

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 2020

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 November 1, 2020, the registrant had 26,492,256 outstanding shares of Common Stock, no par value.

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, 2019, 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 and supplemented from time to time by our subsequent SEC filings, including by the discussion under the heading “Forward-Looking Statements and Associated Risks” at the conclusion of Item 2 of Part I of this Report (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”), and by the additional risk factors set forth in Part II, Item 1A, “Risk Factors” of this Report.

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GLOSSARY OF TERMS AND ACRONYMS

As used in this Report, references to “Company,” “we,” “our,” “us,” and similar terms refer to German American Bancorp, Inc. and its consolidated subsidiaries 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. and the term “Bank” when we mean to refer only to German American Bank, the Company’s bank subsidiary.

The terms and acronyms identified below are used throughout this Report, including the Notes to Consolidated Financial Statements. You may find it helpful to refer to this Glossary as you read this Report.

2009 ESPP: German American Bancorp, Inc. 2009 Employee Stock Purchase Plan

2019 ESPP: German American Bancorp, Inc. 2019 Employee Stock Purchase Plan

2019 LTI Plan: German American Bancorp, Inc. 2019 Long-Term Equity Incentive Plan

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

Basel III: Regulatory capital reforms agreed to by the Basel Committee on Banking Supervision, as reflected in the final rule issued by the FRB and OCC and published in the Federal Register on October 11, 2013

CARES Act: Coronavirus Aid, Relief and Economic Security Act

CBLR: Community bank leverage ratio

CECL: Current expected credit losses

CET1: Common Equity Tier 1

Citizens First: Citizens First Corporation

CMO: Collateralized mortgage obligations

COVID-19: Novel coronavirus disease 2019 declared, in March 2020, by the World Health Organization as a global pandemic and by the President of the United States as a national emergency

Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

federal banking
regulators: The FRB, the OCC, and the FDIC, collectively

FHLB: Federal Home Loan Bank

FRB: Board of Governors of the Federal Reserve System

GAAP: Generally Accepted Accounting Principles in the United States of America

LIBOR: London Interbank Offered Rate

MBS: Mortgage-backed securities

NPV: Net portfolio value

OCC: Office of the Comptroller of the Currency

PCD: Purchased with credit deterioration

PCI: Purchased credit impaired

PPP: Paycheck Protection Program established under the CARES Act

PPPL Facility: Paycheck Protection Program Liquidity Facility authorized by the FRB pursuant to the Federal Reserve Act

SBA: Small Business Administration

SEC: Securities and Exchange Commission

TDR: Troubled Debt Restructurings

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	September 30, 2020	December 31, 2019
ASSETS		
Cash and Due from Banks	\$ 56,706	\$ 59,971
Federal Funds Sold and Other Short-term Investments	192,987	43,913
Cash and Cash Equivalents	249,693	103,884
Interest-bearing Time Deposits with Banks	1,489	1,985
Securities Available-for-Sale, at Fair Value (Amortized Cost \$997,074, No Allowance for Credit Losses as of September 30, 2020)	1,036,910	854,825
Other Investments	353	353
Loans Held-for-Sale, at Fair Value	27,993	17,713
Loans	3,225,232	3,081,973
Less: Unearned Income	(4,105)	(4,882)
Allowance for Credit Losses	(46,768)	(16,278)
Loans, Net	3,174,359	3,060,813
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,168	13,968
Premises, Furniture and Equipment, Net	96,682	96,651
Other Real Estate	425	425
Goodwill	121,956	121,306
Intangible Assets	9,827	12,656
Company Owned Life Insurance	68,893	68,883
Accrued Interest Receivable and Other Assets	51,082	44,210
TOTAL ASSETS	\$ 4,852,830	\$ 4,397,672
LIABILITIES		
Non-interest-bearing Demand Deposits	\$ 1,185,814	\$ 832,985
Interest-bearing Demand, Savings, and Money Market Accounts	2,278,826	1,965,640
Time Deposits	515,034	631,396
Total Deposits	3,979,674	3,430,021
FHLB Advances and Other Borrowings	214,544	349,686
Accrued Interest Payable and Other Liabilities	54,631	44,145
TOTAL LIABILITIES	4,248,849	3,823,852
SHAREHOLDERS' EQUITY		
Common Stock, no par value, \$1 stated value; 45,000,000 shares authorized	26,493	26,671
Additional Paid-in Capital	274,166	278,954
Retained Earnings	272,579	253,090
Accumulated Other Comprehensive Income	30,743	15,105
TOTAL SHAREHOLDERS' EQUITY	603,981	573,820
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,852,830	\$ 4,397,672
End of period shares issued and outstanding	26,492,866	26,671,368

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2020	2019
INTEREST INCOME		
Interest and Fees on Loans	\$ 36,543	\$ 40,921
Interest on Federal Funds Sold and Other Short-term Investments	45	163
Interest and Dividends on Securities:		
Taxable	2,350	3,400
Non-taxable	3,175	2,427
TOTAL INTEREST INCOME	42,113	46,911
INTEREST EXPENSE		
Interest on Deposits	2,492	6,399
Interest on FHLB Advances and Other Borrowings	1,233	1,934
TOTAL INTEREST EXPENSE	3,725	8,333
NET INTEREST INCOME	38,388	38,578
Provision for Credit Losses	4,500	2,800
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	33,888	35,778
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,957	1,885
Service Charges on Deposit Accounts	1,773	2,395
Insurance Revenues	1,989	1,883
Company Owned Life Insurance	355	364
Interchange Fee Income	2,795	2,538
Other Operating Income	942	1,029
Net Gains on Sales of Loans	2,861	1,649
Net Gains on Securities	607	313
TOTAL NON-INTEREST INCOME	13,279	12,056
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	17,409	17,579
Occupancy Expense	2,418	2,797
Furniture and Equipment Expense	944	954
FDIC Premiums	326	—
Data Processing Fees	1,693	2,860
Professional Fees	875	1,324
Advertising and Promotion	708	1,054
Intangible Amortization	860	1,064
Other Operating Expenses	4,187	4,329
TOTAL NON-INTEREST EXPENSE	29,420	31,961
Income before Income Taxes	17,747	15,873
Income Tax Expense	3,154	2,809
NET INCOME	\$ 14,593	\$ 13,064
Basic Earnings per Share	\$ 0.55	\$ 0.49
Diluted Earnings per Share	\$ 0.55	\$ 0.49

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	2019
INTEREST INCOME		
Interest and Fees on Loans	\$ 112,481	\$ 111,086
Interest on Federal Funds Sold and Other Short-term Investments	287	389
Interest and Dividends on Securities:		
Taxable	8,166	10,554
Non-taxable	8,291	7,107
TOTAL INTEREST INCOME	129,225	129,136
INTEREST EXPENSE		
Interest on Deposits	11,892	17,574
Interest on FHLB Advances and Other Borrowings	4,230	5,752
TOTAL INTEREST EXPENSE	16,122	23,326
NET INTEREST INCOME	113,103	105,810
Provision for Credit Losses	15,550	3,725
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	97,553	102,085
NON-INTEREST INCOME		
Trust and Investment Product Fees	5,855	5,365
Service Charges on Deposit Accounts	5,375	6,319
Insurance Revenues	7,048	7,017
Company Owned Life Insurance	1,933	1,552
Interchange Fee Income	7,753	6,965
Other Operating Income	2,251	2,361
Net Gains on Sales of Loans	7,378	3,660
Net Gains on Securities	2,190	984
TOTAL NON-INTEREST INCOME	39,783	34,223
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	50,691	46,740
Occupancy Expense	7,461	7,367
Furniture and Equipment Expense	2,963	2,815
FDIC Premiums	449	533
Data Processing Fees	5,142	6,246
Professional Fees	3,041	3,825
Advertising and Promotion	2,661	2,860
Intangible Amortization	2,729	2,709
Other Operating Expenses	12,699	11,243
TOTAL NON-INTEREST EXPENSE	87,836	84,338
Income before Income Taxes	49,500	51,970
Income Tax Expense	8,180	8,568
NET INCOME	\$ 41,320	\$ 43,402
Basic Earnings per Share	\$ 1.56	\$ 1.70
Diluted Earnings per Share	\$ 1.56	\$ 1.70

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2020	2019
NET INCOME	\$ 14,593	\$ 13,064
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities:		
Unrealized Holding Gain (Loss) Arising During the Period	63	6,223
Reclassification Adjustment for Gains Included in Net Income	(607)	(313)
Tax Effect	138	(1,261)
Net of Tax	(406)	4,649
Total Other Comprehensive Income (Loss)	(406)	4,649
COMPREHENSIVE INCOME	\$ 14,187	\$ 17,713

	Nine Months Ended September 30,	
	2020	2019
NET INCOME	\$ 41,320	\$ 43,402
Other Comprehensive Income:		
Unrealized Gains (Losses) on Securities:		
Unrealized Holding Gain (Loss) Arising During the Period	22,051	30,262
Reclassification Adjustment for Gains Included in Net Income	(2,190)	(984)
Tax Effect	(4,223)	(6,324)
Net of Tax	15,638	22,954
Total Other Comprehensive Income	15,638	22,954
COMPREHENSIVE INCOME	\$ 56,958	\$ 66,356

See accompanying notes to consolidated financial statements.

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

	Common Stock						
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	
Balances, December 31, 2019	26,671,368	\$ 26,671	\$ 278,954	\$ 253,090	\$ 15,105	\$ 573,820	
Cumulative Effect of Change in Accounting Principles (See Note 2 - Recent Accounting Pronouncements)				(6,717)		(6,717)	
Balances, January 1, 2020	26,671,368	26,671	278,954	246,373	15,105	567,103	
Net Income				12,472		12,472	
Other Comprehensive Income					13,255	13,255	
Cash Dividends (\$0.19 per share)				(5,065)		(5,065)	
Issuance of Common Stock for:							
Restricted Share Grants	41,752	42	228			270	
Stock Repurchase	(173,089)	(173)	(4,322)			(4,495)	
Balances, March 31, 2020	26,540,031	\$ 26,540	\$ 274,860	\$ 253,780	\$ 28,360	\$ 583,540	
Net Income				14,255		14,255	
Other Comprehensive Income					2,789	2,789	
Cash Dividends (\$0.19 per share)				(5,024)		(5,024)	
Issuance of Common Stock for:							
Restricted Share Grants	1,426	1	281			282	
Stock Repurchase	(44,166)	(44)	(1,124)			(1,168)	
Balances, June 30, 2020	26,497,291	\$ 26,497	\$ 274,017	\$ 263,011	\$ 31,149	\$ 594,674	
Net Income				14,593		14,593	
Other Comprehensive Income (Loss)					(406)	(406)	
Cash Dividends (\$0.19 per share)				(5,025)		(5,025)	
Issuance of Common Stock for:							
Restricted Share Grants	(378)	—	254			254	
Stock Repurchase	(4,047)	(4)	(105)			(109)	
Balances, September 30, 2020	26,492,866	\$ 26,493	\$ 274,166	\$ 272,579	\$ 30,743	\$ 603,981	

See accompanying notes to consolidated financial statements.

