                                      | \$ 141              |
| Loans Acquired in Current Year (Included in the Total Above)                  | \$ —                     | \$ 4,603            | \$ —                                                       | \$ 96               |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 6 - Loans (continued)**

The following tables present the aging of the recorded investment in past due loans by class of loans as of June 30, 2019 and December 31, 2018:

| <b>June 30, 2019</b>                                                          | <b>Total</b>        | <b>30-59 Days<br/>Past Due</b> | <b>60-89 Days<br/>Past Due</b> | <b>90 Days or<br/>More<br/>Past Due</b> | <b>Total<br/>Past Due</b> | <b>Loans Not<br/>Past Due</b> |
|-------------------------------------------------------------------------------|---------------------|--------------------------------|--------------------------------|-----------------------------------------|---------------------------|-------------------------------|
| Commercial and Industrial Loans and Leases                                    | \$ 555,935          | \$ 298                         | \$ 47                          | \$ 455                                  | \$ 800                    | \$ 555,135                    |
| Commercial Real Estate Loans                                                  | 1,216,906           | 1,562                          | 467                            | 1,467                                   | 3,496                     | 1,213,410                     |
| Agricultural Loans                                                            | 368,912             | 1,857                          | 180                            | 435                                     | 2,472                     | 366,440                       |
| Home Equity Loans                                                             | 204,350             | 609                            | 213                            | 89                                      | 911                       | 203,439                       |
| Consumer Loans                                                                | 77,824              | 690                            | 46                             | 83                                      | 819                       | 77,005                        |
| Residential Mortgage Loans                                                    | 308,525             | 4,675                          | 1,165                          | 1,181                                   | 7,021                     | 301,504                       |
| Total <sup>(1)</sup>                                                          | <u>\$ 2,732,452</u> | <u>\$ 9,691</u>                | <u>\$ 2,118</u>                | <u>\$ 3,710</u>                         | <u>\$ 15,519</u>          | <u>\$ 2,716,933</u>           |
| Loans Acquired With Deteriorated Credit Quality (Included in the Total Above) | <u>\$ 10,029</u>    | <u>\$ 860</u>                  | <u>\$ 26</u>                   | <u>\$ 974</u>                           | <u>\$ 1,860</u>           | <u>\$ 8,169</u>               |

<sup>(1)</sup>Total recorded investment in loans includes \$11,778 in accrued interest.

| <b>December 31, 2018</b>                                                      | <b>Total</b>        | <b>30-59 Days<br/>Past Due</b> | <b>60-89 Days<br/>Past Due</b> | <b>90 Days or<br/>More<br/>Past Due</b> | <b>Total<br/>Past Due</b> | <b>Loans Not<br/>Past Due</b> |
|-------------------------------------------------------------------------------|---------------------|--------------------------------|--------------------------------|-----------------------------------------|---------------------------|-------------------------------|
| Commercial and Industrial Loans and Leases                                    | \$ 545,342          | \$ 5,414                       | \$ 183                         | \$ 72                                   | \$ 5,669                  | \$ 539,673                    |
| Commercial Real Estate Loans                                                  | 1,211,882           | 768                            | 705                            | 3,032                                   | 4,505                     | 1,207,377                     |
| Agricultural Loans                                                            | 370,694             | 563                            | 805                            | 274                                     | 1,642                     | 369,052                       |
| Home Equity Loans                                                             | 209,009             | 471                            | 125                            | 60                                      | 656                       | 208,353                       |
| Consumer Loans                                                                | 77,761              | 971                            | 94                             | 149                                     | 1,214                     | 76,547                        |
| Residential Mortgage Loans                                                    | 329,354             | 4,771                          | 1,520                          | 1,387                                   | 7,678                     | 321,676                       |
| Total <sup>(1)</sup>                                                          | <u>\$ 2,744,042</u> | <u>\$ 12,958</u>               | <u>\$ 3,432</u>                | <u>\$ 4,974</u>                         | <u>\$ 21,364</u>          | <u>\$ 2,722,678</u>           |
| Loans Acquired With Deteriorated Credit Quality (Included in the Total Above) | <u>\$ 11,556</u>    | <u>\$ 448</u>                  | <u>\$ 885</u>                  | <u>\$ 1,259</u>                         | <u>\$ 2,592</u>           | <u>\$ 8,964</u>               |
| Loans Acquired in Current Year<br>(Included in the Total Above)               | <u>\$ 481,901</u>   | <u>\$ 2,571</u>                | <u>\$ 1,620</u>                | <u>\$ 2,191</u>                         | <u>\$ 6,382</u>           | <u>\$ 475,519</u>             |

<sup>(1)</sup>Total recorded investment in loans includes \$12,301 in accrued interest.

**Troubled Debt Restructurings:**

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

During the three and six months ended June 30, 2019 and 2018, there were no loans modified as a troubled debt restructuring.

The following tables present the recorded investment of troubled debt restructurings by class of loans as of June 30, 2019 and December 31, 2018:

| <b>June 30, 2019</b>                       | <b>Total</b>  | <b>Performing</b> | <b>Non-Accrual<sup>(1)</sup></b> |
|--------------------------------------------|---------------|-------------------|----------------------------------|
| Commercial and Industrial Loans and Leases | \$ 118        | \$ 118            | \$ —                             |
| Commercial Real Estate Loans               | —             | —                 | —                                |
| Total                                      | <u>\$ 118</u> | <u>\$ 118</u>     | <u>\$ —</u>                      |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 6 - Loans (continued)**

| <b>December 31, 2018</b>                   | <b>Total</b>  | <b>Performing</b> | <b>Non-Accrual<sup>(1)</sup></b> |
|--------------------------------------------|---------------|-------------------|----------------------------------|
| Commercial and Industrial Loans and Leases | \$ 121        | \$ 121            | \$ —                             |
| Commercial Real Estate Loans               | —             | —                 | —                                |
| Total                                      | <u>\$ 121</u> | <u>\$ 121</u>     | <u>\$ —</u>                      |

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

The Company had not committed to lending any additional amounts as of June 30, 2019 and December 31, 2018 to customers with outstanding loans that are classified as troubled debt restructurings.

For the three and six months ended June 30, 2019 and 2018, the Company had no loans modified as troubled debt restructurings. 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 and six months ended June 30, 2019 and 2018.

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:

| <b>June 30, 2019</b>                                                             | <b>Pass</b>         | <b>Special Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Total</b>        |
|----------------------------------------------------------------------------------|---------------------|------------------------|--------------------|-----------------|---------------------|
| Commercial and Industrial Loans and Leases                                       | \$ 536,263          | \$ 5,745               | \$ 13,927          | \$ —            | \$ 555,935          |
| Commercial Real Estate Loans                                                     | 1,182,369           | 22,329                 | 12,208             | —               | 1,216,906           |
| Agricultural Loans                                                               | 309,423             | 47,012                 | 12,477             | —               | 368,912             |
| Total                                                                            | <u>\$ 2,028,055</u> | <u>\$ 75,086</u>       | <u>\$ 38,612</u>   | <u>\$ —</u>     | <u>\$ 2,141,753</u> |
| Loans Acquired With Deteriorated Credit Quality<br>(Included in the Total Above) | <u>\$ 230</u>       | <u>\$ 1,435</u>        | <u>\$ 6,728</u>    | <u>\$ —</u>     | <u>\$ 8,393</u>     |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 6 - Loans (continued)**

| <b>December 31, 2018</b>                                                         | <b>Pass</b>         | <b>Special Mention</b> | <b>Substandard</b> | <b>Doubtful</b> | <b>Total</b>        |
|----------------------------------------------------------------------------------|---------------------|------------------------|--------------------|-----------------|---------------------|
| Commercial and Industrial Loans and Leases                                       | \$ 517,497          | \$ 7,541               | \$ 20,304          | \$ —            | \$ 545,342          |
| Commercial Real Estate Loans                                                     | 1,165,937           | 26,723                 | 19,222             | —               | 1,211,882           |
| Agricultural Loans                                                               | 313,309             | 40,983                 | 16,402             | —               | 370,694             |
| <b>Total</b>                                                                     | <b>\$ 1,996,743</b> | <b>\$ 75,247</b>       | <b>\$ 55,928</b>   | <b>\$ —</b>     | <b>\$ 2,127,918</b> |
| Loans Acquired With Deteriorated Credit Quality<br>(Included in the Total Above) | \$ —                | \$ 1,436               | \$ 8,472           | \$ —            | \$ 9,908            |
| Loans Acquired in Current Year<br>(Included in the Total Above)                  | \$ 250,415          | \$ 14,972              | \$ 11,521          | \$ —            | \$ 276,908          |

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 June 30, 2019 and December 31, 2018:

| <b>June 30, 2019</b> | <b>Home Equity Loans</b> | <b>Consumer Loans</b> | <b>Residential Mortgage Loans</b> |
|----------------------|--------------------------|-----------------------|-----------------------------------|
| Performing           | \$ 204,260               | \$ 77,711             | \$ 307,019                        |
| Nonperforming        | 90                       | 113                   | 1,506                             |
| <b>Total</b>         | <b>\$ 204,350</b>        | <b>\$ 77,824</b>      | <b>\$ 308,525</b>                 |

| <b>December 31, 2018</b> | <b>Home Equity Loans</b> | <b>Consumer Loans</b> | <b>Residential Mortgage Loans</b> |
|--------------------------|--------------------------|-----------------------|-----------------------------------|
| Performing               | \$ 208,921               | \$ 77,599             | \$ 327,737                        |
| Nonperforming            | 88                       | 162                   | 1,617                             |
| <b>Total</b>             | <b>\$ 209,009</b>        | <b>\$ 77,761</b>      | <b>\$ 329,354</b>                 |

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:

|                                   | <b>June 30, 2019</b> | <b>December 31, 2018</b> |
|-----------------------------------|----------------------|--------------------------|
| Commercial and Industrial Loans   | \$ 882               | \$ 1,038                 |
| Commercial Real Estate Loans      | 5,629                | 6,993                    |
| Agricultural Loans                | 1,882                | 1,877                    |
| Home Equity Loans                 | 368                  | 365                      |
| Residential Mortgage Loans        | 1,268                | 1,283                    |
| <b>Total</b>                      | <b>\$ 10,029</b>     | <b>\$ 11,556</b>         |
| Carrying Amount, Net of Allowance | \$ 9,626             | \$ 11,548                |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(unaudited, dollars in thousands except share and per share data)**

**NOTE 6 - Loans (continued)**

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

|                                                  | <b>2019</b>     | <b>2018</b>     |
|--------------------------------------------------|-----------------|-----------------|
| Balance at April 1                               | \$ 3,203        | \$ 2,739        |
| New Loans Purchased                              | —               | —               |
| Accretion of Income                              | (202)           | (140)           |
| Reclassifications from Non-accretable Difference | 131             | 65              |
| Charge-off of Accretable Yield                   | —               | (97)            |
| Balance at June 30                               | <u>\$ 3,132</u> | <u>\$ 2,567</u> |

For those purchased loans disclosed above, the Company increased the allowance for loan losses by \$147 during the three months ended June 30, 2019. The company did not increase the allowance for loan losses during the three months ended June 30, 2018. The Company reversed no allowances for loan losses during the three months ended June 30, 2019. The Company reversed allowances for loan losses of \$3 during the three months ended June 30, 2018.

|                                                  | <b>2019</b>     | <b>2018</b>     |
|--------------------------------------------------|-----------------|-----------------|
| Balance at January 1                             | \$ 3,138        | \$ 2,734        |
| New Loans Purchased                              | —               | —               |
| Accretion of Income                              | (524)           | (221)           |
| Reclassifications from Non-accretable Difference | 518             | 151             |
| Charge-off of Accretable Yield                   | —               | (97)            |
| Balance at June 30                               | <u>\$ 3,132</u> | <u>\$ 2,567</u> |

For those purchased loans disclosed above, the Company increased the allowances for loan losses by \$424 and \$30 during the six months ended June 30, 2019 and 2018. The Company reversed no allowances for loan losses for the six months ended June 30, 2019. The Company reversed allowances for loan losses of \$3 for the six months ended June 30, 2018.