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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balances, December 31, 2018	24,967,458	\$ 24,967	\$ 229,347	\$ 211,424	\$ (7,098)	\$ 458,640
Net Income				15,067		15,067
Other Comprehensive Income					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
Balances, March 31, 2019	24,992,238	\$ 24,992	\$ 229,633	\$ 222,246	\$ 2,316	\$ 479,187
Net Income				15,271		15,271
Other Comprehensive Income					8,891	8,891
Cash Dividends (\$0.17 per share)				(4,248)		(4,248)
Issuance of Common Stock for:						
Restricted Share Grants			310			310
Balances, June 30, 2019	24,992,238	\$ 24,992	\$ 229,943	\$ 233,269	\$ 11,207	\$ 499,411
Net Income				13,064		13,064
Other Comprehensive Income					4,649	4,649
Cash Dividends (\$0.17 per share)				(4,532)		(4,532)
Issuance of Common Stock for:						
Acquisition of Citizens First Corporation	1,663,954	1,664	48,360			50,024
Restricted Share Grants	5,886	6	305			311
Balances, September 30, 2019	26,662,078	\$ 26,662	\$ 278,608	\$ 241,801	\$ 15,856	\$ 562,927

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 41,320	\$ 43,402
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	4,097	2,845
Depreciation and Amortization	7,043	6,364
Loans Originated for Sale	(230,399)	(143,041)
Proceeds from Sales of Loans Held-for-Sale	226,237	131,921
Provision for Credit Losses	15,550	3,725
Gain on Sale of Loans, net	(7,378)	(3,660)
Gain on Securities, net	(2,190)	(984)
Gain on Sales of Other Real Estate and Repossessed Assets	(48)	—
Loss on Disposition and Donation of Premises and Equipment	127	—
Loss (Gain) on Disposition of Land	30	(352)
Increase in Cash Surrender Value of Company Owned Life Insurance	(1,092)	(1,034)
Equity Based Compensation	813	927
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	(6,046)	94
Interest Payable and Other Liabilities	8,114	5,581
Net Cash from Operating Activities	56,178	45,788
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturity of Other Short-term Investments	496	496
Proceeds from Maturities of Securities Available-for-Sale	139,679	78,134
Proceeds from Sales of Securities Available-for-Sale	74,693	75,299
Purchase of Securities Available-for-Sale	(378,503)	(119,010)
Proceeds from Redemption of Federal Home Loan Bank Stock	800	1,145
Purchase of Loans	—	(657)
Loans Made to Customers, net of Payments Received	(138,132)	24,832
Proceeds from Sales of Other Real Estate	316	369
Property and Equipment Expenditures	(5,162)	(5,619)
Proceeds from Sale of Land	612	1,022
Proceeds from Life Insurance	1,082	1,019
Acquisition of Citizens First Corporation	—	5,545
Net Cash from Investing Activities	(304,119)	62,575
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	550,003	(11,975)
Change in Short-term Borrowings	(94,756)	(123,651)
Advances in Long-term Debt	—	90,000
Repayments of Long-term Debt	(40,604)	(57,134)
Issuance (Repurchase) of Common Stock	(5,779)	6
Dividends Paid	(15,114)	(13,025)
Net Cash from Financing Activities	393,750	(115,779)
Net Change in Cash and Cash Equivalents	145,809	(7,416)
Cash and Cash Equivalents at Beginning of Year	103,884	96,550
Cash and Cash Equivalents at End of Period	<u>\$ 249,693</u>	<u>\$ 89,134</u>
Cash Paid During the Period for		
Interest	\$ 16,796	\$ 22,450
Income Taxes	8,000	7,039
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	\$ —	\$ 708
Reclassification of Land and Buildings to Other Assets	—	1,471
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
September 30, 2020
(unaudited, dollars in thousands except share and per share data)

NOTE 1 – Basis of Presentation and Market Conditions

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, 2019. 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.

Impact of COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced that the outbreak of the novel coronavirus disease 2019 (COVID-19) constituted a public health emergency of international concern. On March 11, 2020, WHO declared COVID-19 to be a global pandemic and, on March 13, 2020, the President of the United States declared the COVID-19 outbreak a national emergency. The health concerns relating to the COVID-19 outbreak and related governmental actions taken to reduce the spread of the virus have significantly impacted the global economy (including the states and local economies in which we operate), disrupted supply chains, lowered equity market valuations, and created significant volatility and disruption in financial markets. The outbreak has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. Such measures have significantly contributed to rising unemployment and negatively impacted consumer and business spending. While many states have lifted quarantine and lock-down orders on a limited basis and with certain social distancing restrictions, commercial activity has not yet returned to the levels existing prior to the pandemic outbreak. As a result, the demand for the Company's products and services has been, and will continue to be, significantly impacted.

Furthermore, the outbreak could negatively impact our employees and customers' ability to engage in banking and other financial transactions. The Company also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to the effects and restrictions of a COVID-19 outbreak in our market areas. The fair value of certain assets could be impacted by the effects of COVID-19. The carrying value of goodwill, right-of-use lease assets, and other real estate owned could decrease resulting in future impairment losses. Management will continue to evaluate current economic conditions to determine if a triggering event would impact the current valuations for these assets. As a result, it is not currently possible to ascertain the continued impact of COVID-19 on the Company's business. However, if the pandemic continues as a prolonged worldwide health crisis, the disease could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

NOTE 2 - Recent Accounting Pronouncements

Loan Modifications and Troubled Debt Restructures due to COVID-19

On April 7, 2020, the Board of Governors of the Federal Reserve System (the "FRB"), the Office of the Comptroller of the Currency (the "OCC"), and the Federal Deposit Insurance Corporation (the "FDIC") and, together with the FRB and OCC, the "federal banking regulators") issued a revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions, which, among other things, encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19, and stated that institutions generally do not need to categorize COVID-19-related modifications as troubled debt restructures and that the agencies will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as troubled debt restructures.

Recently Adopted Accounting Guidance

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2020
(unaudited, dollars in thousands except share and per share data)

NOTE 2 - Recent Accounting Pronouncements (continued)

receivables and held-to-maturity debt securities. 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). The new CECL model requires an estimate of expected credit losses, measured over the contractual life of an instrument, which considers reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions. The standard provides significant flexibility and requires a high degree of judgement with regards to pooling financial assets with similar risk characteristics and adjusting the relevant historical loss information in order to develop an estimate of expected lifetime losses.

The Company adopted ASC 326 on January 1, 2020 using the modified retrospective approach. Results for reporting periods after January 1, 2020 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net reduction of retained earnings of \$6,717 upon adoption.

The Company adopted ASC 326 using the prospective transition approach for financial assets purchased with credit deterioration (PCD) that were previously classified as purchased credit impaired (PCI) and accounted for under ASC 310-30. In accordance with the standard, management did not reassess whether PCI assets met the criteria of PCD assets as of the date of adoption. On January 1, 2020, the amortized cost basis of the PCD assets were adjusted to reflect the addition of \$6,886 of the allowance for credit losses. The remaining noncredit discount (based on the adjusted amortized cost basis) will be accreted into interest income at the effective interest rate as of January 1, 2020.

The Company expanded the loan portfolio segments used to determine the allowance for credit losses for loans into eight loan segments as opposed to six loan segments under the incurred loss methodology. The following table illustrates the impact of the segment expansion as of January 1, 2020.

(dollars in thousands)	December 31, 2019 Statement Balance	Segment Portfolio Reclassifications	December 31, 2019 After Reclassification
Loans:			
Commercial and Industrial Loans	\$ 589,758	\$ (57,257)	\$ 532,501
Commercial Real Estate Loans	1,495,862	N/A	1,495,862
Agricultural Loans	384,526	N/A	384,526
Leases	N/A	57,257	57,257
Home Equity Loans	225,755	N/A	225,755
Consumer Loans	81,217	(11,953)	69,264
Credit Cards	N/A	11,953	11,953
Residential Mortgage Loans	304,855	N/A	304,855
Total Loans	<u>\$ 3,081,973</u>	<u>\$ —</u>	<u>\$ 3,081,973</u>

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NOTE 2 - Recent Accounting Pronouncements (continued)

The following table illustrates the impact of ASC 326:

(dollars in thousands)	December 31, 2019 After Reclassification	Impact of ASC 326 Adoption	January 1, 2020 Post-ASC 326 Adoption
Assets:			
Loans:			
Commercial and Industrial Loans	\$ 532,501	\$ 2,191	\$ 534,692
Commercial Real Estate Loans	1,495,862	4,385	1,500,247
Agricultural Loans	384,526	128	384,654
Leases	57,257	—	57,257
Home Equity Loans	225,755	35	225,790
Consumer Loans	69,264	—	69,264
Credit Cards	11,953	—	11,953
Residential Mortgage Loans	304,855	147	305,002
Allowance for Credit Losses on Loans	(16,278)	(15,653)	(31,931)
Liabilities:			
Allowance for Credit Losses on Unfunded Loan Commitments	\$ —	\$ (173)	\$ (173)

In December 2018, federal banking regulators approved a final rule to address changes to credit loss accounting under GAAP, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. On March 27, 2020, in an action related to the CARES Act, the federal banking regulators announced an interim final rule to delay the estimated impact on regulatory capital stemming from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Company is adopting the capital transition relief over the permissible five-year period.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs. Accrued interest receivable totaled \$14,995 at September 30, 2020 and was reported in Accrued Interest Receivable and Other Assets on the Consolidated Balance Sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Purchase Credit Deteriorated (PCD) Loans

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses on loans is determined using the same methodology as other loans held for investment. The initial allowance for credit losses on loans determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses on loans becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses on loans are recorded through provision expense.

Allowance for Credit Losses - Loans

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

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NOTE 2 - Recent Accounting Pronouncements (continued)

The Company estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for changes in underwriting standards, portfolio mix, delinquency level, changes in environmental conditions, unemployment rates, risk classifications and collateral values.

The allowance for credit losses is measured on a collective (pooled) basis when similar risk characteristics exist. The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods:

Commercial and Industrial Loans - The principal risk of commercial and industrial loans is that these loans are primarily based on the identified cash flow of the borrower and secondarily on the collateral underlying the loans. Most commercial loans are secured by accounts receivable, inventory and equipment. If cash flow from business operations is reduced, the borrower's ability to repay the loan may diminish, and over time, it may also be difficult to substantiate current value of inventory and equipment. Repayment of these loans are more sensitive than other types of loans to adverse conditions in the general economy.

Commercial Real Estate Loans - Commercial real estate lending is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. Commercial real estate loans are collateralized by the borrower's underlying real estate. Therefore, diminished cash flows not only affects the ability to repay the loan, it may also reduce the underlying collateral value.

Agricultural Loans - This portfolio is diversified between real estate financing, equipment financing and lines of credit in various segments including grain production, poultry production and livestock production. Mitigating any concentration of risk that may exist in the Company's agricultural loan portfolio is the use of federal government guarantee programs.

Leases - Leases are primarily for equipment leased to varying types of businesses. If the cash flows from the business operations is reduced, the business's ability to repay the lease is diminished as well.