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 \$10 as of June 30, 2019 and \$58 as of December 31, 2018.

**NOTE 7 – 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 \$36,318 and \$45,274 as of June 30, 2019 and December 31, 2018, 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 8 – 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.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 8 - Segment Information (continued)**

The core banking segment is comprised by the Company's banking subsidiary, German American Bank, which operated through 66 banking offices at June 30, 2019. 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.

|                                   | <b>Core<br/>Banking</b> | <b>Trust and<br/>Investment Advisory<br/>Services</b> | <b>Insurance</b> | <b>Other</b> | <b>Consolidated<br/>Totals</b> |
|-----------------------------------|-------------------------|-------------------------------------------------------|------------------|--------------|--------------------------------|
| <b>Three Months Ended</b>         |                         |                                                       |                  |              |                                |
| <b>June 30, 2019</b>              |                         |                                                       |                  |              |                                |
| Net Interest Income               | \$ 34,182               | \$ 4                                                  | \$ 4             | \$ (549)     | \$ 33,641                      |
| Net Gains on Sales of Loans       | 1,030                   | —                                                     | —                | —            | 1,030                          |
| Net Gains on Securities           | 516                     | —                                                     | —                | —            | 516                            |
| Trust and Investment Product Fees | 1                       | 1,912                                                 | —                | —            | 1,913                          |
| Insurance Revenues                | 4                       | 4                                                     | 1,921            | —            | 1,929                          |
| Noncash Items:                    |                         |                                                       |                  |              |                                |
| Provision for Loan Losses         | 250                     | —                                                     | —                | —            | 250                            |
| Depreciation and Amortization     | 1,976                   | 2                                                     | 21               | 64           | 2,063                          |
| Income Tax Expense (Benefit)      | 3,437                   | 128                                                   | 50               | (604)        | 3,011                          |
| Segment Profit (Loss)             | 15,068                  | 372                                                   | 147              | (316)        | 15,271                         |
| Segment Assets at June 30, 2019   | 3,944,736               | 3,324                                                 | 8,784            | 13,895       | 3,970,739                      |

|                                     | <b>Core<br/>Banking</b> | <b>Trust and<br/>Investment<br/>Advisory Services</b> | <b>Insurance</b> | <b>Other</b> | <b>Consolidated<br/>Totals</b> |
|-------------------------------------|-------------------------|-------------------------------------------------------|------------------|--------------|--------------------------------|
| <b>Three Months Ended</b>           |                         |                                                       |                  |              |                                |
| <b>June 30, 2018</b>                |                         |                                                       |                  |              |                                |
| Net Interest Income                 | \$ 27,672               | \$ (1)                                                | \$ 3             | \$ (205)     | \$ 27,469                      |
| Net Gains on Sales of Loans         | 905                     | —                                                     | —                | —            | 905                            |
| Net Gains on Securities             | 74                      | —                                                     | —                | —            | 74                             |
| Trust and Investment Product Fees   | —                       | 1,677                                                 | —                | —            | 1,677                          |
| Insurance Revenues                  | 5                       | 2                                                     | 1,689            | —            | 1,696                          |
| Noncash Items:                      |                         |                                                       |                  |              |                                |
| Provision for Loan Losses           | 1,220                   | —                                                     | —                | —            | 1,220                          |
| Depreciation and Amortization       | 1,316                   | 1                                                     | 21               | 64           | 1,402                          |
| Income Tax Expense (Benefit)        | 2,487                   | 96                                                    | 13               | (270)        | 2,326                          |
| Segment Profit (Loss)               | 11,478                  | 269                                                   | 30               | (680)        | 11,097                         |
| Segment Assets at December 31, 2018 | 3,926,242               | 2,658                                                 | 11,368           | (11,178)     | 3,929,090                      |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 8 - Segment Information (continued)**

|                                   | <b>Core<br/>Banking</b> | <b>Trust and<br/>Investment Advisory<br/>Services</b> | <b>Insurance</b> | <b>Other</b> | <b>Consolidated<br/>Totals</b> |
|-----------------------------------|-------------------------|-------------------------------------------------------|------------------|--------------|--------------------------------|
| <b>Six Months Ended</b>           |                         |                                                       |                  |              |                                |
| <b>June 30, 2019</b>              |                         |                                                       |                  |              |                                |
| Net Interest Income               | \$ 68,317               | \$ 6                                                  | \$ 9             | \$ (1,100)   | \$ 67,232                      |
| Net Gains on Sales of Loans       | 2,011                   | —                                                     | —                | —            | 2,011                          |
| Net Gains on Securities           | 671                     | —                                                     | —                | —            | 671                            |
| Trust and Investment Product Fees | 2                       | 3,478                                                 | —                | —            | 3,480                          |
| Insurance Revenues                | 7                       | 25                                                    | 5,102            | —            | 5,134                          |
| Noncash Items:                    |                         |                                                       |                  |              |                                |
| Provision for Loan Losses         | 925                     | —                                                     | —                | —            | 925                            |
| Depreciation and Amortization     | 3,903                   | 3                                                     | 39               | 128          | 4,073                          |
| Income Tax Expense (Benefit)      | 6,092                   | 204                                                   | 407              | (944)        | 5,759                          |
| Segment Profit (Loss)             | 29,567                  | 587                                                   | 1,237            | (1,053)      | 30,338                         |
| Segment Assets at June 30, 2019   | 3,944,736               | 3,324                                                 | 8,784            | 13,895       | 3,970,739                      |

  

|                                     | <b>Core<br/>Banking</b> | <b>Trust and<br/>Investment Advisory<br/>Services</b> | <b>Insurance</b> | <b>Other</b> | <b>Consolidated<br/>Totals</b> |
|-------------------------------------|-------------------------|-------------------------------------------------------|------------------|--------------|--------------------------------|
| <b>Six Months Ended</b>             |                         |                                                       |                  |              |                                |
| <b>June 30, 2018</b>                |                         |                                                       |                  |              |                                |
| Net Interest Income                 | \$ 53,462               | \$ 2                                                  | \$ 5             | \$ (390)     | \$ 53,079                      |
| Net Gains on Sales of Loans         | 1,555                   | —                                                     | —                | —            | 1,555                          |
| Net Gains on Securities             | 344                     | —                                                     | —                | —            | 344                            |
| Trust and Investment Product Fees   | 2                       | 3,448                                                 | —                | —            | 3,450                          |
| Insurance Revenues                  | 6                       | 4                                                     | 4,616            | —            | 4,626                          |
| Noncash Items:                      |                         |                                                       |                  |              |                                |
| Provision for Loan Losses           | 1,570                   | —                                                     | —                | —            | 1,570                          |
| Depreciation and Amortization       | 2,431                   | 2                                                     | 40               | 128          | 2,601                          |
| Income Tax Expense (Benefit)        | 4,731                   | 232                                                   | 334              | (487)        | 4,810                          |
| Segment Profit (Loss)               | 22,240                  | 654                                                   | 969              | (953)        | 22,910                         |
| Segment Assets at December 31, 2018 | 3,926,242               | 2,658                                                 | 11,368           | (11,178)     | 3,929,090                      |

**NOTE 9 – 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. 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 June 30, 2019, the Company had purchased 502,447 shares under the program. No shares were purchased under the program during the three or six months ended June 30, 2019 and 2018.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 10 – Equity Plans and Equity Based Compensation**

The Company maintains two equity incentive plans under which stock options, restricted stock, and other equity incentive awards can be granted. Those plans include (i) the Company's 2009 Long-Term Equity Incentive Plan, under which no new grants may be made (the "2009 LTI Plan"), and (ii) the Company's 2019 Long-Term Equity Incentive Plan (the "2019 LTI Plan"). The 2019 LTI Plan became effective on May 16, 2019, following approval of the Company's shareholders. It will remain in effect until May 16, 2029, or until all shares of common stock subject to the 2019 LTI Plan are distributed, all awards have expired or terminated, or the plan is terminated pursuant to its terms, whichever occurs first. At June 30, 2019, the Company has reserved 1,000,000 shares of common stock (the amount authorized under the 2019 LTI Plan) for the purpose of issuance pursuant to future grants of options, restricted stock, and other equity awards to officers, directors and other employees of the Company.

For the three and six months ended June 30, 2019 and 2018, the Company granted no options. The Company recorded no stock compensation expense applicable to options during the three and six months ended June 30, 2019 and 2018 because all previously granted 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 under the 2009 LTI Plan 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. The Company granted no awards of restricted stock during the three months ended June 30, 2019. During the three months ended June 30, 2018, the Company granted awards of 450 shares of restricted stock. During the six months ended June 30, 2019 and 2018, the Company granted awards of 24,780 and 35,310 shares of restricted stock, respectively. Total unvested restricted stock awards at June 30, 2019 and December 31, 2018 were 69,462 and 44,682, respectively.

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

|                          | <b>Three Months Ended<br/>June 30,</b> |               |
|--------------------------|----------------------------------------|---------------|
|                          | <b>2019</b>                            | <b>2018</b>   |
| Restricted Stock Expense | \$ 311                                 | \$ 383        |
| Cash Entitlement Expense | 152                                    | 172           |
| Tax Effect               | (120)                                  | (145)         |
| Net of Tax               | <u>\$ 343</u>                          | <u>\$ 410</u> |
|                          | <b>Six Months Ended<br/>June 30,</b>   |               |
|                          | <b>2019</b>                            | <b>2018</b>   |
| Restricted Stock Expense | \$ 622                                 | \$ 661        |
| Cash Entitlement Expense | 302                                    | 342           |
| Tax Effect               | (240)                                  | (262)         |
| Net of Tax               | <u>\$ 684</u>                          | <u>\$ 741</u> |

Unrecognized expense associated with the restricted stock grants and cash entitlements totaled \$2,463 and \$2,822 as of June 30, 2019 and 2018, respectively.

The Company maintains the 2009 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

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(unaudited, dollars in thousands except share and per share data)**

**NOTE 10 - Equity Plans and Equity Based Compensation (continued)**

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 June 30, 2019, there were 539,293 shares available for future issuance under this plan. Funding for the purchase of common stock is from employee and Company contributions.

The Company's shareholders approved the Company's new 2019 Employee Stock Purchase Plan (the "2019 ESPP") on May 16, 2019. The 2019 ESPP replaces the 2009 Employee Stock Purchase Plan, which expires by its own terms on August 16, 2019. The 2019 ESPP, which becomes effective as of October 1, 2019, provides for a series of 3-month offering periods, commencing on the first day and ending on the last trading day of each calendar quarter, for the purchase of the Company's common stock by participating employees. The purchase price of the shares is expected to be set at 95% of the fair market value of the Company's common stock on the last trading day of the offering period. A total of 750,000 common shares will be reserved for issuance under the 2019 ESPP upon its effective date. The 2019 ESPP will continue until September 30, 2029, or, if earlier, until all of the shares of common stock allocated to the 2019 ESPP have been purchased.

There was no expense recorded for the employee stock purchase plan during the three and six months ended June 30, 2019 and 2018. There was no unrecognized compensation expense as of June 30, 2019 and 2018 for the Employee Stock Purchase Plan.

**NOTE 11 – 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 investment securities where quoted prices are not available, fair values are calculated based on market prices of similar investment securities (Level 2). For investment securities where quoted prices or market prices of similar investment 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 June 30, 2019, the Company held \$4.5 million in Level 3 securities which consist of non-rated Obligations of State and Political Subdivisions. Absent the credit rating, significant assumptions must be made such that the credit risk input becomes an unobservable input and thus these investment 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 includes 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

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 11 - Fair Value (continued)**

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.