Home Equity Loans - Home equity loans are generally secured by 1-4 family residences that are owner-occupied. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by unemployment levels in the market area due to economic conditions.

Consumer Loans - Consumer loan repayment is typically dependent on the borrower remaining employed through the life of the loan as well as the borrower maintaining the underlying collateral adequately.

Credit Cards - Credit card loan are unsecured and repayment is primarily dependent on the personal income of the borrower.

Residential Mortgage Loans - Residential mortgage loans are typically secured by 1-4 family residences that are owner-occupied. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by unemployment levels in the market area due to economic conditions. Repayment may also be impacted by changes in residential property values.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are also not included in the collective evaluation. When the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date adjusted for selling costs.

Troubled Debt Restructurings ("TDR")

A loan for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, is considered to be a TDR. The allowances for credit losses on loans on a TDR is measured using the same method as all other loans held for investment, except that the original interest rate is used to discount the expected cash flows, not the

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NOTE 2 - Recent Accounting Pronouncements (continued)

rate specified within the restructuring. See “Loan Modifications and Troubled Debt Restructures due to COVID-19” at the beginning of this Note 2 for additional information.

Allowance for Credit Losses on Available-For-Sale Securities

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recorded in other comprehensive income.

Changes in the allowance for credit losses are recorded as provision for, or reversal of, credit loss expense. Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense included in other expense on the consolidated income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Expected utilization rates are compared to the current funded portion of the total commitment amount as a practical expedient for funded exposure at default.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, the income tax effects of tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. The amendments in this update became effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and did not have a material impact on the Company's financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The amendment removes certain disclosures required by Topic 820 related to transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements. The update also adds certain disclosure requirements related to changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update became effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019 and did not have a material impact on the Company's financial statements.

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NOTE 2 - Recent Accounting Pronouncements (continued)

Accounting Guidance Issued But Not Yet Adopted

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. The Company is evaluating the impact of adopting the new guidance on the consolidated financial statements on an ongoing basis with no material expected impact at this time.

NOTE 3 – Per Share Data

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

	Three Months Ended September 30,	
	2020	2019
Basic Earnings per Share:		
Net Income	\$ 14,593	\$ 13,064
Weighted Average Shares Outstanding	26,497,398	26,643,064
Basic Earnings per Share	<u>\$ 0.55</u>	<u>\$ 0.49</u>
Diluted Earnings per Share:		
Net Income	\$ 14,593	\$ 13,064
Weighted Average Shares Outstanding	26,497,398	26,643,064
Potentially Dilutive Shares, Net	—	—
Diluted Weighted Average Shares Outstanding	26,497,398	26,643,064
Diluted Earnings per Share	<u>\$ 0.55</u>	<u>\$ 0.49</u>

For the three months ended September 30, 2020 and 2019, there were no anti-dilutive shares.

	Nine Months Ended September 30,	
	2020	2019
Basic Earnings per Share:		
Net Income	\$ 41,320	\$ 43,402
Weighted Average Shares Outstanding	26,554,369	25,541,843
Basic Earnings per Share	<u>\$ 1.56</u>	<u>\$ 1.70</u>
Diluted Earnings per Share:		
Net Income	\$ 41,320	\$ 43,402
Weighted Average Shares Outstanding	26,554,369	25,541,843
Potentially Dilutive Shares, Net	—	—
Diluted Weighted Average Shares Outstanding	26,554,369	25,541,843
Diluted Earnings per Share	<u>\$ 1.56</u>	<u>\$ 1.70</u>

For the nine months ended September 30, 2020 and 2019, there were no anti-dilutive shares.

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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 were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
September 30, 2020					
Obligations of State and Political Subdivisions	\$ 489,070	\$ 25,928	\$ (986)	\$ —	\$ 514,012
MBS/CMO	508,004	14,957	(63)	—	522,898
Total	<u>\$ 997,074</u>	<u>\$ 40,885</u>	<u>\$ (1,049)</u>	<u>\$ —</u>	<u>\$ 1,036,910</u>
December 31, 2019					
Obligations of State and Political Subdivisions	\$ 307,943	\$ 16,366	\$ (9)	\$ —	\$ 324,300
MBS/CMO	526,907	5,414	(1,796)	—	530,525
Total	<u>\$ 834,850</u>	<u>\$ 21,780</u>	<u>\$ (1,805)</u>	<u>\$ —</u>	<u>\$ 854,825</u>

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

The amortized cost and fair value of Securities at September 30, 2020 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.

Securities Available-for-Sale:	Amortized Cost	Fair Value
Due in one year or less	\$ 4,737	\$ 4,806
Due after one year through five years	17,524	18,128
Due after five years through ten years	73,405	78,053
Due after ten years	393,404	413,025
MBS/CMO	508,004	522,898
Total	<u>\$ 997,074</u>	<u>\$ 1,036,910</u>

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Proceeds from Sales	\$ 11,270	\$ 53,025
Gross Gains on Sales	607	313
Income Taxes on Gross Gains	127	66

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NOTE 4 - Securities (continued)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Proceeds from Sales	\$ 74,693	\$ 75,299
Gross Gains on Sales	2,190	984
Income Taxes on Gross Gains	464	207

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$224,379 and \$245,664 as of September 30, 2020 and December 31, 2019, respectively.

Below is a summary of securities with unrealized losses as of September 30, 2020 and December 31, 2019, presented by length of time the securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2020						
Obligations of State and Political Subdivisions	\$ 66,378	\$ (986)	\$ —	\$ —	\$ 66,378	\$ (986)
MBS/CMO	32,902	(63)	4	—	32,906	(63)
Total	<u>\$ 99,280</u>	<u>\$ (1,049)</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 99,284</u>	<u>\$ (1,049)</u>

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2019						
Obligations of State and Political Subdivisions	\$ 4,631	\$ (9)	\$ —	\$ —	\$ 4,631	\$ (9)
MBS/CMO	89,267	(241)	155,989	(1,555)	245,256	(1,796)
Total	<u>\$ 93,898</u>	<u>\$ (250)</u>	<u>\$ 155,989</u>	<u>\$ (1,555)</u>	<u>\$ 249,887</u>	<u>\$ (1,805)</u>

Available-for-sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For available-for-sale debt securities in an unrealized loss position, the Company assesses whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for sale debt securities that do not meet the criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security and the issuer, among other factors. If this assessment indicates that a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes. No allowance for credit losses for available-for-sale debt securities was needed at September 30, 2020. Accrued interest receivable on available-for-sale debt securities totaled \$5,255 at September 30, 2020 and is excluded from the estimate of credit losses.

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 September 30, 2020 and December 31, 2019. 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 September 30, 2020, there was no additional impairment recognized through earnings.

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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 \$109.5 million at September 30, 2020 and \$102.4 million at December 31, 2019. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions with approved, reputable, independent counterparties with substantially matching terms. The agreements are considered stand-alone derivatives and changes in the fair value of derivatives are reported in earnings as non-interest income.

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

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

	September 30, 2020		December 31, 2019	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$ 109,485	\$ 9,636	\$ 102,351	\$ 2,607
Included in Other Liabilities:				
Interest Rate Swaps	\$ 109,485	\$ 10,293	\$ 102,351	\$ 2,829

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest Rate Swaps:				
Included in Other Operating Income	\$ 64	\$ 314	\$ (169)	\$ 108

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NOTE 6 – Loans

Loans were comprised of the following classifications at September 30:

	September 30, 2020	December 31, 2019
Commercial:		
Commercial and Industrial Loans	\$ 781,547	\$ 532,501
Commercial Real Estate Loans	1,453,280	1,495,862
Agricultural Loans	376,215	384,526
Leases	57,475	57,257
Retail:		
Home Equity Loans	218,640	225,755
Consumer Loans	64,919	69,264
Credit Cards	10,717	11,953
Residential Mortgage Loans	262,439	304,855
Subtotal	3,225,232	3,081,973
Less: Unearned Income	(4,105)	(4,882)
Allowance for credit losses	(46,768)	(16,278)
Loans, net	<u>\$ 3,174,359</u>	<u>\$ 3,060,813</u>

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) was signed into law, providing an approximately \$2 trillion stimulus package that includes direct payments to individual taxpayers, economic stimulus to significantly impacted industry sectors, emergency funding for hospitals and providers, small business loans, increased unemployment benefits, and a variety of tax incentives. For small businesses, eligible nonprofits and certain others, the CARES Act established a Paycheck Protection Program (“PPP”), which is administered by the Small Business Administration (“SBA”). On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was enacted. Among other things, this legislation amends the initial CARES Act program by raising the appropriation level for PPP loans from \$349 billion to \$670 billion. The PPP was further modified on June 5, 2020 with the adoption of the Paycheck Protection Program Flexibility Act (the “Flexibility Act”), which extended the maturity date for PPP loans from two years to five years for loans disbursed on or after the date of enactment of the Flexibility Act. For PPP loans disbursed prior to such enactment, the Flexibility Act permits the borrower and lender to mutually agree to extend the term of the loan to five years. The vast majority of the Company's PPP loans have two-year maturities. PPP loans earn interest at a fixed rate of 1% and are fully guaranteed by the U.S. government. As of September 30, 2020, the Bank had approximately \$351.3 million outstanding, on 3,070 PPP loan relationships under this program, all of which are included above in the Commercial and Industrial Loan category. The Company anticipates that the majority of the PPP loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of October 31, 2020, 603 of our loans totaling \$113 million have been submitted to the SBA for forgiveness.

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NOTE 6 - Loans (continued)

Allowance for Credit Losses for Loans

The following table presents the activity in the allowance for credit losses by portfolio segment for the three months ended September 30, 2020:

September 30, 2020	Commercial and Industrial Loans	Commercial Real Estate Loans	Agricultural Loans	Leases	Consumer Loans	Home Equity Loans	Credit Cards	Residential Mortgage Loans	Unallocated	Total
Allowance for Credit Losses:										
Beginning balance	\$ 8,787	\$ 22,369	\$ 7,030	\$ 202	\$ 496	\$ 1,062	\$ 125	\$ 2,360	\$ —	\$ 42,431
Provision for credit loss expense	(1,017)	5,931	(315)	4	70	—	39	(212)	—	4,500
Loans charged-off	(73)	(9)	—	—	(138)	(67)	(27)	(8)	—	(322)
Recoveries collected	3	91	—	—	64	—	—	1	—	159
Total ending allowance balance	<u>\$ 7,700</u>	<u>\$ 28,382</u>	<u>\$ 6,715</u>	<u>\$ 206</u>	<u>\$ 492</u>	<u>\$ 995</u>	<u>\$ 137</u>	<u>\$ 2,141</u>	<u>\$ —</u>	<u>\$ 46,768</u>

The following table presents the activity in the allowance for credit losses by portfolio segment for the nine months ended September 30, 2020:

September 30, 2020	Commercial and Industrial Loans	Commercial Real Estate Loans	Agricultural Loans	Leases	Consumer Loans	Home Equity Loans	Credit Cards	Residential Mortgage Loans	Unallocated	Total
Allowance for Credit Losses:										
Beginning balance prior to adoption of ASC 326	\$ 4,799	\$ 4,692	\$ 5,315	\$ —	\$ 434	\$ 200	\$ —	\$ 333	\$ 505	\$ 16,278
Impact of adopting ASC 326	2,245	3,063	1,438	105	(59)	762	124	1,594	(505)	8,767
Impact of adopting ASC 326 - PCD Loans	2,191	4,385	128	—	—	35	—	147	—	6,886
Provision for credit loss expense	(1,182)	16,145	(166)	101	385	65	98	104	—	15,550
Initial allowance on loans purchased with credit deterioration	—	—	—	—	—	—	—	—	—	—
Loans charged-off	(369)	(9)	—	—	(520)	(67)	(86)	(39)	—	(1,090)
Recoveries collected	16	106	—	—	252	—	1	2	—	377
Total ending allowance balance	<u>\$ 7,700</u>	<u>\$ 28,382</u>	<u>\$ 6,715</u>	<u>\$ 206</u>	<u>\$ 492</u>	<u>\$ 995</u>	<u>\$ 137</u>	<u>\$ 2,141</u>	<u>\$ —</u>	<u>\$ 46,768</u>

The Company estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for changes in underwriting standards, portfolio mix, delinquency level, changes in environmental conditions, unemployment rates, risk classifications and collateral values. The allowance for credit losses is measured on a collective (pooled) basis when similar risk characteristics exist.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date adjusted for selling costs.