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 June 30, 2019 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 | \$ —                                                           | \$ 298,778                                    | \$ 4,506                                  | \$ 303,284 |
| MBS/CMO - Residential                           | —                                                              | 537,408                                       | —                                         | 537,408    |
| Total Securities                                | \$ —                                                           | \$ 836,186                                    | \$ 4,506                                  | \$ 840,692 |
| Loans Held-for-Sale                             | \$ —                                                           | \$ 14,184                                     | \$ —                                      | \$ 14,184  |
| Derivative Assets                               | \$ —                                                           | \$ 2,381                                      | \$ —                                      | \$ 2,381   |
| Derivative Liabilities                          | \$ —                                                           | \$ 2,607                                      | \$ —                                      | \$ 2,607   |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 11 - Fair Value (continued)**

| Fair Value Measurements at December 31, 2018 Using |                                                                      |                                                     |                                                 |            |
|----------------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------------------|------------|
|                                                    | Quoted Prices in Active<br>Markets for Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) | Total      |
| Assets:                                            |                                                                      |                                                     |                                                 |            |
| Obligations of State and Political Subdivisions    | \$ —                                                                 | \$ 289,542                                          | \$ 4,991                                        | \$ 294,533 |
| MBS/CMO - Residential                              | —                                                                    | 518,078                                             | —                                               | 518,078    |
| Total Securities                                   | \$ —                                                                 | \$ 807,620                                          | \$ 4,991                                        | \$ 812,611 |
| Loans Held-for-Sale                                | \$ —                                                                 | \$ 4,263                                            | \$ —                                            | \$ 4,263   |
| Derivative Assets                                  | \$ —                                                                 | \$ 1,713                                            | \$ —                                            | \$ 1,713   |
| Derivative Liabilities                             | \$ —                                                                 | \$ 1,734                                            | \$ —                                            | \$ 1,734   |

There were no transfers between Level 1 and Level 2 for the periods ended June 30, 2019 and December 31, 2018.

At June 30, 2019, the aggregate fair value of the Loans Held-for-Sale was \$14,184. Aggregate contractual principal balance was \$13,925 with a difference of \$259. At December 31, 2018, the aggregate fair value of the Loans Held-for-Sale was \$4,263. Aggregate contractual principal balance was \$4,231 with a difference of \$32. No loans were 90 days past due or on non-accrual.

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 and six months ended June 30, 2019 and 2018:

|                                                              | Obligations of State and Political Subdivisions |          |
|--------------------------------------------------------------|-------------------------------------------------|----------|
|                                                              | 2019                                            | 2018     |
| Balance of Recurring Level 3 Assets at April 1               | \$ 4,512                                        | \$ 5,171 |
| Total Gains or Losses Included in Other Comprehensive Income | (6)                                             | (4)      |
| Maturities / Calls                                           | —                                               | —        |
| Purchases                                                    | —                                               | —        |
| Balance of Recurring Level 3 Assets at June 30               | \$ 4,506                                        | \$ 5,167 |
|                                                              | Obligations of State and Political Subdivisions |          |
|                                                              | 2019                                            | 2018     |
| Balance of Recurring Level 3 Assets at January 1             | \$ 4,991                                        | \$ 5,649 |
| Total Gains or Losses Included in Other Comprehensive Income | (15)                                            | (22)     |
| Maturities / Calls                                           | (470)                                           | (460)    |
| Purchases                                                    | —                                               | —        |
| Balance of Recurring Level 3 Assets at June 30               | \$ 4,506                                        | \$ 5,167 |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 11 - Fair Value (continued)**

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 June 30, 2019 Using |                                                                      |                                                  |                                                 |          |
|------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|----------|
|                                                | Quoted Prices in Active<br>Markets for Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Total    |
| Assets:                                        |                                                                      |                                                  |                                                 |          |
| Impaired Loans                                 |                                                                      |                                                  |                                                 |          |
| Commercial and Industrial Loans                | \$ —                                                                 | \$ —                                             | \$ 1,835                                        | \$ 1,835 |
| Commercial Real Estate Loans                   | —                                                                    | —                                                | 1,750                                           | 1,750    |

| Fair Value Measurements at December 31, 2018 Using |                                                                      |                                                  |                                                 |          |
|----------------------------------------------------|----------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|----------|
|                                                    | Quoted Prices in Active<br>Markets for Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs (Level 2) | Significant<br>Unobservable<br>Inputs (Level 3) | Total    |
| Assets:                                            |                                                                      |                                                  |                                                 |          |
| Impaired Loans                                     |                                                                      |                                                  |                                                 |          |
| Commercial and Industrial Loans                    | \$ —                                                                 | \$ —                                             | \$ 2,210                                        | \$ 2,210 |
| Commercial Real Estate Loans                       | —                                                                    | —                                                | 2,528                                           | 2,528    |

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$5,134 with a valuation allowance of \$1,549 at June 30, 2019, resulting in an increase to the provision for loan losses of \$123 for the three months ended June 30, 2019 and a decrease to the provision for loan losses of \$273 for the six months ended June 30, 2019. Impaired loans resulted in an increase to the provision for loan losses of \$191 for the three months ended June 30, 2018 and a decrease to the provision for loan losses of \$856 for the six months ended June 30, 2018. At December 31, 2018, collateral dependent impaired loans had a carrying amount of \$6,561 with a valuation allowance of \$1,823, resulting in a decrease to the provision for loan losses of \$411 for the year ended December 31, 2018.

There was no Other Real Estate carried at fair value less costs to sell at June 30, 2019. No charge to earnings was included in the three or six months ended June 30, 2019 and 2018. There was no Other Real Estate carried at fair value less costs to sell at December 31, 2018. No charge to earnings was included in the year ended December 31, 2018.

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 June 30, 2019 and December 31, 2018:

| June 30, 2019                                    | Fair Value | Valuation Technique(s)    | Unobservable Input(s)                                           | Range<br>(Weighted<br>Average) |
|--------------------------------------------------|------------|---------------------------|-----------------------------------------------------------------|--------------------------------|
| Impaired Loans - Commercial and Industrial Loans | \$ 1,835   | Sales comparison approach | Adjustment for physical condition of comparable properties sold | 60%-100%<br>(61%)              |
| Impaired Loans - Commercial Real Estate Loans    | \$ 1,750   | Sales comparison approach | Adjustment for physical condition of comparable properties sold | 47%-76%<br>(60%)               |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 11 - Fair Value (continued)**

| <b>December 31, 2018</b>                         | <b>Fair Value</b> | <b>Valuation Technique(s)</b> | <b>Unobservable Input(s)</b>                                    | <b>Range (Weighted Average)</b> |
|--------------------------------------------------|-------------------|-------------------------------|-----------------------------------------------------------------|---------------------------------|
| Impaired Loans - Commercial and Industrial Loans | \$ 2,210          | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 0%-100% (99%)                   |
| Impaired Loans - Commercial Real Estate Loans    | \$ 2,528          | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 22%-76% (55%)                   |

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 June 30, 2019 and December 31, 2018. 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. In accordance with the adoption of ASU 2016-01, the tables below for June 30, 2019 and December 31, 2018, present the fair values measured using an exit price notion.

| <b>Fair Value Measurements at June 30, 2019 Using</b> |                       |                |                |                |              |
|-------------------------------------------------------|-----------------------|----------------|----------------|----------------|--------------|
|                                                       | <b>Carrying Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Financial Assets:</b>                              |                       |                |                |                |              |
| Cash and Short-term Investments                       | \$ 90,007             | \$ 48,634      | \$ 41,373      | \$ —           | \$ 90,007    |
| Interest Bearing Time Deposits with Banks             | 250                   | —              | 250            | —              | 250          |
| Loans, Net                                            | 2,697,204             | —              | —              | 2,684,900      | 2,684,900    |
| Accrued Interest Receivable                           | 16,210                | —              | 4,389          | 11,821         | 16,210       |
| <b>Financial Liabilities:</b>                         |                       |                |                |                |              |
| Demand, Savings, and Money Market Deposits            | (2,531,061)           | (2,531,061)    | —              | —              | (2,531,061)  |
| Time Deposits                                         | (597,771)             | —              | (597,447)      | —              | (597,447)    |
| Short-term Borrowings                                 | (142,318)             | (106,000)      | (36,318)       | —              | (142,318)    |
| Long-term Debt                                        | (163,622)             | —              | (152,022)      | (8,751)        | (160,773)    |
| Accrued Interest Payable                              | (2,060)               | —              | (2,040)        | (20)           | (2,060)      |

| <b>Fair Value Measurements at December 31, 2018 Using</b> |                       |                |                |                |              |
|-----------------------------------------------------------|-----------------------|----------------|----------------|----------------|--------------|
|                                                           | <b>Carrying Value</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>Financial Assets:</b>                                  |                       |                |                |                |              |
| Cash and Short-term Investments                           | \$ 96,550             | \$ 64,549      | \$ 32,001      | \$ —           | \$ 96,550    |
| Interest Bearing Time Deposits with Banks                 | 250                   | —              | 250            | —              | 250          |
| Loans, Net                                                | 2,707,498             | —              | —              | 2,689,393      | 2,689,393    |
| Accrued Interest Receivable                               | 16,634                | —              | 4,143          | 12,491         | 16,634       |
| <b>Financial Liabilities:</b>                             |                       |                |                |                |              |
| Demand, Savings, and Money Market Deposits                | (2,484,149)           | (2,484,149)    | —              | —              | (2,484,149)  |
| Time Deposits                                             | (588,483)             | —              | (586,338)      | —              | (586,338)    |
| Short-term Borrowings                                     | (249,774)             | (204,500)      | (45,274)       | —              | (249,774)    |
| Long-term Debt                                            | (126,635)             | —              | (117,513)      | (11,315)       | (128,828)    |
| Accrued Interest Payable                                  | (1,740)               | —              | (1,718)        | (22)           | (1,740)      |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 12 - Other Comprehensive Income (Loss)**

The tables below summarize the changes in accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2019 and 2018, net of tax:

| <b>June 30, 2019</b>                                                    | <b>Unrealized Gains and<br/>Losses on Available-<br/>for-Sale Securities</b> | <b>Postretirement<br/>Benefit Items</b> | <b>Total</b>     |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------|------------------|
| Beginning Balance at April 1, 2019                                      | \$ 2,655                                                                     | \$ (339)                                | \$ 2,316         |
| Other Comprehensive Income (Loss) Before Reclassification               | 9,299                                                                        | —                                       | 9,299            |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | (408)                                                                        | —                                       | (408)            |
| Net Current Period Other Comprehensive Income (Loss)                    | 8,891                                                                        | —                                       | 8,891            |
| Ending Balance at June 30, 2019                                         | <u>\$ 11,546</u>                                                             | <u>\$ (339)</u>                         | <u>\$ 11,207</u> |

| <b>June 30, 2019</b>                                                    | <b>Unrealized Gains and<br/>Losses on Available-<br/>for-Sale Securities</b> | <b>Postretirement<br/>Benefit Items</b> | <b>Total</b>     |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------|------------------|
| Beginning Balance at January 1, 2019                                    | \$ (6,759)                                                                   | \$ (339)                                | \$ (7,098)       |
| Other Comprehensive Income (Loss) Before Reclassification               | 18,835                                                                       | —                                       | 18,835           |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | (530)                                                                        | —                                       | (530)            |
| Net Current Period Other Comprehensive Income (Loss)                    | 18,305                                                                       | —                                       | 18,305           |
| Ending Balance at June 30, 2019                                         | <u>\$ 11,546</u>                                                             | <u>\$ (339)</u>                         | <u>\$ 11,207</u> |

| <b>June 30, 2018</b>                                                    | <b>Unrealized Gains and<br/>Losses on Available-<br/>for-Sale Securities</b> | <b>Postretirement<br/>Benefit Items</b> | <b>Total</b>       |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------|--------------------|
| Beginning Balance at April 1, 2018                                      | \$ (11,553)                                                                  | \$ (285)                                | \$ (11,838)        |
| Other Comprehensive Income (Loss) Before Reclassification               | (1,443)                                                                      | —                                       | (1,443)            |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | (58)                                                                         | —                                       | (58)               |
| Net Current Period Other Comprehensive Income (Loss)                    | (1,501)                                                                      | —                                       | (1,501)            |
| Ending Balance at June 30, 2018                                         | <u>\$ (13,054)</u>                                                           | <u>\$ (285)</u>                         | <u>\$ (13,339)</u> |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 12 - Other Comprehensive Income (Loss) (continued)**

| <b>June 30, 2018</b>                                                    | <b>Unrealized Gains and<br/>Losses on Available-<br/>for-Sale Securities</b> | <b>Postretirement<br/>Benefit Items</b> | <b>Total</b>       |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------|-----------------------------------------|--------------------|
| Beginning Balance at January 1, 2018                                    | \$ (2,335)                                                                   | \$ (285)                                | \$ (2,620)         |
| Other Comprehensive Income (Loss) Before Reclassification               | (10,448)                                                                     | —                                       | (10,448)           |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | (271)                                                                        | —                                       | (271)              |
| Net Current Period Other Comprehensive Income (Loss)                    | (10,719)                                                                     | —                                       | (10,719)           |
| Ending Balance at June 30, 2018                                         | <u>\$ (13,054)</u>                                                           | <u>\$ (285)</u>                         | <u>\$ (13,339)</u> |

The tables below summarize the classifications out of accumulated other comprehensive income (loss) by component for the three and six months ended June 30, 2019 and 2018:

| <b>Details about Accumulated Other<br/>Comprehensive Income (Loss) Components</b> | <b>Amount Reclassified From Accumulated Other<br/>Comprehensive Income (Loss)</b> | <b>Affected Line Item in the Statement<br/>Where Net Income is Presented</b> |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Unrealized Gains and Losses on Available-for-Sale Securities                      | \$ 516                                                                            | Net Gains on Securities                                                      |
|                                                                                   | (108)                                                                             | Income Tax Expense                                                           |
|                                                                                   | <u>408</u>                                                                        | Net of Tax                                                                   |
| Total Reclassifications for the Three Months Ended June 30, 2019                  | <u>\$ 408</u>                                                                     |                                                                              |

| <b>Details about Accumulated Other<br/>Comprehensive Income (Loss) Components</b> | <b>Amount Reclassified From Accumulated Other<br/>Comprehensive Income (Loss)</b> | <b>Affected Line Item in the Statement<br/>Where Net Income is Presented</b> |
|-----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Unrealized Gains and Losses on Available-for-Sale Securities                      | \$ 671                                                                            | Net Gains on Securities                                                      |
|                                                                                   | (141)                                                                             | Income Tax Expense                                                           |
|                                                                                   | <u>530</u>                                                                        | Net of Tax                                                                   |
| Total Reclassifications for the Six Months Ended June 30, 2019                    | <u>\$ 530</u>                                                                     |                                                                              |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 12 - Other Comprehensive Income (Loss) (continued)**

| 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           | \$ 74                                                                  | Net Gains on Securities                                           |
|                                                                        | (16)                                                                   | Income Tax Expense                                                |
|                                                                        | 58                                                                     | Net of Tax                                                        |
| Total Reclassifications for the Three Months Ended June 30, 2018       | \$ 58                                                                  |                                                                   |

  

| 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           | \$ 344                                                                 | Net Gains on Securities                                           |
|                                                                        | (73)                                                                   | Income Tax Expense                                                |
|                                                                        | 271                                                                    | Net of Tax                                                        |
| Total Reclassifications for the Six Months Ended June 30, 2018         | \$ 271                                                                 |                                                                   |

**NOTE 13 - Recently Adopted and Newly Issued Accounting Pronouncements**

**Recently Adopted Accounting Guidance**

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.

The Company adopted the amendments to Topic 842 on January 1, 2019, utilizing the modified retrospective approach and the transition option issued under ASU 2018-11, Leases (Topic 842) Targeted Improvements. The Company elected to apply the package of practical expedients permitting entities to not reassess (1) expired or existing contracts that may contain leases; (2) lease classification of expired or existing leases; (3) initial direct costs for existing leases as well as the practical expedient for land easements. The Company also elected certain optional relief for accounting policy elections under ASU 2016-02 (1) to not separate the lease and non-lease components and instead use them for a single lease component for leases related to office equipment and (2) the option to not recognize right-of-use assets and liabilities that arise from short-term leases.

Upon adoption of this guidance on January 1, 2019, the Company recorded a right-of-use asset and corresponding lease liability of \$9,034 on the consolidated balance sheet. No cumulative effect adjustment to retained earnings resulted from the adoption of this guidance. For additional detail on this recently adopted accounting guidance, see Note 14 - Leases.

**Accounting Guidance Issued but not yet Adopted**

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. This standard will be effective for public business entities for fiscal years beginning after December 15, 2019, including interim periods within that reporting period.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(unaudited, dollars in thousands except share and per share data)**

**NOTE 13 - Recently Adopted & Newly Issued Accounting Pronouncements (continued)**

The transition to the new standard will be applied as follows:

- For debt securities with other-than-temporary impairment (OTTI), the guidance will be applied prospectively.
- Existing purchased credit impaired (PCI) assets will be grandfathered and classified as purchased credit deteriorated (PCD) assets at the date of adoption. The asset will be grossed up for the allowance for expected credit losses for all PCD assets at the date of adoption and will continue to recognize the noncredit discount in interest income based on the yield of such assets as of the adoption date. Subsequent changes in expected credit losses will be recorded through the allowance.
- For all other assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective.

After having implemented the new software necessary for the CECL model, the Company plans to run parallel processing of its existing allowance for loan loss model with the CECL model in the third quarter of 2019. The Company expects to recognize a one-time cumulative adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot estimate the amount at this time.

In March 2017, the FASB amended existing guidance (ASU No. 2017-08, Receivables-Nonrefundable Fees and Other Costs (Subtopic 310-20)) to amend the amortization period for certain purchased callable debt securities held at a premium. The amortization period has been shortened to the earliest call date. Under current generally accepted accounting principles, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. These amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company early adopted this guidance in 2017 and it did not have a material impact on the Company's operating results or financial condition.

**NOTE 14 – Leases**

On January 1, 2019, the Company adopted the amendments to ASC 842, Leases, which requires lessees to recognize lease assets and liabilities arising from operating leases on the balance sheet.

At the inception of a contract, an entity should determine whether the contract contains a lease. Topic 842 defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. Control over the use of an identified asset means that the customer has both (1) the right to obtain substantially all of the economic benefits from the use of the asset and (2) the right to direct the use of the asset.

German American has finance leases for branch offices as well as operating leases for branch offices, ATM locations and certain office equipment. In prior periods, German American included the finance leases on the balance sheet with a right-of-use asset as well as a lease liability. Upon adopting the amended guidance, German American recorded a right-of-use asset and lease liability for its operating leases in the amount of \$9,034. Also, at this time, management considered a reasonable expectation of renewal periods to include for the leases. The right-of-use asset is included in the 'Premises, Furniture and Equipment, Net' line of the consolidated balance sheet. The lease liability is included in the 'Accrued Interest Payable and Other Liabilities' line of the consolidated balance sheet.

The Company used the implicit lease rate when determining the present value of lease payments for finance leases. The present value of lease payments for operating leases was determined using the incremental borrowing rate as of the date the Company adopted this standard.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 14 - Leases (continued)**

The components of lease expense were as follows:

|                                      | <b>Three Months Ended</b> | <b>Six Months Ended</b> |
|--------------------------------------|---------------------------|-------------------------|
|                                      | <b>June 30, 2019</b>      | <b>June 30, 2019</b>    |
| Finance Lease Cost:                  |                           |                         |
| Amortization of Right-of -Use Assets | \$ 52                     | \$ 104                  |
| Interest on Lease Liabilities        | 95                        | 191                     |
| Operating Lease Cost                 | 360                       | 720                     |
| Short-term Lease Cost                | 15                        | 30                      |
| Total Lease Cost                     | <u>\$ 522</u>             | <u>\$ 1,045</u>         |

The weighted average lease term and discount rates were as follows:

|                                        | <b>June 30, 2019</b> |
|----------------------------------------|----------------------|
| Weighted Average Remaining Lease Term: |                      |
| Finance Leases                         | 13 years             |
| Operating Leases                       | 9 years              |
| Weighted Average Discount Rate:        |                      |
| Finance Leases                         | 11.49%               |
| Operating Leases                       | 3.44%                |

Supplemental balance sheet information related to leases was as follows:

|                                        | <b>June 30, 2019</b> |
|----------------------------------------|----------------------|
| <b>Finance Leases</b>                  |                      |
| Premises, Furniture and Equipment, Net | \$ 2,593             |
| Other Borrowings                       | 3,453                |
| <b>Operating Leases</b>                |                      |
| Operating Lease Right-of-Use Assets    | \$ 8,464             |
| Operating Lease Liabilities            | 8,498                |

Supplemental cash flow information related to leases was as follows:

|                                                                | <b>Six Months Ended</b> |
|----------------------------------------------------------------|-------------------------|
|                                                                | <b>June 30, 2019</b>    |
| Cash Paid for amounts in the measurement of lease liabilities: |                         |
| Operating Cash Flows from Finance Leases                       | \$ 191                  |
| Operating Cash Flows from Operating Leases                     | 687                     |
| Financing Cash Flows from Finance Leases                       | 53                      |

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2019**  
(unaudited, dollars in thousands except share and per share data)

**NOTE 14 - Leases (continued)**

The following table presents a maturity analysis of Finance and Operating Lease Liabilities:

|                       | June 30, 2019  |                  |
|-----------------------|----------------|------------------|
|                       | Finance Leases | Operating Leases |
| Year 1                | \$ 519         | \$ 1,362         |
| Year 2                | 519            | 1,240            |
| Year 3                | 519            | 1,134            |
| Year 4                | 519            | 1,112            |
| Year 5                | 519            | 1,069            |
| Thereafter            | 3,732          | 4,099            |
| Total Lease Payments  | 6,327          | 10,016           |
| Less Imputed Interest | (2,874)        | (1,518)          |
| Total                 | \$ 3,453       | \$ 8,498         |

**NOTE 15 - Subsequent Event**

On July 1, 2019, the Company completed the acquisition of Citizens First Corporation (“Citizens First”) through the merger of Citizens First with and into the Company. Immediately following completion of the Citizens First holding company merger, Citizens First's subsidiary bank, Citizen First Bank, Inc., was merged with and into the Company's subsidiary bank, German American Bank. Under the terms of the definitive merger agreement, the Company issued approximately 1.7 million shares of its common stock which resulted in approximately \$50.1 million in total stock consideration and paid approximately \$15.5 million in cash, in exchange for all of the issued and outstanding shares of common stock of Citizens First.

Citizens First is a bank holding company headquartered in Bowling Green, Kentucky. It operates, through Citizens First Bank, Inc., branch offices in Barren, Hart, Simpson and Warren Counties in Kentucky. At March 31, 2019, Citizens First reported total assets of approximately \$472.1 million, total loans of approximately \$377.9 million, and total deposits of approximately \$381.8 million.

The acquired assets and liabilities will be recorded at fair value at the date of acquisition and will be reflected in the September 30, 2019 financial statements as such; however, at the time of these financial statements, the appraisals and valuations are incomplete. The Company expects to record goodwill and a core deposit intangible in regards to this transaction based on earlier estimates, but the amount is not known as the initial fair value accounting is incomplete. The goodwill will not be deductible for tax purposes.

This acquisition is consistent with the Company's strategy to build a regional presence in central and western Kentucky. 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.

## **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) bank holding company based in Jasper, Indiana. German American, through its banking subsidiary German American Bank, operates 75 banking offices in 20 contiguous southern Indiana counties, six Kentucky counties and one county in Tennessee. 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 June 30, 2019 and December 31, 2018 and the consolidated results of operations for the three months and six months ended June 30, 2019 and 2018. 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, 2018.

#### **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, 2018.

Net income for the quarter ended June 30, 2019 totaled \$15,271,000, or \$0.61 per share, an increase of 27% on a per share basis compared with the second quarter 2018 net income of \$11,097,000, or \$0.48 per share. Net income for the six months ended June 30, 2019 totaled \$30,338,000, or \$1.21 per share, an increase of 21% on a per share basis compared with the first half of 2018 net income of \$22,910,000, or \$1.00 per share.