The Company utilizes the Static Pool methodology in determining expected future credit losses. Static pool analysis means segmenting and tracking loans over a period of time based on similar risk characteristics such as loan structure, collateral type, industry of borrower and concentrations, contractual terms and credit risk indicators. Static pool calculates a loss rate on a closed pool of loans that existed on a specified start date based upon the remaining life of each segment.

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NOTE 6 - Loans (continued)

The Company's expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Company's historical look-back period includes January 2014 through the current period, on a monthly basis.

Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration industry and collateral concentrations, acquired loan portfolio characteristics and other credit-related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible.

For the nine months ended September 30, 2020, the allowance for credit losses increased primarily due to macroeconomic factors surrounding the COVID-19 pandemic. While there continues to be great uncertainty related to COVID-19 on our borrowers and communities, we have recognized significant declines in employment and gross domestic product which are key indicators utilized in our forecasting for our allowance calculations. Based on the potential increased losses related to the economic impact of the COVID-19 pandemic, the bank has considered this loss experience may align with loss experience from the recessionary period from 2008-2011 and qualitative adjustments have been made accordingly. Since PPP loans are guaranteed by the Small Business Administration (SBA), they have minimal impact on the allowance for credit losses.

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 table presents the amortized cost basis of loans on non-accrual status and loans past due over 89 days still accruing as of September 30, 2020:

September 30, 2020	Non-Accrual With No Allowance for Credit Loss	Non-Accrual	Loans Past Due Over 89 Days Still Accruing
Commercial and Industrial Loans	\$ 1,350	\$ 8,519	\$ —
Commercial Real Estate Loans	5,657	10,282	—
Agricultural Loans	2,015	2,643	—
Leases	—	—	—
Home Equity Loans	200	200	—
Consumer Loans	61	105	—
Credit Cards	66	66	—
Residential Mortgage Loans	770	1,063	—
Total	\$ 10,119	\$ 22,878	\$ —

Interest income on non-accrual loans recognized during the three and nine months ended September 30, 2020 totaled \$1 and \$17, respectively.

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NOTE 6 - Loans (continued)

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of September 30, 2020:

September 30, 2020	Real Estate	Equipment	Accounts Receivable	Other	Total
Commercial and Industrial Loans	\$ 4,973	\$ 3,380	\$ 699	\$ 41	\$ 9,093
Commercial Real Estate Loans	13,036	—	—	1,604	14,640
Agricultural Loans	3,069	—	—	1	3,070
Leases	—	—	—	—	—
Home Equity Loans	415	—	—	—	415
Consumer Loans	39	3	—	5	47
Credit Cards	—	—	—	—	—
Residential Mortgage Loans	1,043	—	—	—	1,043
Total	\$ 22,575	\$ 3,383	\$ 699	\$ 1,651	\$ 28,308

The following table presents the aging of the amortized cost basis in past due loans by class of loans as of September 30, 2020:

September 30, 2020	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial and Industrial Loans	\$ 35	\$ 160	\$ 4,488	\$ 4,683	\$ 776,864	\$ 781,547
Commercial Real Estate Loans	1,637	—	958	2,595	1,450,685	1,453,280
Agricultural Loans	—	578	73	651	375,564	376,215
Leases	—	—	—	—	57,475	57,475
Home Equity Loans	401	113	200	714	217,926	218,640
Consumer Loans	259	61	84	404	64,515	64,919
Credit Cards	147	29	66	242	10,475	10,717
Residential Mortgage Loans	3,281	1,947	812	6,040	256,399	262,439
Total	\$ 5,760	\$ 2,888	\$ 6,681	\$ 15,329	\$ 3,209,903	\$ 3,225,232

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.

As of September 30, 2020, the Company had troubled debt restructurings totaling \$113. The Company had no specific allocation of allowance for these loans at September 30, 2020.

The Company had not committed to lending any additional amounts as of September 30, 2020 and December 31, 2019 to customers with outstanding loans that are classified as troubled debt restructurings.

During the three and nine months ended September 30, 2020 and 2019, 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 nine months ended September 30, 2020 and 2019.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

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NOTE 6 - Loans (continued)

Loan Modifications and Troubled Debt Restructurings due to COVID-19

On April 7, 2020, the federal banking regulators issued a revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions, which, among other things, encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19, and stated that institutions generally do not need to categorize COVID-19-related modifications as troubled debt restructurings and that the agencies will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as troubled debt restructurings. Accordingly, the Company is offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due.

As of September 30, 2020, the following active payment modifications are still in effect. These payment modifications are significantly reduced from the level of active modifications as of June 30, 2020.

Type of Loans (dollars in thousands)	Number of Loans	Outstanding Balance	% of Loan Category (Excludes PPP Loans)	
			As of 9/30/2020	As of 6/30/2020
Commercial & Industrial Loans	24	\$ 6,154	1.2 %	10.8 %
Commercial Real Estate Loans	44	82,986	5.7 %	15.3 %
Agricultural Loans	—	—	— %	0.3 %
Consumer Loans	1	3	n/m ⁽¹⁾	0.4 %
Residential Mortgage Loans	12	1,275	0.5 %	8.2 %
Total	81	\$ 90,418	3.1 %	10.4 %

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.

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NOTE 6 - Loans (continued)

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Term Loans Amortized Cost Basis by Origination Year								
As of September 30, 2020	2020	2019	2018	2017	2016	Prior	Revolving Loans Amortized Cost Basis	Total	
Commercial and Industrial:									
Risk Rating									
Pass	\$ 387,099	\$ 95,812	\$ 54,005	\$ 37,396	\$ 24,134	\$ 55,538	\$ 100,294	\$ 754,278	
Special Mention	187	546	1,350	2,073	185	2,137	2,436	8,914	
Substandard	1,167	—	1,193	1,405	976	5,836	7,778	18,355	
Doubtful	—	—	—	—	—	—	—	—	
Total Commercial & Industrial Loans	<u>\$ 388,453</u>	<u>\$ 96,358</u>	<u>\$ 56,548</u>	<u>\$ 40,874</u>	<u>\$ 25,295</u>	<u>\$ 63,511</u>	<u>\$ 110,508</u>	<u>\$ 781,547</u>	
Commercial Real Estate:									
Risk Rating									
Pass	\$ 195,078	\$ 241,890	\$ 204,211	\$ 214,673	\$ 186,951	\$ 328,350	\$ 35,405	\$ 1,406,558	
Special Mention	527	3,038	1,798	4,511	2,025	15,173	247	27,319	
Substandard	—	1,119	1,995	1,777	4,343	10,169	—	19,403	
Doubtful	—	—	—	—	—	—	—	—	
Total Commercial Real Estate Loans	<u>\$ 195,605</u>	<u>\$ 246,047</u>	<u>\$ 208,004</u>	<u>\$ 220,961</u>	<u>\$ 193,319</u>	<u>\$ 353,692</u>	<u>\$ 35,652</u>	<u>\$ 1,453,280</u>	
Agricultural:									
Risk Rating									
Pass	\$ 36,822	\$ 28,368	\$ 33,653	\$ 34,303	\$ 24,056	\$ 70,059	\$ 77,605	\$ 304,866	
Special Mention	5,444	7,803	2,974	8,713	2,138	15,763	15,439	58,274	
Substandard	611	73	394	1,255	4,467	6,025	250	13,075	
Doubtful	—	—	—	—	—	—	—	—	
Total Agricultural Loans	<u>\$ 42,877</u>	<u>\$ 36,244</u>	<u>\$ 37,021</u>	<u>\$ 44,271</u>	<u>\$ 30,661</u>	<u>\$ 91,847</u>	<u>\$ 93,294</u>	<u>\$ 376,215</u>	
Leases:									
Risk Rating									
Pass	\$ 14,950	\$ 19,334	\$ 10,342	\$ 6,297	\$ 2,194	\$ 4,358	\$ —	\$ 57,475	
Special Mention	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	—	—	—	
Doubtful	—	—	—	—	—	—	—	—	
Total Leases	<u>\$ 14,950</u>	<u>\$ 19,334</u>	<u>\$ 10,342</u>	<u>\$ 6,297</u>	<u>\$ 2,194</u>	<u>\$ 4,358</u>	<u>\$ —</u>	<u>\$ 57,475</u>	

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. For residential and consumer 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 amortized cost in residential, home equity and consumer loans based on payment activity.

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NOTE 6 - Loans (continued)

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
As of September 30, 2020	2020	2019	2018	2017	2016	Prior		
Consumer:								
Payment performance								
Performing	\$ 25,189	\$ 21,676	\$ 9,777	\$ 2,876	\$ 1,292	\$ 2,444	\$ 1,560	\$ 64,814
Nonperforming	5	3	2	2	—	62	31	105
Total Consumer Loans	<u>\$ 25,194</u>	<u>\$ 21,679</u>	<u>\$ 9,779</u>	<u>\$ 2,878</u>	<u>\$ 1,292</u>	<u>\$ 2,506</u>	<u>\$ 1,591</u>	<u>\$ 64,919</u>
Home Equity:								
Payment performance								
Performing	\$ —	\$ —	\$ 34	\$ 46	\$ 68	\$ 425	\$ 217,866	\$ 218,439
Nonperforming	—	—	—	—	—	—	201	201
Total Home Equity Loans	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 34</u>	<u>\$ 46</u>	<u>\$ 68</u>	<u>\$ 425</u>	<u>\$ 218,067</u>	<u>\$ 218,640</u>
Residential Mortgage:								
Payment performance								
Performing	\$ 27,378	\$ 28,514	\$ 33,281	\$ 32,530	\$ 29,701	\$ 109,972	\$ —	\$ 261,376
Nonperforming	—	—	—	—	87	976	—	1,063
Total Residential Mortgage Loans	<u>\$ 27,378</u>	<u>\$ 28,514</u>	<u>\$ 33,281</u>	<u>\$ 32,530</u>	<u>\$ 29,788</u>	<u>\$ 110,948</u>	<u>\$ —</u>	<u>\$ 262,439</u>

The Company considers the performance of the loan portfolio and its impact on the allowance for credit loan losses. For certain retail 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 retail loans based on payment activity:

As of September 30, 2020	Credit Cards
Performing	\$ 10,651
Nonperforming	66
Total	<u>\$ 10,717</u>

The following table presents loans purchased and/or sold during the year by portfolio segment:

September 30, 2020	Commercial and Industrial Loans	Commercial Real Estate Loans	Agricultural Loans	Leases	Consumer Loans	Home Equity Loans	Credit Cards	Residential Mortgage Loans	Total
Purchases	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Sales	—	527	—	—	—	—	—	—	527

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NOTE 6 - Loans (continued)

Allowance for Loan Losses

Prior to the adoption of ASC 326 on January 1, 2020, the Company calculated the allowance for loan losses using the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses in prior periods.

The following table presents the activity in the allowance for loan losses by portfolio class for the three months ended September 30, 2019:

September 30, 2019	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 2,992	\$ 5,841	\$ 5,725	\$ 258	\$ 422	\$ 349	\$ 652	\$ 16,239
Provision for Loan Losses	4,468	(1,410)	(373)	(72)	174	25	(12)	2,800
Recoveries	2	5	—	8	99	—	—	114
Loans Charged-off	(2,859)	(136)	—	—	(277)	(12)	—	(3,284)
Ending Balance	<u>\$ 4,603</u>	<u>\$ 4,300</u>	<u>\$ 5,352</u>	<u>\$ 194</u>	<u>\$ 418</u>	<u>\$ 362</u>	<u>\$ 640</u>	<u>\$ 15,869</u>

The following table presents the activity in the allowance for loan losses by portfolio class for the nine months ended September 30, 2019:

September 30, 2019	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 2,953	\$ 5,291	\$ 5,776	\$ 229	\$ 420	\$ 472	\$ 682	\$ 15,823
Provision for Loan Losses	4,512	(741)	(424)	(33)	507	(54)	(42)	3,725
Recoveries	53	24	—	8	313	6	—	404
Loans Charged-off	(2,915)	(274)	—	(10)	(822)	(62)	—	(4,083)
Ending Balance	<u>\$ 4,603</u>	<u>\$ 4,300</u>	<u>\$ 5,352</u>	<u>\$ 194</u>	<u>\$ 418</u>	<u>\$ 362</u>	<u>\$ 640</u>	<u>\$ 15,869</u>

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NOTE 6 - Loans (continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of December 31, 2019:

December 31, 2019	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
Allowance for Loan Losses:								
Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	\$ 2,971	\$ 2,412	\$ 559	\$ —	\$ —	\$ —	\$ —	\$ —
Collectively Evaluated for Impairment	12,902	2,387	3,733	5,315	200	434	328	505
Acquired with Deteriorated Credit Quality	405	—	400	—	—	—	5	—
Total Ending Allowance Balance	\$ 16,278	\$ 4,799	\$ 4,692	\$ 5,315	\$ 200	\$ 434	\$ 333	\$ 505
Loans:								
Loans Individually Evaluated for Impairment	\$ 6,269	\$ 4,707	\$ 1,562	\$ —	\$ —	\$ —	\$ —	n/m(2)
Loans Collectively Evaluated for Impairment	3,076,835	585,328	1,491,090	387,710	226,406	81,429	304,872	n/m(2)
Loans Acquired with Deteriorated Credit Quality	12,798	1,368	7,212	3,161	369	—	688	n/m(2)
Total Ending Loans Balance ⁽¹⁾	\$ 3,095,902	\$ 591,403	\$ 1,499,864	\$ 390,871	\$ 226,775	\$ 81,429	\$ 305,560	n/m(2)

⁽¹⁾ Total recorded investment in loans includes \$13,929 in accrued interest.

⁽²⁾ n/m = not meaningful

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2019:

December 31, 2019	Unpaid Principal Balance⁽¹⁾	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 3,638	\$ 524	\$ —
Commercial Real Estate Loans	4,738	2,058	—
Agricultural Loans	3,294	2,738	—
Subtotal	11,670	5,320	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	5,042	4,521	2,412
Commercial Real Estate Loans	2,187	1,865	959
Agricultural Loans	—	—	—
Subtotal	7,229	6,386	3,371
Total	\$ 18,899	\$ 11,706	\$ 3,371
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)			
	\$ 9,994	\$ 4,624	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)			
	\$ 1,134	\$ 813	\$ 400

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

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NOTE 6 - Loans (continued)

The following table presents the average balance and related interest income of loans individually evaluated for impairment by class of loans for the three month period ended September 30, 2019:

September 30, 2019	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 2,868	\$ 8	\$ —
Commercial Real Estate Loans	2,699	45	5
Agricultural Loans	1,539	1	—
Subtotal	7,106	54	5
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	5,708	—	—
Commercial Real Estate Loans	2,010	—	3
Agricultural Loans	—	—	—
Subtotal	7,718	—	3
Total	\$ 14,824	\$ 54	\$ 8
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 3,381	\$ 43	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 815	\$ —	\$ —

The following table presents the average balance and related interest income of loans individually evaluated for impairment by class of loans for the nine month period ended September 30, 2019:

September 30, 2019	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 1,157	\$ 11	\$ 2
Commercial Real Estate Loans	3,093	72	5
Agricultural Loans	1,452	1	—
Subtotal	5,702	84	7
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	3,374	—	—
Commercial Real Estate Loans	3,553	—	—
Agricultural Loans	—	—	—
Subtotal	6,927	—	—
Total	\$ 12,629	\$ 84	\$ 7
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 4,070	\$ 58	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 2,083	\$ —	\$ —

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NOTE 6 - Loans (continued)

The following table presents the recorded investment in non-accrual loans and loans past due 90 days or more still on accrual by class of loans as of December 31, 2019:

	Non-Accrual	Loans Past Due 90 Days or More & Still Accruing
	2019	2019
Commercial and Industrial Loans and Leases	\$ 4,940	\$ 190
Commercial Real Estate Loans	3,433	—
Agricultural Loans	2,739	—
Home Equity Loans	79	—
Consumer Loans	115	—
Residential Mortgage Loans	2,496	—
Total	\$ 13,802	\$ 190
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 5,393	\$ —
Loans Acquired in Current Year (Included in the Total Above)	\$ 2,058	\$ —

The following table presents the aging of the recorded investment in past due loans by class of loans as of December 31, 2019:

December 31, 2019	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
Commercial and Industrial Loans and Leases	\$ 591,403	\$ 4,689	\$ 83	\$ 799	\$ 5,571	\$ 585,832
Commercial Real Estate Loans	1,499,864	209	431	2,106	2,746	1,497,118
Agricultural Loans	390,871	499	—	329	828	390,043
Home Equity Loans	226,775	1,121	253	80	1,454	225,321
Consumer Loans	81,429	347	156	89	592	80,837
Residential Mortgage Loans	305,560	5,014	1,461	2,308	8,783	296,777
Total ⁽¹⁾	\$ 3,095,902	\$ 11,879	\$ 2,384	\$ 5,711	\$ 19,974	\$ 3,075,928
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 12,798	\$ 18	\$ —	\$ 1,589	\$ 1,607	\$ 11,191
Loans Acquired in Current Year (Included in the Total Above)	\$ 321,464	\$ 639	\$ 1	\$ 797	\$ 1,437	\$ 320,027

⁽¹⁾ Total recorded investment in loans includes \$13,929 in accrued interest.

The risk category of loans by class of loans at December 31, 2019 is as follows:

December 31, 2019	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	\$ 556,706	\$ 19,671	\$ 15,026	\$ —	\$ 591,403
Commercial Real Estate Loans	1,453,310	30,504	16,050	—	1,499,864
Agricultural Loans	325,991	49,053	15,827	—	390,871
Total	\$ 2,336,007	\$ 99,228	\$ 46,903	\$ —	\$ 2,482,138
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$ 68	\$ 613	\$ 11,060	\$ —	\$ 11,741
Loans Acquired in Current Year (Included in the Total Above)	\$ 254,629	\$ 16,535	\$ 12,769	\$ —	\$ 283,933

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NOTE 6 - Loans (continued)

The following table presents the recorded investment in home equity, consumer and residential mortgage loans based on payment activity as of December 31, 2019:

December 31, 2019	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	\$ 226,695	\$ 81,314	\$ 303,065
Nonperforming	80	115	2,495
Total	\$ 226,775	\$ 81,429	\$ 305,560

The following table presents financing receivables purchased and/or sold during the year by portfolio segment:

December 31, 2019	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Total
Purchases	\$ 2,051	\$ —	\$ 2,051
Sales	—	—	—

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 \$72,981 and \$39,425 as of September 30, 2020 and December 31, 2019, 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, wealth management 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 wealth management segment involves providing trust, investment advisory, and brokerage services to customers. The insurance segment offers a full range of personal and corporate property and casualty insurance products, primarily in the Company's banking subsidiary's local markets.

The core banking segment is comprised by the Company's banking subsidiary, German American Bank, which operated through 73 banking offices at September 30, 2020. Net interest income from loans and investments funded by deposits and borrowings is the primary revenue for the core-banking segment. The wealth management segment's revenues are comprised primarily of fees generated by the trust operations of the Company's banking subsidiary and by German American Investment Services, Inc. These fees are derived by providing trust, investment advisory, and brokerage services to its customers. The insurance segment primarily consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

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

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NOTE 8 - Segment Information (continued)

	Core Banking	Wealth Management Services	Insurance	Other	Consolidated Totals
Three Months Ended					
September 30, 2020					
Net Interest Income	\$ 39,039	\$ 4	\$ 2	\$ (657)	\$ 38,388
Net Gains on Sales of Loans	2,861	—	—	—	2,861
Net Gains on Securities	607	—	—	—	607
Trust and Investment Product Fees	2	1,955	—	—	1,957
Insurance Revenues	6	1	1,982	—	1,989
Noncash Items:					
Provision for Credit Losses	4,500	—	—	—	4,500
Depreciation and Amortization	2,237	2	16	80	2,335
Income Tax Expense (Benefit)	3,268	108	71	(293)	3,154
Segment Profit (Loss)	14,628	321	216	(572)	14,593
Segment Assets at September 30, 2020	4,837,899	4,283	10,247	401	4,852,830

	Core Banking	Wealth Management Services	Insurance	Other	Consolidated Totals
Three Months Ended					
September 30, 2019					
Net Interest Income	\$ 39,302	\$ 4	\$ 5	\$ (733)	\$ 38,578
Net Gains on Sales of Loans	1,649	—	—	—	1,649
Net Gains on Securities	313	—	—	—	313
Trust and Investment Product Fees	1	1,884	—	—	1,885
Insurance Revenues	14	2	1,867	—	1,883
Noncash Items:					
Provision for Loan Losses	2,800	—	—	—	2,800
Depreciation and Amortization	2,196	1	14	80	2,291
Income Tax Expense (Benefit)	3,025	137	51	(404)	2,809
Segment Profit (Loss)	13,538	406	145	(1,025)	13,064
Segment Assets at December 31, 2019	4,381,945	3,670	9,080	2,977	4,397,672