On May 18, 2018, German American Bank completed the acquisition of five branch locations of First Financial Bancorp (formerly branch locations of Mainsource Financial Group, Inc. prior to its merger with First Financial Bancorp on April 1, 2018) and certain related assets, and the assumption by German American Bank of certain related liabilities. Four of the branches are located in Columbus, Indiana, and one in Greensburg, Indiana. German American Bank acquired approximately \$175.7 million in deposits and approximately \$116.3 million in loans associated with the five bank branches. The premium paid on deposits by German American Bank was approximately \$7.4 million. The premium was subject to adjustment to reflect increases or decreases in the deposit balances during the six month period following the closing date. In January 2019, an adjustment of approximately \$0.1 million in additional premium was paid by German American Bank as a result of the change in deposits during the six month measurement period. German American Bank also had the ability, under certain circumstances, to put loans back to First Financial Bancorp's bank subsidiary during such six month period. During the fourth quarter of 2018, approximately \$1.3 million of loans were put back by German American Bank.

On October 15, 2018, the Company completed the acquisition of First Security, Inc. ("First Security") through the merger of First Security with and into the Company. Immediately following completion of the First Security holding company merger, First Security's subsidiary bank, First Security Bank, Inc., was merged with and into the Company's subsidiary bank, German American Bank. First Security, based in Owensboro, Kentucky, operated 11 retail banking offices, through First Security Bank, Inc., in Owensboro, Bowling Green, Franklin and Lexington, Kentucky and in Evansville and Newburgh, Indiana. As of the closing of the transaction, First Security had total assets of approximately \$553.2 million, total loans of approximately \$390.1 million, and total deposits of approximately \$424.4 million. The Company issued approximately 2.0 million shares of its common stock, and paid approximately \$31.2 million in cash, in exchange for all of the issued and outstanding shares of common stock of First Security and in cancellation of all outstanding options to acquire First Security common stock.

On July 1, 2019, the Company completed the acquisition of Citizens First Corporation ("Citizens First") through the merger of Citizens First with and into the Company. Immediately following completion of the Citizens First holding company merger, Citizens First's subsidiary bank, Citizen First Bank, Inc., was merged with and into the Company's subsidiary bank, German American Bank. Citizens First, headquartered in Bowling Green, Kentucky operated eight retail banking offices through Citizens

First Bank, Inc. in Barren, Hart, Simpson and Warren Counties in Kentucky. At March 31, 2019, Citizens First reported total assets of approximately \$472.1 million, total loans of approximately \$377.9 million, and total deposits of approximately \$381.8 million. The Company issued approximately 1.7 million shares of its common stock, and paid approximately \$15.5 million in cash, in exchange for all of the issued and outstanding shares of common stock of Citizens First.

## **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, less impairment with observable price changes being recognized in earnings. 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 June 30, 2019, gross unrealized gains on the securities available-for-sale portfolio totaled approximately \$17,876,000 and gross unrealized losses totaled approximately \$3,151,000.

### **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 June 30, 2019 totaled \$15,271,000, or \$0.61 per share, an increase of 27% on a per share basis compared with the second quarter 2018 net income of \$11,097,000, or \$0.48 per share. The second quarter of 2019 results of operations included acquisition-related expenses of approximately \$428,000 (\$369,000 or \$0.01 per share, on an after tax basis), while the second quarter of 2018 included approximately \$904,000 (\$727,000 or \$0.03 per share, on an after tax basis).

Net income for the six months ended June 30, 2019 totaled \$30,338,000, or \$1.21 per share, an increase of 21% on a per share basis compared with the first half of 2018 net income of \$22,910,000, or \$1.00 per share. The first half of 2019 results of operations included acquisition-related expenses of approximately \$971,000 (\$801,000 or \$0.03 per share, on an after tax basis), while the first half of 2018 included approximately \$1,090,000 (\$867,000 or \$0.04 per share, on an after tax basis).

## 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 the three months ended June 30, 2019 and 2018. For tax-equivalent adjustments, an effective tax rate of 21% was used for both periods<sup>(1)</sup>.

| Average Balance Sheet<br>(Tax-equivalent basis / dollars in thousands) |                                     |                     |              |                                     |                     |              |
|------------------------------------------------------------------------|-------------------------------------|---------------------|--------------|-------------------------------------|---------------------|--------------|
|                                                                        | Three Months Ended<br>June 30, 2019 |                     |              | Three Months Ended<br>June 30, 2018 |                     |              |
|                                                                        | Principal<br>Balance                | Income /<br>Expense | Yield / Rate | Principal<br>Balance                | Income /<br>Expense | Yield / Rate |
| <b>ASSETS</b>                                                          |                                     |                     |              |                                     |                     |              |
| Federal Funds Sold and Other<br>Short-term Investments                 | \$ 21,257                           | \$ 85               | 1.62%        | \$ 12,939                           | \$ 54               | 1.68%        |
| Securities:                                                            |                                     |                     |              |                                     |                     |              |
| Taxable                                                                | 547,775                             | 3,555               | 2.60%        | 475,107                             | 2,962               | 2.49%        |
| Non-taxable                                                            | 294,507                             | 2,974               | 4.04%        | 276,260                             | 2,796               | 4.05%        |
| Total Loans and Leases <sup>(2)</sup>                                  | 2,721,630                           | 35,135              | 5.18%        | 2,229,972                           | 26,394              | 4.75%        |
| TOTAL INTEREST EARNING ASSETS                                          | 3,585,169                           | 41,749              | 4.67%        | 2,994,278                           | 32,206              | 4.31%        |
| Other Assets                                                           | 339,969                             |                     |              | 246,589                             |                     |              |
| Less: Allowance for Loan Losses                                        | (16,469)                            |                     |              | (14,776)                            |                     |              |
| TOTAL ASSETS                                                           | \$ 3,908,669                        |                     |              | \$ 3,226,091                        |                     |              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                            |                                     |                     |              |                                     |                     |              |
| Interest-bearing Demand, Savings<br>and Money Market Deposits          | \$ 1,797,228                        | \$ 2,945            | 0.66%        | \$ 1,560,838                        | \$ 1,597            | 0.41%        |
| Time Deposits                                                          | 631,174                             | 2,814               | 1.79%        | 417,585                             | 1,251               | 1.20%        |
| FHLB Advances and Other Borrowings                                     | 246,229                             | 1,636               | 2.67%        | 238,775                             | 1,216               | 2.04%        |
| TOTAL INTEREST-BEARING LIABILITIES                                     | 2,674,631                           | 7,395               | 1.11%        | 2,217,198                           | 4,064               | 0.74%        |
| Demand Deposit Accounts                                                | 715,681                             |                     |              | 625,158                             |                     |              |
| Other Liabilities                                                      | 33,466                              |                     |              | 18,538                              |                     |              |
| TOTAL LIABILITIES                                                      | 3,423,778                           |                     |              | 2,860,894                           |                     |              |
| Shareholders' Equity                                                   | 484,891                             |                     |              | 365,197                             |                     |              |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                             | \$ 3,908,669                        |                     |              | \$ 3,226,091                        |                     |              |
| <b>COST OF FUNDS</b>                                                   |                                     |                     |              |                                     |                     |              |
|                                                                        |                                     |                     | 0.83%        |                                     |                     | 0.54%        |
| NET INTEREST INCOME                                                    |                                     | \$ 34,354           |              |                                     | \$ 28,142           |              |
| NET INTEREST MARGIN                                                    |                                     |                     | 3.84%        |                                     |                     | 3.77%        |

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

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

Net interest income increased \$6,172,000, or 22%, for the quarter ended June 30, 2019 compared with the same quarter of 2018. 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 3.84% for the second quarter of 2019 compared to 3.77% during the second quarter of 2018. The tax equivalent yield on earning assets was 4.67% during the quarter ended June 30, 2019 compared to 4.31% in the same period of 2018, while the cost of funds (expressed as a percentage of average earning assets) was 0.83% during the quarter ended June 30, 2019 compared to 0.54% in the same period of 2018.

The increased level of net interest income during the second quarter of 2019 compared with the second quarter of 2018 was driven primarily by a higher level of average earning assets and an improved net interest margin. The increased level of average earning assets in the second quarter of 2019 was driven in large part by balance sheet growth through the acquisition activity during 2018 and to a lesser degree from organic loan growth from the Company's existing branch footprint.

The improvement in the net interest margin during the second quarter of 2019 when compared with the second quarter of 2018 was positively impacted by an improvement in loan yields driven by higher short-term market interest rates and an increase in the amount of accretion on loan discounts on acquired loans, while an increase in the cost of funds negatively impacted the net interest margin. Accretion of loan discounts on acquired loans contributed approximately 12 basis points to the net interest margin on an annualized basis in the second quarter of 2019 compared with 7 basis points in the second quarter of 2018. The Company's cost of funds increased approximately 29 basis points in the second quarter of 2019 compared with the second quarter of 2018. The higher cost of funds was largely attributable to an increase in short-term market interest rates.

The following table summarizes net interest income (on a tax-equivalent basis) for the six months ended June 30, 2019 and 2018. For tax-equivalent adjustments, an effective tax rate of 21% was used for both periods<sup>(1)</sup>.

| Average Balance Sheet<br>(Tax-equivalent basis / dollars in thousands) |                                   |                     |              |                                   |                     |              |
|------------------------------------------------------------------------|-----------------------------------|---------------------|--------------|-----------------------------------|---------------------|--------------|
|                                                                        | Six Months Ended<br>June 30, 2019 |                     |              | Six Months Ended<br>June 30, 2018 |                     |              |
|                                                                        | Principal<br>Balance              | Income /<br>Expense | Yield / Rate | Principal<br>Balance              | Income /<br>Expense | Yield / Rate |
| <b>ASSETS</b>                                                          |                                   |                     |              |                                   |                     |              |
| Federal Funds Sold and Other<br>Short-term Investments                 | \$ 22,888                         | \$ 226              | 1.99%        | \$ 10,760                         | \$ 110              | 2.06%        |
| Securities:                                                            |                                   |                     |              |                                   |                     |              |
| Taxable                                                                | 541,957                           | 7,154               | 2.64%        | 478,037                           | 5,960               | 2.49%        |
| Non-taxable                                                            | 292,043                           | 5,924               | 4.06%        | 274,435                           | 5,507               | 4.01%        |
| Total Loans and Leases <sup>(2)</sup>                                  | 2,720,227                         | 70,342              | 5.21%        | 2,185,087                         | 50,425              | 4.65%        |
| TOTAL INTEREST EARNING ASSETS                                          | 3,577,115                         | 83,646              | 4.71%        | 2,948,319                         | 62,002              | 4.23%        |
| Other Assets                                                           | 336,905                           |                     |              | 240,825                           |                     |              |
| Less: Allowance for Loan Losses                                        | (16,263)                          |                     |              | (15,323)                          |                     |              |
| TOTAL ASSETS                                                           | \$ 3,897,757                      |                     |              | \$ 3,173,821                      |                     |              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                            |                                   |                     |              |                                   |                     |              |
| Interest-bearing Demand, Savings<br>and Money Market Deposits          | \$ 1,764,356                      | \$ 5,640            | 0.64%        | \$ 1,525,298                      | \$ 2,872            | 0.38%        |
| Time Deposits                                                          | 638,907                           | 5,535               | 1.75%        | 408,044                           | 2,259               | 1.12%        |
| FHLB Advances and Other Borrowings                                     | 288,113                           | 3,818               | 2.67%        | 250,713                           | 2,468               | 1.98%        |
| TOTAL INTEREST-BEARING LIABILITIES                                     | 2,691,376                         | 14,993              | 1.12%        | 2,184,055                         | 7,599               | 0.70%        |
| Demand Deposit Accounts                                                | 703,462                           |                     |              | 605,405                           |                     |              |
| Other Liabilities                                                      | 28,300                            |                     |              | 19,969                            |                     |              |
| TOTAL LIABILITIES                                                      | 3,423,138                         |                     |              | 2,809,429                         |                     |              |
| Shareholders' Equity                                                   | 474,619                           |                     |              | 364,392                           |                     |              |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                             | \$ 3,897,757                      |                     |              | \$ 3,173,821                      |                     |              |
| <b>COST OF FUNDS</b>                                                   |                                   |                     |              |                                   |                     |              |
|                                                                        |                                   |                     | 0.85%        |                                   |                     | 0.52%        |
| NET INTEREST INCOME                                                    |                                   | \$ 68,653           |              |                                   | \$ 54,403           |              |
| NET INTEREST MARGIN                                                    |                                   |                     | 3.86%        |                                   |                     | 3.71%        |

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

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

Net interest income increased \$14,153,000, or 27%, for the six months ended June 30, 2019 compared with the same period of 2018. The tax equivalent net interest margin was 3.86% for the first half of 2019 compared to 3.71% during the first half of 2018. The tax equivalent yield on earning assets was 4.71% during the six months ended June 30, 2019 compared to 4.23% in the same period of 2018, while the cost of funds was 0.85% during the first half of 2019 compared to 0.52% in the same period of 2018.