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NOTE 8 - Segment Information (continued)

	Core Banking	Wealth Management Services	Insurance	Other	Consolidated Totals
Nine Months Ended					
September 30, 2020					
Net Interest Income	\$ 115,148	\$ 12	\$ 9	\$ (2,066)	\$ 113,103
Net Gains on Sales of Loans	7,378	—	—	—	7,378
Net Gains on Securities	2,190	—	—	—	2,190
Trust and Investment Product Fees	3	5,852	—	—	5,855
Insurance Revenues	11	12	7,025	—	7,048
Noncash Items:					
Provision for Loan Losses	15,550	—	—	—	15,550
Depreciation and Amortization	6,748	4	50	241	7,043
Income Tax Expense (Benefit)	8,635	336	471	(1,262)	8,180
Segment Profit (Loss)	40,573	991	1,437	(1,681)	41,320
Segment Assets at September 30, 2020	4,837,899	4,283	10,247	401	4,852,830

	Core Banking	Wealth Management Services	Insurance	Other	Consolidated Totals
Nine Months Ended					
September 30, 2019					
Net Interest Income	\$ 107,619	\$ 10	\$ 14	\$ (1,833)	\$ 105,810
Net Gains on Sales of Loans	3,660	—	—	—	3,660
Net Gains on Securities	984	—	—	—	984
Trust and Investment Product Fees	3	5,362	—	—	5,365
Insurance Revenues	21	27	6,969	—	7,017
Noncash Items:					
Provision for Loan Losses	3,725	—	—	—	3,725
Depreciation and Amortization	6,099	4	53	208	6,364
Income Tax Expense (Benefit)	9,117	341	458	(1,348)	8,568
Segment Profit (Loss)	43,105	993	1,382	(2,078)	43,402
Segment Assets at December 31, 2019	4,381,945	3,670	9,080	2,977	4,397,672

NOTE 9 – Stock Repurchase Plan

On January 27, 2020, the Company's Board of Directors approved a plan to repurchase up to one million shares of the Company's outstanding common stock. On a share basis, the amount of common stock subject to the repurchase plan represents approximately 4% of the Company's outstanding shares. The Company is not obligated to purchase shares under the plan, and the plan may be discontinued at any time. The actual timing, number and share price of shares purchased under the repurchase plan will be determined by the Company at its discretion and will depend upon such factors as the market price of the stock, general market and economic conditions and applicable legal requirements. At the time it approved the new plan, the Board also terminated a similar program that had been adopted in 2001. At the time of its termination, the Company had been authorized to purchase up to 409,184 shares of common stock under the 2001 program. The Company has repurchased 221,302 shares of common stock under the 2020 plan.

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NOTE 10 – Equity Plans and Equity Based Compensation

During the periods presented, the Company maintained two equity incentive plans under which stock options, restricted stock, and other equity incentive awards could be granted. Those plans include (i) the Company's 2009 Long-Term Equity Incentive Plan, under which no new grants may be made, and (ii) the Company's 2019 Long-Term Equity Incentive Plan (the "2019 LTI Plan"). The 2019 LTI Plan, which authorizes a maximum aggregate issuance of 1,000,000 shares of common stock (subject to certain permitted adjustments), 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.

For the three and nine months ended September 30, 2020 and 2019, the Company granted no options. The Company recorded no stock compensation expense applicable to options during the three and nine months ended September 30, 2020 and 2019. In addition, there was no unrecognized option expense.

During the periods presented, awards of long-term incentives were granted in the form of restricted stock. In 2019 and prior, awards that were granted to management and selected other employees under the Company's management incentive plan were granted in tandem with cash credit entitlements in the form of 60% restricted stock grants and 40% cash credit entitlements. Beginning in 2020, awards granted under the management incentive plan were granted in tandem with cash credit entitlements in the form of 66.67% restricted stock grants and 33.33% cash credit entitlements. In 2019 and prior, the restricted stock grants and tandem cash credit entitlements, generally, vested in three annual installments of 33.3% each. Beginning in 2020, 100% of the cash portion of an award vests towards the end of the year in which the grant was made followed by the restricted stock grants vesting 50% in each of the 2nd and 3rd years. Awards that are granted to directors as additional retainers 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 31 of the year after grant or do not satisfy certain meeting attendance requirements, at which time they generally vest 100 percent. For measuring compensation costs, restricted stock awards are valued based upon the market value of the common shares on the date of grant. During the three and nine months ended September 30, 2020, the Company awarded grants of 1,192 and 44,370 of restricted stock, respectively. During the three and nine months ended September 30, 2019, the Company granted awards of 5,466 and 31,329 of restricted stock. Total unvested restricted stock awards at September 30, 2020 and December 31, 2019 were 86,079 and 43,279, respectively.

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

	Three Months Ended September 30,	
	2020	2019
Restricted Stock Expense	\$ 254	\$ 311
Cash Entitlement Expense	249	167
Tax Effect	(125)	(124)
Net of Tax	<u>\$ 378</u>	<u>\$ 354</u>
	Nine Months Ended September 30,	
	2020	2019
Restricted Stock Expense	\$ 806	\$ 972
Cash Entitlement Expense	737	509
Tax Effect	(384)	(386)
Net of Tax	<u>\$ 1,159</u>	<u>\$ 1,095</u>

Unrecognized expense associated with the restricted stock grants and cash entitlements totaled \$1,071 and \$2,356 as of September 30, 2020 and 2019, respectively.

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

Through August 16, 2019, the company maintained the 2009 Employee Stock Purchase Plan (the "2009 ESPP") whereby eligible employees had the option to purchase the Company's common stock at a discount. The purchase price of the shares under this plan was set at 95% of the fair market value of the Company's common stock as of the last day of the plan year. The plan had 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.

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 ESPP, which expired by its own terms on August 16, 2019. The 2019 ESPP, which became 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 has been 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 has been reserved for issuance under the 2019 ESPP. 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. Funding for the purchase of common stock is from employee and Company contributions.

For the three months ended September 30, 2020, the Company recorded \$11 of expense, \$8 net of tax, for the employee stock purchase plan. For the nine months ended September 30, 2020, the Company recorded \$30 of expense, \$23 net of tax, for the employee stock purchase plan. As an annual plan, the expense for the 2009 ESPP was recorded in the third quarter of each year. For the three and nine months ended September 30, 2020, the Company recorded \$30 of expense, \$22 net of tax, for the employee stock purchase plan. There was no unrecognized compensation expense as of September 30, 2020 and 2019 for the employee stock purchase plan.

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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 September 30, 2020, the Company held \$497 thousand 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).

Individually Analyzed Loans: Fair values for 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 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.

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NOTE 11 - Fair Value (continued)

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

Assets and Liabilities Measured on a Recurring Basis

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

Fair Value Measurements at September 30, 2020 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	\$ —	\$ 513,515	\$ 497	\$ 514,012
MBS/CMO	—	522,898	—	522,898
Total Securities	\$ —	\$ 1,036,413	\$ 497	\$ 1,036,910
Loans Held-for-Sale	\$ —	\$ 27,993	\$ —	\$ 27,993
Derivative Assets	\$ —	\$ 9,636	\$ —	\$ 9,636
Derivative Liabilities	\$ —	\$ 10,293	\$ —	\$ 10,293

Fair Value Measurements at December 31, 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	\$ —	\$ 320,279	\$ 4,021	\$ 324,300
MBS/CMO	—	530,525	—	530,525
Total Securities	\$ —	\$ 850,804	\$ 4,021	\$ 854,825
Loans Held-for-Sale	\$ —	\$ 17,713	\$ —	\$ 17,713
Derivative Assets	\$ —	\$ 2,607	\$ —	\$ 2,607
Derivative Liabilities	\$ —	\$ 2,829	\$ —	\$ 2,829

As of September 30, 2020 and December 31, 2019, the aggregate fair value, contractual balance (including accrued interest), and gain or loss on Loans Held-for-Sale was as follows:

	September 30, 2020	December 31, 2019
Aggregate Fair Value	\$ 27,993	\$ 17,713
Contractual Balance	27,328	17,378
Gain (Loss)	665	335

The total amount of gains and losses from changes in fair value included in earnings for the three and nine months ended September 30, 2020 were \$233 and \$330, respectively. The total amount of gains and losses from changes in fair value included in earnings for the three and nine months ended September 30, 2019 were \$112 and \$339, respectively.

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NOTE 11 - Fair Value (continued)

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2020 and 2019:

	Obligations of State and Political Subdivisions	
	2020	2019
Balance of Recurring Level 3 Assets at July 1	\$ 2,495	\$ 4,506
Total Gains or Losses Included in Other Comprehensive Income	(3)	(1)
Maturities / Calls	(1,995)	(475)
Purchases	—	—
Balance of Recurring Level 3 Assets at September 30	<u>\$ 497</u>	<u>\$ 4,030</u>

	Obligations of State and Political Subdivisions	
	2020	2019
Balance of Recurring Level 3 Assets at January 1	\$ 4,021	\$ 4,991
Total Gains or Losses Included in Other Comprehensive Income	(26)	(16)
Maturities / Calls	(3,498)	(945)
Purchases	—	—
Balance of Recurring Level 3 Assets at September 30	<u>\$ 497</u>	<u>\$ 4,030</u>

Of the total gain/loss included in earnings for the three and nine months ended September 30, 2020, (\$3) and (\$26) was attributable to other changes in fair value, respectively. Of the total gain/loss included in earnings for the three and nine months ended September 30, 2019, (\$1) and (\$16) was attributable to other changes in fair value, respectively.

Assets and Liabilities Measured on a Non-Recurring Basis

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

	Fair Value Measurements at September 30, 2020 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Individually Analyzed Loans				
Commercial and Industrial Loans	\$ —	\$ —	\$ 4,778	\$ 4,778
Commercial Real Estate Loans	\$ —	\$ —	\$ 9,372	\$ 9,372
Agricultural Loans	\$ —	\$ —	\$ 550	\$ 550
Consumer Loans	\$ —	\$ —	\$ 18	\$ 18
Home Equity Loans	\$ —	\$ —	\$ 368	\$ 368
Residential Mortgage Loans	\$ —	\$ —	\$ 191	\$ 191

Fair value for collateral dependent loans, had a carrying amount of \$22,621 with a valuation allowance of \$7,344, resulting in an increase to the provision for credit losses of \$136 for the three months ended September 30, 2020 and an increase to the provision for credit losses of \$1,822 for the nine months ended September 30, 2020.

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NOTE 11 - Fair Value (continued)

As discussed in Note 2 - Recent Accounting Pronouncements, the Company adopted ASC 326 on January 1, 2020. The table below is based upon previously applicable GAAP.

	Fair Value Measurements at December 31, 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:				
Impaired Loans				
Commercial and Industrial Loans	\$ —	\$ —	\$ 2,109	\$ 2,109
Commercial Real Estate Loans	—	—	493	493

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of \$5,574 with a valuation allowance of \$2,971, resulting in a decrease to the provision for loan losses of \$1,149 for the year ended December 31, 2019.