The increased level of net interest income during the first half of 2019 compared with the first half of 2018 was driven primarily by a higher level of average earning assets and an improved net interest margin. The increased level of average earning assets in 2019 was driven in large part by balance sheet growth through the acquisition activity during 2018 and to a lesser degree from organic loan growth from the Company's existing branch footprint.

The improvement in the net interest margin during first half of 2019 when compared with the first half of 2018 was positively impacted by an improvement in loan yields driven by higher short-term market interest rates and an increase in the amount of

accretion on loan discounts on acquired loans, while an increase in the cost of funds negatively impacted the net interest margin. Accretion of loan discounts on acquired loans contributed approximately 14 basis points to the net interest margin on an annualized basis in the first half of 2019 compared with 5 basis points in the first half of 2018. The Company's cost of funds increased approximately 33 basis points in the six months ended June 30, 2019 compared with the same period of 2018. The higher cost of funds was largely attributable to an increase in short-term market interest rates.

#### 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 June 30, 2019, the provision for loan losses totaled \$250,000 compared with a \$1,220,000 provision for loan losses during the second quarter of 2018. The provision for loan losses represented approximately 4 basis points and 22 basis points of average loans on an annualized basis in the second quarter of 2019 and 2018, respectively.

The provision for loan losses totaled \$925,000 for the six months ended June 30, 2019 compared to the provision of \$1,570,000 during the six months ended June 30, 2018. During the first half of 2019, the provision for loan loss represented approximately 7 basis points of average loans on an annualized basis compared with 14 basis points of average loans on an annualized basis during the first half of 2018. The level of provision during all periods presented was done in accordance with the Company's standard methodology for determining the adequacy of its allowance for loan loss.

Net charge-offs totaled \$254,000 or 4 basis points on an annualized basis of average loans outstanding during the three months ended June 30, 2019, compared with \$43,000 or 1 basis point on an annualized basis of average loans outstanding during the same period of 2018. The Company realized net charge-offs of \$509,000 or 4 basis points on an annualized basis of average loans outstanding during the six months ended June 30, 2019, compared with net charge-offs of \$1,627,000 or 15 basis points on an annualized basis of average loans outstanding during the same period of 2018. The increase in net charge-offs during the first half of 2018 was primarily attributable to a partial charge-off on a single commercial lending relationship in the first quarter of 2018.

The provision for loan losses made during each of the three and six month periods ended June 30, 2019 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 June 30, 2019, non-interest income totaled \$10,509,000, an increase of \$1,627,000, or 18%, compared with the second quarter of 2018.

| Non-interest Income<br>(dollars in thousands) | Three Months<br>Ended June 30, |                 | Change From<br>Prior Period |                   |
|-----------------------------------------------|--------------------------------|-----------------|-----------------------------|-------------------|
|                                               | 2019                           | 2018            | Amount<br>Change            | Percent<br>Change |
| Trust and Investment Product Fees             | \$ 1,913                       | \$ 1,677        | \$ 236                      | 14 %              |
| Service Charges on Deposit Accounts           | 2,024                          | 1,643           | 381                         | 23                |
| Insurance Revenues                            | 1,929                          | 1,696           | 233                         | 14                |
| Company Owned Life Insurance                  | 304                            | 260             | 44                          | 17                |
| Interchange Fee Income                        | 2,332                          | 1,714           | 618                         | 36                |
| Other Operating Income                        | 461                            | 913             | (452)                       | (50)              |
| Subtotal                                      | 8,963                          | 7,903           | 1,060                       | 13                |
| Net Gains on Sales of Loans                   | 1,030                          | 905             | 125                         | 14                |
| Net Gains on Securities                       | 516                            | 74              | 442                         | 597               |
| <b>Total Non-interest Income</b>              | <b>\$ 10,509</b>               | <b>\$ 8,882</b> | <b>\$ 1,627</b>             | <b>18</b>         |

Trust and investment product fees increased \$236,000, or 14%, during the second quarter of 2019 compared with the second quarter of 2018. The increase was largely attributable to increased assets under management in the Company's wealth management segment.

Service charges on deposit accounts increased \$381,000, or 23%, during the second quarter of 2019 compared with the second quarter of 2018. The increase during the second quarter of 2019 compared with the second quarter of 2018 was largely attributable to the acquisitions completed during 2018.

Insurance revenues increased \$233,000, or 14%, during the quarter ended June 30, 2019, compared with the second quarter of 2018. The increase in 2019 compared with 2018 was largely attributable to improved levels of commercial lines insurance revenue.

Interchange fees increased \$618,000, or 36%, during the second quarter of 2019 compared with the second quarter of 2018. The increase during the second quarter of 2019 compared with the second quarter of 2018 was largely attributable to increased card utilization by customers and the acquisitions completed during 2018.

Other operating income declined \$452,000, or 50%, during the quarter ended June 30, 2019 compared with the second quarter of 2018. The decline was largely attributable to decreased merchant services revenue and fair value adjustments on loan level interest rate swap positions.

During the second quarter of 2019, the Company realized a net gain on the sale of securities of \$516,000 compared with gains of \$74,000 on sales of securities during the second quarter of 2018.

During the six months ended June 30, 2019, non-interest income totaled \$22,167,000, an increase of \$3,793,000, or 21%, compared with the first half of 2018.

| Non-interest Income<br>(dollars in thousands) | Six Months<br>Ended June 30, |                  | Change From<br>Prior Period |                   |
|-----------------------------------------------|------------------------------|------------------|-----------------------------|-------------------|
|                                               | 2019                         | 2018             | Amount<br>Change            | Percent<br>Change |
| Trust and Investment Product Fees             | \$ 3,480                     | \$ 3,450         | \$ 30                       | 1 %               |
| Service Charges on Deposit Accounts           | 3,924                        | 3,114            | 810                         | 26                |
| Insurance Revenues                            | 5,134                        | 4,626            | 508                         | 11                |
| Company Owned Life Insurance                  | 1,188                        | 572              | 616                         | 108               |
| Interchange Fee Income                        | 4,427                        | 3,196            | 1,231                       | 39                |
| Other Operating Income                        | 1,332                        | 1,517            | (185)                       | (12)              |
| Subtotal                                      | 19,485                       | 16,475           | 3,010                       | 18                |
| Net Gains on Sales of Loans                   | 2,011                        | 1,555            | 456                         | 29                |
| Net Gains on Securities                       | 671                          | 344              | 327                         | 95                |
| <b>Total Non-interest Income</b>              | <b>\$ 22,167</b>             | <b>\$ 18,374</b> | <b>\$ 3,793</b>             | <b>21</b>         |

Service charges on deposit accounts increased \$810,000, or 26%, during the first half of 2019 compared with the first half of 2018. The increase during 2019 compared with 2018 was largely attributable to the acquisitions completed during 2018.

Insurance revenues increased \$508,000, or 11%, during the first half of 2019, compared with the first half of 2018 primarily due to increased commercial lines insurance revenue and increased contingency revenue. Contingency revenue during the first half of 2019 totaled \$1,375,000 compared with \$1,218,000 during the first half of 2018. Contingency revenue 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.

Company owned life insurance revenue increased \$616,000, or 108%, during the six months ended June 30, 2019, compared with the first half of 2018. The increase was largely related to death benefits of \$554,000 received from life insurance policies during the first quarter of 2019.

Interchange fees increased \$1,231,000, or 39%, during the first half of 2019 compared with the first half of 2018. The increase during the first half of 2019 compared with the first half of 2018 was largely attributable to increased card utilization by customers and the acquisitions completed during 2018.

Net gains on sales of loans increased \$456,000, or 29%, during the first half of 2019 compared with the first half of 2018. The increase in the net gain on sales of loans during the first half of 2019 compared with 2018 was largely attributable to the higher volume of loans sold. Loan sales totaled \$68.4 million during the first half of 2019 and \$62.0 million during the first half of 2018.

During the first half of 2019, the Company realized a net gain on the sale of securities of \$671,000 compared with \$344,000 of gains on sales of securities during the first half of 2018.

#### Non-interest Expense:

During the quarter ended June 30, 2019, non-interest expense totaled \$25,618,000, an increase of \$3,910,000, or 18%, compared with the second quarter of 2018. The increase in the second quarter of 2019 was largely impacted by the inclusion of operating expenses related to the branch acquisition completed during the second quarter of 2018 as well as operating expenses related to the bank acquisition completed during the fourth quarter of 2018. The second quarter of 2019 included acquisition-related expenses of \$428,000 while the second quarter of 2018 included acquisition-related expenses of approximately \$904,000.

| Non-interest Expense<br>(dollars in thousands) | Three Months<br>Ended June 30, |                  | Change From<br>Prior Period |                   |
|------------------------------------------------|--------------------------------|------------------|-----------------------------|-------------------|
|                                                | 2019                           | 2018             | Amount<br>Change            | Percent<br>Change |
| Salaries and Employee Benefits                 | \$ 14,117                      | \$ 12,019        | \$ 2,098                    | 17 %              |
| Occupancy, Furniture and Equipment Expense     | 3,212                          | 2,527            | 685                         | 27                |
| FDIC Premiums                                  | 245                            | 238              | 7                           | 3                 |
| Data Processing Fees                           | 1,803                          | 1,398            | 405                         | 29                |
| Professional Fees                              | 1,174                          | 1,361            | (187)                       | (14)              |
| Advertising and Promotion                      | 936                            | 857              | 79                          | 9                 |
| Intangible Amortization                        | 802                            | 306              | 496                         | 162               |
| Other Operating Expenses                       | 3,329                          | 3,002            | 327                         | 11                |
| <b>Total Non-interest Expense</b>              | <b>\$ 25,618</b>               | <b>\$ 21,708</b> | <b>\$ 3,910</b>             | <b>18</b>         |

Salaries and benefits increased \$2,098,000, or 17%, during the quarter ended June 30, 2019 compared with the second quarter of 2018. The increase in salaries and benefits during the second quarter of 2019 compared with the second quarter of 2018 was primarily attributable to an increased number of full-time equivalent employees due in part to the acquisition transactions completed during 2018.

Occupancy, furniture and equipment expense increased \$685,000, or 27%, during the second quarter of 2019 compared with the second quarter of 2018. The increase during the second quarter of 2019 compared with the second quarter of 2018 was primarily due to operating costs related to the acquisitions completed during 2018.

Data processing fees increased \$405,000, or 29%, during the second quarter of 2019 compared with the second quarter of 2018. The increase in data processing fees during the second quarter of 2019 compared with the second quarter of 2018 was largely related to the on-going operating costs associated with the acquisitions completed during 2018.

Professional fees declined \$187,000, or 14%, during the second quarter of 2019 compared with the second quarter of 2018. The decline in professional fees during the second quarter of 2019 compared with 2018 was largely related to acquisition related professional fees. Merger and acquisition related professional fees totaled approximately \$205,000 during the second quarter of 2019 compared \$583,000 during the second quarter of 2018.

Intangible amortization increased \$496,000, or 162%, during the quarter ended June 30, 2019 compared with the second quarter of 2018. The increase in intangible amortization was attributable to the previously discussed acquisitions completed during 2018.