There was no Other Real Estate carried at fair value less costs to sell at September 30, 2020. No charge to earnings was included in the three or nine months ended September 30, 2020 and 2019. There was no Other Real Estate carried at fair value less costs to sell at December 31, 2019. No charge to earnings was included in the year ended December 31, 2019.

The following tables present quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2020 and December 31, 2019:

September 30, 2020	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Individual Analyzed Loans - Commercial and Industrial Loans	\$ 4,778	Sales comparison approach	Adjustment for physical condition of comparable properties sold	30%-100% (60%)
Individual Analyzed Loans - Commercial Real Estate Loans	\$ 9,372	Sales comparison approach	Adjustment for physical condition of comparable properties sold	30%-100% (39%)
Individual Analyzed Loans - Agricultural Loans	\$ 550	Sales comparison approach	Adjustment for physical condition of comparable properties sold	30%-100% (66%)
Individual Analyzed Loans - Consumer Loans	\$ 18	Sales comparison approach	Adjustment for physical condition of comparable properties sold	24%-99% (34%)
Individual Analyzed Loans - Home Equity Loans	\$ 368	Sales comparison approach	Adjustment for physical condition of comparable properties sold	9%-9% (9%)
Individual Analyzed Loans - Residential Mortgage Loans	\$ 191	Sales comparison approach	Adjustment for physical condition of comparable properties sold	19%-93% (47%)

December 31, 2019	Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range (Weighted Average)
Impaired Loans - Commercial and Industrial Loans	\$ 2,109	Sales comparison approach	Adjustment for physical condition of comparable properties sold	29%-100% (64%)
Impaired Loans - Commercial Real Estate Loans	\$ 493	Sales comparison approach	Adjustment for physical condition of comparable properties sold	47%-91% (64%)

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NOTE 11 - Fair Value (continued)

The carrying amounts and estimated fair values of the Company's financial instruments not previously presented are provided in the tables below for the periods ending September 30, 2020 and December 31, 2019. 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 September 30, 2020 and December 31, 2019, present the fair values measured using an exit price notion.

		Fair Value Measurements at September 30, 2020 Using			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	\$ 249,693	\$ 56,706	\$ 192,987	\$ —	\$ 249,693
Interest Bearing Time Deposits with Banks	1,489	—	1,489	—	1,489
Loans, Net	3,159,082	—	—	3,175,885	3,175,885
Accrued Interest Receivable	20,452	—	5,435	15,017	20,452

Financial Liabilities:

Demand, Savings, and Money Market Deposits	(3,464,640)	(3,464,640)	—	—	(3,464,640)
Time Deposits	(515,034)	—	(514,811)	—	(514,811)
Short-term Borrowings	(72,981)	—	(72,891)	—	(72,891)
Long-term Debt	(141,563)	—	(88,629)	(55,449)	(144,078)
Accrued Interest Payable	(1,768)	—	(1,731)	(37)	(1,768)

		Fair Value Measurements at December 31, 2019 Using			
	Carrying Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Cash and Short-term Investments	\$ 103,884	\$ 59,971	\$ 43,913	\$ —	\$ 103,884
Interest Bearing Time Deposits with Banks	1,985	—	1,985	—	1,985
Loans, Net	3,058,211	—	—	3,056,521	3,056,521
Accrued Interest Receivable	18,425	—	4,400	14,025	18,425

Financial Liabilities:

Demand, Savings, and Money Market Deposits	(2,798,625)	(2,798,625)	—	—	(2,798,625)
Time Deposits	(631,396)	—	(624,666)	—	(624,666)
Short-term Borrowings	(167,736)	(128,311)	(39,425)	—	(167,736)
Long-term Debt	(181,950)	—	(127,174)	(55,234)	(182,408)
Accrued Interest Payable	(2,442)	—	(2,376)	(66)	(2,442)

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NOTE 12 - Other Comprehensive Income (Loss)

The tables below summarize the changes in accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2020 and 2019, net of tax:

September 30, 2020	Unrealized Gains and Losses on Available-for- Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at July 1, 2020	\$ 31,717	\$ (568)	\$ 31,149
Other Comprehensive Income (Loss) Before Reclassification	74	—	74
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(480)	—	(480)
Net Current Period Other Comprehensive Income (Loss)	(406)	—	(406)
Ending Balance at September 30, 2020	<u>\$ 31,311</u>	<u>\$ (568)</u>	<u>\$ 30,743</u>

September 30, 2020	Unrealized Gains and Losses on Available-for- Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at January 1, 2020	\$ 15,673	\$ (568)	\$ 15,105
Other Comprehensive Income (Loss) Before Reclassification	17,364	—	17,364
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(1,726)	—	(1,726)
Net Current Period Other Comprehensive Income (Loss)	15,638	—	15,638
Ending Balance at September 30, 2020	<u>\$ 31,311</u>	<u>\$ (568)</u>	<u>\$ 30,743</u>

September 30, 2019	Unrealized Gains and Losses on Available-for- Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at July 1, 2019	\$ 11,546	\$ (339)	\$ 11,207
Other Comprehensive Income (Loss) Before Reclassification	4,896	—	4,896
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(247)	—	(247)
Net Current Period Other Comprehensive Income (Loss)	4,649	—	4,649
Ending Balance at September 30, 2019	<u>\$ 16,195</u>	<u>\$ (339)</u>	<u>\$ 15,856</u>

September 30, 2019	Unrealized Gains and Losses on Available-for- Sale Securities	Postretirement Benefit Items	Total
Beginning Balance at January 1, 2019	\$ (6,759)	\$ (339)	\$ (7,098)
Other Comprehensive Income (Loss) Before Reclassification	23,731	—	23,731
Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)	(777)	—	(777)
Net Current Period Other Comprehensive Income (Loss)	22,954	—	22,954
Ending Balance at September 30, 2019	<u>\$ 16,195</u>	<u>\$ (339)</u>	<u>\$ 15,856</u>

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

The tables below summarize the classifications out of accumulated other comprehensive income (loss) by component for the three and nine months ended September 30, 2020 and 2019:

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	\$ 607	Net Gains on Securities
	(127)	Income Tax Expense
	<u>480</u>	Net of Tax
Total Reclassifications for the Three Months Ended September 30, 2020	<u>\$ 480</u>	
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	\$ 2,190	Net Gains on Securities
	(464)	Income Tax Expense
	<u>1,726</u>	Net of Tax
Total Reclassifications for the Nine Months Ended September 30, 2020	<u>\$ 1,726</u>	
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	\$ 313	Net Gains on Securities
	(66)	Income Tax Expense
	<u>247</u>	Net of Tax
Total Reclassifications for the Three Months Ended September 30, 2019	<u>\$ 247</u>	
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	\$ 984	Net Gains on Securities
	(207)	Income Tax Expense
	<u>777</u>	Net of Tax
Total Reclassifications for the Nine Months Ended September 30, 2019	<u>\$ 777</u>	

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NOTE 13 - Revenue Recognition

The following tables present non-interest income, segregated by revenue streams in-scope and out-of-scope of FASB ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), for the three and nine months ended September 30, 2020 and 2019. 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.

Three Months Ended		
September 30,		
Non-interest Income	2020	2019
In-Scope of Topic 606:		
Trust and Investment Product Fees	\$ 1,957	\$ 1,885
Service Charges on Deposit Accounts	1,773	2,395
Insurance Revenues	1,989	1,883
Interchange Fee Income	2,795	2,538
Other Operating Income	653	590
Non-interest Income (in-scope of Topic 606)	9,167	9,291
Non-interest Income (out-of-scope of Topic 606)	4,112	2,765
Total Non-interest Income	<u>\$ 13,279</u>	<u>\$ 12,056</u>

Nine Months Ended		
September 30,		
Non-interest Income	2020	2019
In-Scope of Topic 606:		
Trust and Investment Product Fees	\$ 5,855	\$ 5,365
Service Charges on Deposit Accounts	5,375	6,319
Insurance Revenues	7,048	7,017
Interchange Fee Income	7,753	6,965
Other Operating Income	1,727	1,520
Non-interest Income (in-scope of Topic 606)	27,758	27,186
Non-interest Income (out-of-scope of Topic 606)	12,025	7,037
Total Non-interest Income	<u>\$ 39,783</u>	<u>\$ 34,223</u>

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

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NOTE 13 - Revenue Recognition (continued)

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.

NOTE 14 – Leases

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. 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.

The components of lease expense for the three months ended September 30, were as follows:

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019
Finance Lease Cost:		
Amortization of Right-of -Use Assets	\$ 52	\$ 83
Interest on Lease Liabilities	91	188
Operating Lease Cost	446	514
Short-term Lease Cost	—	15
Total Lease Cost	<u>\$ 589</u>	<u>\$ 800</u>

The components of lease expense for the nine months ended September 30, were as follows:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Finance Lease Cost:		
Amortization of Right-of -Use Assets	\$ 157	\$ 187
Interest on Lease Liabilities	274	379
Operating Lease Cost	1,352	1,234
Short-term Lease Cost	34	45
Total Lease Cost	<u>\$ 1,817</u>	<u>\$ 1,845</u>

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NOTE 14 - Leases (continued)

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

	September 30, 2020	September 30, 2019
Weighted Average Remaining Lease Term:		
Finance Leases	11 years	12 years
Operating Leases	8 years	8 years
Weighted Average Discount Rate:		
Finance Leases	11.48 %	11.49 %
Operating Leases	3.18 %	3.39 %

Supplemental balance sheet information related to leases was as follows:

	September 30, 2020	September 30, 2019
Finance Leases		
Premises, Furniture and Equipment, Net	\$ 2,330	\$ 2,540
Other Borrowings	3,265	3,418
Operating Leases		
Operating Lease Right-of-Use Assets	\$ 8,579	\$ 9,802
Operating Lease Liabilities	8,675	9,900

Supplemental cash flow information related to leases was as follows:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash paid for amounts in the measurement of lease liabilities:		
Operating Cash Flows from Finance Leases	\$ 274	\$ 285
Operating Cash Flows from Operating Leases	1,292	1,181
Financing Cash Flows from Finance Leases	92	81

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

	September 30, 2020	
	Finance Leases	Operating Leases
Year 1	\$ 519	\$ 1,594
Year 2	519	1,385
Year 3	519	1,275
Year 4	519	1,115
Year 5	519	964
Thereafter	3,083	3,631
Total Lease Payments	5,678	9,964
Less Imputed Interest	(2,413)	(1,289)
Total	\$ 3,265	\$ 8,675

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

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

German American Bancorp, Inc. is a Nasdaq-traded (symbol: GABC) financial holding company based in Jasper, Indiana. German American, through its banking subsidiary German American Bank, operates 73 banking offices in 20 contiguous southern Indiana counties and eight Kentucky counties. The Company also owns an investment brokerage subsidiary (German American Investment Services, Inc.) and a full line property and casualty insurance agency (German American Insurance, Inc.).