Other operating expenses increased \$327,000, or 11%, during the second quarter of 2019 compared with the second quarter of 2018. The increase during the second quarter of 2019 compared with the second quarter of 2018 was largely attributable to the operating costs related to the acquisitions completed in 2018.

During the six months ended June 30, 2019, non-interest expense totaled \$52,377,000, an increase of \$10,214,000, or 24%, compared with the first half of 2018. The increase in the first half of 2019 was largely impacted by the inclusion of operating expenses related to the branch acquisition completed during the second quarter of 2018 as well as operating expenses related to the bank acquisition completed in the fourth quarter of 2018. The first half of 2019 included acquisition-related expenses of \$971,000 while the first half of 2018 included acquisition-related expenses of approximately \$1,090,000.

| Non-interest Expense<br>(dollars in thousands) | Six Months<br>Ended June 30, |                  | Change From<br>Prior Period |           |
|------------------------------------------------|------------------------------|------------------|-----------------------------|-----------|
|                                                | 2019                         | 2018             | Amount                      | Percent   |
|                                                |                              |                  | Change                      | Change    |
| Salaries and Employee Benefits                 | \$ 29,161                    | \$ 24,145        | \$ 5,016                    | 21%       |
| Occupancy, Furniture and Equipment Expense     | 6,431                        | 4,936            | 1,495                       | 30        |
| FDIC Premiums                                  | 533                          | 475              | 58                          | 12        |
| Data Processing Fees                           | 3,386                        | 2,525            | 861                         | 34        |
| Professional Fees                              | 2,501                        | 2,232            | 269                         | 12        |
| Advertising and Promotion                      | 1,806                        | 1,558            | 248                         | 16        |
| Intangible Amortization                        | 1,645                        | 512              | 1,133                       | 221       |
| Other Operating Expenses                       | 6,914                        | 5,780            | 1,134                       | 20        |
| <b>Total Non-interest Expense</b>              | <u>\$ 52,377</u>             | <u>\$ 42,163</u> | <u>\$ 10,214</u>            | <u>24</u> |

Salaries and benefits increased \$5,016,000, or 21%, during the six months ended June 30, 2019 compared with the first half of 2018. The increase in salaries and benefits during the first half of 2019 compared with the first half of 2018 was primarily attributable to an increased number of full-time equivalent employees due in part to the acquisition transactions completed during 2018.

Occupancy, furniture and equipment expense increased \$1,495,000, or 30%, during the first half of 2019 compared with the first half of 2018. The increase during the first half of 2019 compared with the first half of 2018 was primarily due to operating costs related to the acquisitions completed during 2018.

Data processing fees increased \$861,000, or 34%, during the first half of 2019 compared with the first half of 2018. The increase in data processing fees during the first half of 2019 compared with the first half of 2018 was largely related to the on-going operating costs associated with the acquisitions completed during 2018.

Professional fees increased \$269,000, or 12%, during the first half of 2019 compared with the first half of 2018. The increase in professional fees during the first half of 2019 compared with 2018 was largely related to increased legal and other professional fees. Merger and acquisition related professional fees totaled approximately \$714,000 during the first half of 2019 compared to \$760,000 during the first half of 2018.

Intangible amortization increased \$1,133,000, or 221%, during the six months ended June 30, 2019 compared with the first half of 2018. The increase in intangible amortization was attributable to the previously discussed acquisitions completed during 2018.

Other operating expenses increased \$1,134,000, or 20%, during the first half of 2019 compared with the first half of 2018. The increase during the first half of 2019 compared with the first half of 2018 was largely attributable to the operating costs related to the acquisitions completed in 2018.

#### Income Taxes:

The Company's effective income tax rate was 16.5% and 17.3%, respectively, during the three months ended June 30, 2019 and 2018. The Company's effective income tax rate was 16.0% and 17.4%, respectively, during the six months ended June 30, 2019 and 2018. The effective tax rate in all periods presented was lower than the blended statutory rate resulting primarily from the Company's tax-exempt investment income on securities, loans and company-owned life insurance, income tax credits generated from affordable housing projects, and income generated by subsidiaries domiciled in a state with no state or local income tax.

#### FINANCIAL CONDITION

Total assets for the Company totaled \$3.971 billion at June 30, 2019, representing an increase of \$41.6 million, or 2% on an annualized basis, compared with December 31, 2018.

At June 30, 2019 total loans declined \$11.1 million, or 1% on an annualized basis, compared with December 31, 2018. The decline during the first half of 2019 was driven by a decline in retail loans of \$25.4 million, or 8% on an annualized basis, and a modest decline in agricultural loans of \$1.1 million, or 1% on an annualized basis, partially mitigated by an increase of \$10.5 million, or 4% on an annualized basis, of commercial and industrial loans, and an increase of \$4.9 million, or 1% on an annualized basis, of commercial real estate loans.

| <b>End of Period Loan Balances:<br/>(dollars in thousands)</b> | <b>June 30,<br/>2019</b> | <b>December 31,<br/>2018</b> | <b>Current Period<br/>Change</b> |
|----------------------------------------------------------------|--------------------------|------------------------------|----------------------------------|
| Commercial and Industrial Loans and Leases                     | \$ 554,290               | \$ 543,761                   | \$ 10,529                        |
| Commercial Real Estate Loans                                   | 1,213,579                | 1,208,646                    | 4,933                            |
| Agricultural Loans                                             | 364,116                  | 365,208                      | (1,092)                          |
| Home Equity and Consumer Loans                                 | 280,963                  | 285,534                      | (4,571)                          |
| Residential Mortgage Loans                                     | 307,726                  | 328,592                      | (20,866)                         |
| <b>Total Loans</b>                                             | <b>\$ 2,720,674</b>      | <b>\$ 2,731,741</b>          | <b>\$ (11,067)</b>               |

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

|                                            | <b>June 30,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|--------------------------------------------|--------------------------|------------------------------|
| Commercial and Industrial Loans and Leases | \$ 2,992                 | \$ 2,953                     |
| Commercial Real Estate Loans               | 5,841                    | 5,291                        |
| Agricultural Loans                         | 5,725                    | 5,776                        |
| Home Equity and Consumer Loans             | 680                      | 649                          |
| Residential Mortgage Loans                 | 349                      | 472                          |
| Unallocated                                | 652                      | 682                          |
| <b>Total Allowance for Loan Loss</b>       | <b>\$ 16,239</b>         | <b>\$ 15,823</b>             |

The Company's allowance for loan losses totaled \$16.2 million at June 30, 2019 compared to \$15.8 million at December 31, 2018. The allowance for loan losses represented 0.60% of period-end loans at June 30, 2019 compared with 0.58% of period-end loans at December 31, 2018. From time to time, the Company has acquired loans through bank and branch acquisitions with the most recent being the First Security acquisition during the fourth quarter of 2018 and a five-branch acquisition in the second quarter of 2018. 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 net discount on acquired loans of \$17.1 million at June 30, 2019 and \$19.5 million at December 31, 2018.

The following is an analysis of the Company's non-performing assets at June 30, 2019 and December 31, 2018:

| <b>Non-performing Assets:<br/>(dollars in thousands)</b> | <b>June 30,<br/>2019</b> | <b>December 31,<br/>2018</b> |
|----------------------------------------------------------|--------------------------|------------------------------|
| Non-accrual Loans                                        | \$ 10,929                | \$ 12,579                    |
| Past Due Loans (90 days or more)                         | 959                      | 633                          |
| Total Non-performing Loans                               | 11,888                   | 13,212                       |
| Other Real Estate                                        | 635                      | 286                          |
| <b>Total Non-performing Assets</b>                       | <b>\$ 12,523</b>         | <b>\$ 13,498</b>             |
| Restructured Loans                                       | \$ 118                   | \$ 121                       |
| Non-performing Loans to Total Loans                      | 0.44%                    | 0.48%                        |
| Allowance for Loan Loss to Non-performing Loans          | 136.60%                  | 119.76%                      |

The following table presents 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 |                   |
|--------------------------------------------|-------------------|-------------------|-------------------------------------------------|-------------------|
|                                            | June 30, 2019     | December 31, 2018 | June 30, 2019                                   | December 31, 2018 |
| Commercial and Industrial Loans and Leases | \$ 1,997          | \$ 2,430          | \$ 441                                          | \$ —              |
| Commercial Real Estate Loans               | 5,748             | 6,833             | 109                                             | 364               |
| Agricultural Loans                         | 1,475             | 1,449             | 409                                             | 269               |
| Home Equity Loans                          | 90                | 88                | —                                               | —                 |
| Consumer Loans                             | 113               | 162               | —                                               | —                 |
| Residential Mortgage Loans                 | 1,506             | 1,617             | —                                               | —                 |
| <b>Total</b>                               | <b>\$ 10,929</b>  | <b>\$ 12,579</b>  | <b>\$ 959</b>                                   | <b>\$ 633</b>     |

Non-performing assets totaled \$12.5 million at June 30, 2019 compared to \$13.5 million at December 31, 2018. Non-performing assets represented 0.32% and 0.34% of total assets at June 30, 2019 and December 31, 2018, respectively. Non-performing loans totaled \$11.9 million at June 30, 2019 compared to \$13.2 million at December 31, 2018. Non-performing loans represented 0.44% of total loans at June 30, 2019 compared to 0.48% at December 31, 2018.

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.

June 30, 2019 total deposits increased \$56.2 million, or 4% on an annualized basis, compared with December 31, 2018.

| End of Period Deposit Balances:<br>(dollars in thousands) | June 30, 2019       | December 31, 2018   | Current Period Change |
|-----------------------------------------------------------|---------------------|---------------------|-----------------------|
| Non-interest-bearing Demand Deposits                      | \$ 725,367          | \$ 715,972          | \$ 9,395              |
| Interest-bearing Demand, Savings, & Money Market Accounts | 1,805,694           | 1,768,177           | 37,517                |
| Time Deposits < \$100,000                                 | 248,744             | 249,309             | (565)                 |
| Time Deposits of \$100,000 or more                        | 349,027             | 339,174             | 9,853                 |
| <b>Total Deposits</b>                                     | <b>\$ 3,128,832</b> | <b>\$ 3,072,632</b> | <b>\$ 56,200</b>      |

#### Capital Resources:

As of June 30, 2019, shareholders' equity increased by \$40.8 million to \$499.4 million compared with \$458.6 million at year-end 2018. The increase in shareholders' equity was primarily attributable to an increase of \$21.8 million in retained earnings and an increase of \$18.3 million in accumulated other comprehensive income primarily related to the increase in value of the Company's available-for-sale securities portfolio. Shareholders' equity represented 12.6% of total assets at June 30, 2019 and 11.7% of total assets at December 31, 2018. Shareholders' equity included \$113.3 million of goodwill and other intangible assets at June 30, 2019 compared to \$113.6 million of goodwill and other intangible assets at December 31, 2018.

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 was phased in from 0.00% in 2015 to 2.50% in 2019. For June 30, 2019, the capital conservation buffer was 2.50% and for December 31, 2018, the capital conservation buffer was 1.875%. At June 30, 2019, 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:

|                                                                       | 6/30/2019<br>Ratio | 12/31/2018<br>Ratio | Minimum for Capital<br>Adequacy Purposes <sup>(1)</sup> | Well-Capitalized<br>Guidelines |
|-----------------------------------------------------------------------|--------------------|---------------------|---------------------------------------------------------|--------------------------------|
| <b>Total Capital (to Risk Weighted Assets)</b>                        |                    |                     |                                                         |                                |
| Consolidated                                                          | 14.33%             | 12.36%              | 8.00%                                                   | N/A                            |
| Bank                                                                  | 12.60%             | 12.37%              | 8.00%                                                   | 10.00%                         |
| <b>Tier 1 (Core) Capital (to Risk Weighted Assets)</b>                |                    |                     |                                                         |                                |
| Consolidated                                                          | 12.52%             | 11.85%              | 6.00%                                                   | N/A                            |
| Bank                                                                  | 12.07%             | 11.86%              | 6.00%                                                   | 8.00%                          |
| <b>Common Tier 1, (CET 1) Capital Ratio (to Risk Weighted Assets)</b> |                    |                     |                                                         |                                |
| Consolidated                                                          | 12.15%             | 11.48%              | 4.50%                                                   | N/A                            |
| Bank                                                                  | 12.07%             | 11.86%              | 4.50%                                                   | 6.50%                          |
| <b>Tier 1 Capital (to Average Assets)</b>                             |                    |                     |                                                         |                                |
| Consolidated                                                          | 10.23%             | 9.75%               | 4.00%                                                   | N/A                            |
| Bank                                                                  | 9.83%              | 9.78%               | 4.00%                                                   | 5.00%                          |

<sup>(1)</sup> Excludes capital conservation buffer.

Under 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 \$6.5 million during the six months ended June 30, 2019 ending at \$90.0 million. During the six months ended June 30, 2019, operating activities resulted in net cash inflows of \$12.9 million. Investing activities resulted in net cash inflows of \$2.9 million during the six months ended June 30, 2019. Financing activities resulted in net cash outflows for the six months ended June 30, 2019 of \$22.3 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 June 30, 2019, the parent company had approximately \$33.6 million of cash and cash equivalents available to meet its cash flow needs.

On June 25, 2019, the Company entered into Subordinated Note Purchase Agreements (collectively, the "Purchase Agreement") with certain qualified institutional buyers and institutional accredited investors (the "Purchasers") pursuant to which the Company sold and issued \$40.0 million in aggregate principal amount of its 4.50% Fixed-to-Floating Rate Subordinated Notes due 2029 (the "Notes"). The Notes were offered and sold by the Company to eligible purchasers in a private offering in reliance on the exemption from the registration requirements of Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"). The Company used the proceeds from the offering to pay \$15.0 million of the approximately \$15.5 million of cash consideration

upon closing of the Citizens First Corporation merger and the remaining balance to repay the Company's \$25.0 million term loan from U.S. Bank National Association dated October 11, 2018.

The Notes have a ten-year term, from and including the date of issuance to but excluding June 30, 2024, and will bear interest at a fixed annual rate of 4.50%, payable semi-annually in arrears. From and including June 30, 2024 to but excluding the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then-current three-month LIBOR (provided, however, that in the event three-month LIBOR is less than zero, three-month LIBOR shall be deemed to be zero) plus 268 basis points, payable quarterly in arrears. The Notes are redeemable, in whole or in part, on June 30, 2024, on any scheduled interest payment date thereafter and at any time upon the occurrence of certain events. The Purchase Agreement contains certain customary representations, warranties and covenants made by the Company, on the one hand, and the Purchasers, severally and not jointly, on the other hand.

On June 25, 2019, in connection with the sale and issuance of the Notes, the Company entered into a Registration Rights Agreement (the "Registration Rights Agreement") with the Purchasers. Under the terms of the Registration Rights Agreement, the Company has agreed to take certain actions to provide for the exchange of the Notes for subordinated notes that are registered under the Securities Act and have substantially the same terms as the Notes (the "Exchange Notes"). Under certain circumstances, if the Company fails to meet its obligations under the Registration Rights Agreement, it would be required to pay additional interest to the holders of the Notes.

The Notes were issued under an Indenture, dated June 25, 2019 (the "Indenture"), by and between the Company and U.S. Bank National Association, as trustee. The Notes are not subject to any sinking fund and are not convertible into or, other than with respect to the Exchange Notes, exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Notes are not subject to redemption at the option of the holder. The Notes are unsecured, subordinated obligations of the Company only and are not obligations of, and are not guaranteed by, any subsidiary of the Company. The Notes rank junior in right to payment to the Company's current and future senior indebtedness. The Notes are intended to qualify as Tier 2 capital for regulatory capital purposes for the Company.

## **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 "plan," "expect," "can," "might," "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 (the "Dodd-Frank Act") and the Federal Deposit Insurance Act and other possible legislative and regulatory actions and reforms; impacts resulting from possible amendments or revisions to the Dodd-Frank Act and the regulations promulgated thereunder, or to Consumer Financial Protection Bureau rules and regulations; 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, 2018, 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 June 30, 2019 - Net Interest Income**

| Changes in Rates | Net Interest Income |          |
|------------------|---------------------|----------|
|                  | Amount              | % Change |
| +2%              | \$ 135,564          | (2.65)%  |
| +1%              | 137,721             | (1.10)%  |
| Base             | 139,251             | —        |
| -1%              | 137,419             | (1.32)%  |
| -2%              | 130,733             | (6.12)%  |

The above table is a measurement of the Company's net interest income at risk, assuming a static balance sheet as of June 30, 2019 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 June 30, 2019 - 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%              | \$ 435,131          | (7.15)%  | 11.92%                                                | (32) b.p.  |
| +1%              | 455,829             | (2.73)%  | 12.19%                                                | (5) b.p.   |
| Base             | 468,632             | —        | 12.24%                                                | —          |
| -1%              | 452,139             | (3.52)%  | 11.61%                                                | (63) b.p.  |
| -2%              | 397,978             | (15.08)% | 10.06%                                                | (218) 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 June 30, 2019, 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 second fiscal quarter of 2019 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, 2018.

### 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 June 30, 2019.

| 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 <sup>(1)</sup> |
|------------|---------------------------------------------|----------------------------------------|---------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| April 2019 | —                                           | —                                      | —                                                                                           | 409,184                                                                                                                                |
| May 2019   | —                                           | —                                      | —                                                                                           | 409,184                                                                                                                                |
| June 2019  | —                                           | —                                      | —                                                                                           | 409,184                                                                                                                                |

<sup>(1)</sup> 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 June 30, 2019 (both such numbers adjusted for subsequent stock dividends). The Board of Directors established no expiration date for this program. The Company purchased no shares under this program during the quarter ended June 30, 2019.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

## Item 6. Exhibits

The following exhibits are included with this Report or incorporated herein by reference.

| Exhibit No.                  | Description                                                                                                                                                                                                                                                                                                                                                         |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#"><u>2.1</u></a>   | <a href="#"><u>Purchase and Assumption Agreement by and between German American Bancorp and MainSource Bank, dated February 12, 2018, is incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed February 13, 2018 (SEC File No. 001-15877).</u></a>                                                                          |
| <a href="#"><u>2.2</u></a>   | <a href="#"><u>Agreement and Plan of Reorganization by and among German American Bancorp, Inc., First Security, Inc., First Security Bank, Inc., and German American Bank, dated May 22, 2018, is incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed May 22, 2018 (SEC File No. 001-15877).</u></a>                      |
| <a href="#"><u>2.3</u></a>   | <a href="#"><u>Agreement and Plan of Reorganization by and among German American Bancorp, Inc., German American Bank, Citizens First Corporation and Citizens First Bank, Inc., dated as of February 21, 2019, is incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed February 22, 2019 (SEC File No. 001-15877).</u></a> |
| <a href="#"><u>3.1</u></a>   | <a href="#"><u>Restatement of the Articles of Incorporation of German American Bancorp, Inc., as amended, is incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed on May 9, 2017 (SEC File No. 001-15877).</u></a>                                                                 |
| <a href="#"><u>3.2</u></a>   | <a href="#"><u>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).</u></a>                                                                                                            |
| <a href="#"><u>4.1</u></a>   | <a href="#"><u>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 Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 filed on May 9, 2017 (SEC File No. 001-15877).</u></a>                                      |
| <a href="#"><u>4.2</u></a>   | <a href="#"><u>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).</u></a>                                                                                                                                  |
| <a href="#"><u>4.3</u></a>   | <a href="#"><u>Loan Agreement, dated as of October 11, 2018, by and between German American Bancorp, Inc. and U.S. Bank National Association is incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed October 15, 2018 (SEC File No. 001-15877).</u></a>                                                                    |
| <a href="#"><u>4.4</u></a>   | <a href="#"><u>Negative Pledge Agreement, dated October 11, 2018, by German American Bancorp, Inc. and in favor of U.S. Bank National Association is incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed October 15, 2018 (SEC File No. 001-15877).</u></a>                                                               |
| <a href="#"><u>4.5</u></a>   | <a href="#"><u>Term Note, in the principal sum of \$25,000,000, issued by German American Bancorp, Inc. on October 11, 2018, to U.S. Bank National Association is incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed October 15, 2018 (SEC File No. 001-15877).</u></a>                                                  |
| <a href="#"><u>4.6</u></a>   | <a href="#"><u>Revolving Credit Note, in the principal sum of \$15,000,000, issued by German American Bancorp, Inc. on October 11, 2018, to U.S. Bank National Association is incorporated by reference to Exhibit 4.4 to the Registrant's Current Report on Form 8-K filed October 15, 2018 (SEC File No. 001-15877).</u></a>                                      |
| <a href="#"><u>4.7</u></a>   | <a href="#"><u>Indenture, dated as of June 25, 2019, by and between German American Bancorp, Inc. and U.S. Bank National Association, as trustee, is incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed June 25, 2019 (SEC File No. 001-15877).</u></a>                                                                  |
| <a href="#"><u>4.8</u></a>   | <a href="#"><u>Form of 4.50% Fixed-to-Floating Subordinated Note due 2029 of German American Bancorp, Inc. is incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed June 25, 2019 (SEC File No. 001-15877).</u></a>                                                                                                         |
| <a href="#"><u>10.1*</u></a> | <a href="#"><u>German American Bancorp, Inc. 2019 Employee Stock Purchase Plan is incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed May 21, 2019 (SEC File No. 000-15877).</u></a>                                                                                                                                     |
| <a href="#"><u>10.2*</u></a> | <a href="#"><u>German American Bancorp, Inc. 2019 Long-Term Equity Incentive Plan is incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed May 21, 2019 (SEC File No. 000-15877).</u></a>                                                                                                                                  |
| <a href="#"><u>10.3</u></a>  | <a href="#"><u>Form of Subordinated Note Purchase Agreement, dated as of June 25, 2019, by and among German American Bancorp, Inc. and the purchasers party thereto is incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed June 25, 2019 (SEC File No. 001-15877).</u></a>                                               |
| <a href="#"><u>10.4</u></a>  | <a href="#"><u>Form of Registration Rights Agreement, dated as of June 25, 2019, by and among German American Bancorp, Inc. and the purchasers party thereto is incorporated by reference to Exhibit 10.2 of the Registrant's Current Report on Form 8-K filed June 25, 2019 (SEC File No. 001-15877).</u></a>                                                      |
| <a href="#"><u>31.1+</u></a> | <a href="#"><u>Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman of the Board and Chief Executive Officer.</u></a>                                                                                                                                                                                                                                 |
| <a href="#"><u>31.2+</u></a> | <a href="#"><u>Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer.</u></a>                                                                                                                                                                                                                              |
| <a href="#"><u>32.1+</u></a> | <a href="#"><u>Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman of the Board and Chief Executive Officer.</u></a>                                                                                                                                                                                                                                 |
| <a href="#"><u>32.2+</u></a> | <a href="#"><u>Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer.</u></a>                                                                                                                                                                                                                              |

- 101++ The following materials from German American Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended June 30, 2019, formatted in Inline XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.
- 104++ Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

Note: 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.

\* Exhibits that describe or evidence management contracts or compensatory plans or arrangements required to be filed as exhibits to this Report are indicated by an asterisk.

+Exhibits that are filed with this Report (other than through incorporation by reference to other disclosures or exhibits) are indicated by a plus sign.

++Filed herewith as an Interactive Data File.

## 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: August 9, 2019

By: /s/Mark A. Schroeder

Mark A. Schroeder

Chairman and Chief Executive Officer

(Principal Executive Officer)

Date: August 9, 2019

By: /s/Bradley M. Rust

Bradley M. Rust

Executive Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

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.

August 9, 2019

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.

August 9, 2019

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 June 30, 2019 (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.

August 9, 2019

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 June 30, 2019 (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.

August 9, 2019

Date

/s/ Bradley M. Rust

Bradley M. Rust

Executive Vice President and Chief Financial Officer

(principal accounting officer and principal financial officer)