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

This section presents an analysis of the consolidated financial condition of the Company as of September 30, 2020 and December 31, 2019 and the consolidated results of operations for the three and nine months ended September 30, 2020 and 2019. 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, 2019.

SIGNIFICANT BUSINESS DEVELOPMENTS RELATING TO COVID-19

Impact of COVID-19

On January 30, 2020, the World Health Organization ("WHO") announced that the outbreak of the novel coronavirus disease 2019 (COVID-19) constituted a public health emergency of international concern. On March 11, 2020, WHO declared COVID-19 to be a global pandemic and, on March 13, 2020, the President of the United States declared the COVID-19 outbreak a national emergency. The health concerns relating to the COVID-19 outbreak and related governmental actions taken to reduce the spread of the virus have significantly impacted the global economy (including the states and local economies in which we operate), disrupted supply chains, lowered equity market valuations, and created significant volatility and disruption in financial markets. The outbreak has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. Such measures have significantly contributed to rising unemployment and negatively impacted consumer and business spending. While many states have lifted quarantine and lock-down orders on a limited basis and with certain social distancing restrictions, commercial activity has not yet returned to the levels existing prior to the pandemic outbreak. As a result, the demand for the Company's products and services has been, and will continue to be, significantly impacted.

Interest Rates

On March 3, 2020, the Federal Open Market Committee reduced the target federal funds rate by 50 basis points to 1.00% to 1.25%. This rate was further reduced to a target range of 0% to 0.25% on March 16, 2020. These reductions in interest rates and other effects of the COVID-19 outbreak are likely to negatively impact the Company's net interest income and noninterest income.

The CARES Act and the Paycheck Protection Program

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law, providing an approximately \$2 trillion stimulus package that includes direct payments to individual taxpayers, economic stimulus to significantly impacted industry sectors, emergency funding for hospitals and providers, small business loans, increased unemployment benefits, and a variety of tax incentives.

For small businesses, eligible nonprofits and certain others, the CARES Act established a Paycheck Protection Program ("PPP"), which is administered by the Small Business Administration ("SBA"). On April 24, 2020, the Paycheck Protection Program and Health Care Enhancement Act was enacted. Among other things, this legislation amends the initial CARES Act program by raising the appropriation level for PPP loans from \$349 billion to \$670 billion. The PPP was further modified on June 5, 2020 with the adoption of the Paycheck Protection Program Flexibility Act (the "Flexibility Act"), which extended the

maturity date for PPP loans from two years to five years for loans disbursed on or after the date of enactment of the Flexibility Act. For PPP loans disbursed prior to such enactment, the Flexibility Act permits the borrower and lender to mutually agree to extend the term of the loan to five years. The vast majority of the Company's PPP loans have two-year maturities. PPP loans earn interest at a fixed rate of 1% and are fully guaranteed by the U.S. government. As of September 30, 2020, the Company had approximately \$351.3 million outstanding, on 3,070 PPP loan relationships, under this program. The net processing fees related to the PPP, which total approximately \$12.0 million, are being recognized over the life of the loans. As of September 30, 2020, \$9.5 million of such fees remain deferred. The Company anticipates that the majority of the PPP loans will ultimately be forgiven by the SBA in accordance with the terms of the program. As of October 31, 2020, 603 of our loans totaling \$113 million have been submitted to the SBA for forgiveness.

Paycheck Protection Program Liquidity Facility

To provide liquidity to small business lenders and the broader credit markets, to help stabilize the financial system, and to provide economic relief to small businesses nationwide, the Board of Governors of the Federal Reserve System (the "FRB") authorized each of the Federal Reserve Banks to participate in the Paycheck Protection Program Liquidity Facility (the "PPPL Facility"), pursuant to the Federal Reserve Act. Under the PPPL Facility, each of the Federal Reserve Banks will extend non-recourse loans to eligible financial institutions such as the Bank to fund loans guaranteed by the SBA under the PPP. The Bank has until December 31, 2020 to access funds under the PPPL Facility, unless otherwise further extended by the FRB and the Department of the Treasury. The Company is continuing to assess the PPPL Facility and whether it will utilize the facility as a source of liquidity for its PPP lending.

Loan Modifications and Troubled Debt Restructurings

On April 7, 2020, the FRB, the Office of the Comptroller of the Currency (the "OCC"), and the Federal Deposit Insurance Corporation (the "FDIC" and, together with the FRB and OCC, the "federal banking regulators") issued a revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions, which, among other things, encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19, and stated that institutions generally do not need to categorize COVID-19-related modifications as troubled debt restructurings and that the agencies will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as troubled debt restructurings. Similarly, under the CARES Act, provisions were included that allow for loan modifications to not be classified as TDRs if certain criteria are met.

In response to requests from borrowers who have experienced pandemic-related business or personal cash flow interruptions, and in accordance with the recently issued regulatory guidance, the Company has made short-term loan modifications involving both interest-only and full payment deferrals. As of September 30, 2020 the following active payment modifications are still in effect. These payment modifications are significantly reduced from the level of active modifications as of June 30, 2020.

Type of Loans (dollars in thousands)	Number of Loans	Outstanding Balance	% of Loan Category (Excludes PPP Loans)	
			As of 9/30/2020	As of 6/30/2020
Commercial & Industrial Loans	24	\$ 6,154	1.2 %	10.8 %
Commercial Real Estate Loans	44	82,986	5.7 %	15.3 %
Agricultural Loans	—	—	— %	0.3 %
Consumer Loans	1	3	n/m ⁽¹⁾	0.4 %
Residential Mortgage Loans	12	1,275	0.5 %	8.2 %
Total	81	\$ 90,418	3.1 %	10.4 %

⁽¹⁾ n/m = not meaningful

Lending Exposure to Potentially Impacted Industry Segments

The Company tracks lending exposure by industry classification to determine potential risk associated with industry concentrations, if any, that could lead to additional credit loss exposure. As a result of the COVID-19 pandemic, the Company has initially identified loan segments that could represent a potentially higher level of credit risk, as many of these customers may have incurred a significant negative impact to their businesses as a result of governmental stay-at-home orders and travel restrictions. At September 30, 2020, the Company had the following exposure to these potentially sensitive COVID-19 identified loan segments:

Industry Segment (dollars in thousands)	Number of Loans	Outstanding Balance	% of Total Loans (excludes PPP Loans)	% of Industry Segment Under Deferral
Lodging / Hotels	49	\$ 133,063	4.6 %	39.1 %
Student Housing	105	92,224	3.2 %	— %
Retail Shopping / Strip Centers	64	92,996	3.2 %	17.5 %
Restaurants	189	49,402	1.7 %	8.6 %

Regulatory Capital

Current Expected Credit Loss (CECL) Model. As part of the CARES Act, banking organizations are permitted to temporarily defer implementation of *Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments - Credit Losses (Topic 326)*. As discussed under Note 2 (Recent Accounting Pronouncement) in the Notes to the Consolidated Financial Statements in Item 1 of this Report, ASU 2016-13 provides for the replacement of the incurred loss model for recording the allowance for credit losses with an expected loss model, which is referred to as the current expected credit loss (“CECL”) model. However, in an action related to the CARES Act, federal banking regulators issued, on March 27, 2020, an interim final rule that allows banking organizations to mitigate the effects of the CECL accounting standard on their regulatory capital. Banking organizations that are required under GAAP to adopt CECL, and do not elect to defer adoption under the CARES Act during 2020, can elect to mitigate the estimated cumulative regulatory capital effects of CECL for up to two years. This two-year delay is in addition to the three-year transition period that federal banking regulators had already made available. The Company has elected to adopt the option provided by the interim final rule, which will largely delay the effects of CECL on its regulatory capital through December 31, 2021. Beginning on January 1, 2022, we will be required to phase in 25% of the previously deferred estimated capital impact of CECL, with an additional 25% to be phased in at the beginning of each subsequent year until fully phased in by January 1, 2025. Under the interim final rule, the amount of adjustments to regulatory capital that can be deferred until the phase-in period includes both the initial impact of our adoption of CECL at January 1, 2020 and 25% of subsequent changes in our allowance for credit losses during each quarter of the two-year period ended December 31, 2021.

Community Bank Leverage Ratio. On April 6, 2020, federal banking regulators issued two interim final rules that make changes to the community bank leverage ratio (“CBLR”) framework and implementing certain directives of the CARES Act. Under the existing CBLR framework, which became effective as of January 1, 2020, community banks and holding companies (which would include the Bank and the Company) that satisfy certain qualifying criteria, including having less than \$10 billion in average total consolidated assets and a leverage ratio (referred to as the “community bank leverage ratio”) of greater than 9%, were eligible to opt-in to the CBLR framework. The community bank leverage ratio is the ratio of a banking organization’s Tier 1 capital to its average total consolidated assets, both as reported on the banking organization’s applicable regulatory filings. The first of the April 2020 interim final rules provides that, as of the second quarter 2020, banking organizations with leverage ratios of 8% or greater (and that meet the other existing qualifying criteria) may elect to use the CBLR framework. It also establishes a two-quarter grace period for qualifying community banking organizations whose leverage ratios fall below the 8% CBLR requirement, so long as the banking organization maintains a leverage ratio of 7% or greater. The second interim final rule provides a transition from the temporary 8% CBLR requirement to a 9% CBLR requirement. It establishes a minimum CBLR of 8% for the second through fourth quarters of 2020, 8.5% for 2021, and 9% thereafter, and maintains a two-quarter grace period for qualifying community banking organizations whose leverage ratios fall no more than 100 basis points below the applicable CBLR requirement. The federal banking regulators adopted the two interim rules as final, without any changes, on October 9, 2020. Notwithstanding these changes, the Company intends to continue with the existing layered ratio structure. Under either framework, the Company and the Bank would be considered well-capitalized under the applicable guidelines.

PPP Loans and PPPL Facility. On April 9, 2020, federal banking regulators issued an interim final rule to modify the Basel III regulatory capital rules applicable to banking organizations to allow those organizations participating in the PPP to neutralize the regulatory capital effects of participating in the program. Specifically, the agencies have clarified that banking organizations, including the Company and the Bank, are permitted to assign a zero percent risk weight to PPP loans for purposes of determining risk-weighted assets and risk-based capital ratios. Additionally, in order to facilitate use of the PPPL Facility, the agencies further clarified that, for purposes of determining leverage ratios, a banking organization is permitted to exclude from total average assets PPP loans that have been pledged as collateral for a PPPL Facility.

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, 2019.

Net income for the quarter ended September 30, 2020 totaled \$14,593,000, or \$0.55 per share, an increase of 12% on a per share basis compared with the third quarter 2019 net income of \$13,064,000, or \$0.49 per share. Net income for the nine months ended September 30, 2020 totaled \$41,320,000, or \$1.56 per share, a decline of 8% on a per share basis compared with the first nine months of 2019 net income of \$43,402,000, or \$1.70 per share.

The Company adopted ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("CECL") on January 1, 2020. As a result, the Company recognized a one-time cumulative adjustment to the allowance for credit losses of \$15.7 million. The increase was primarily related to the Company's acquired loan portfolio which totaled approximately \$851.1 million at the time of adoption.

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. As of the closing of the transaction, Citizens First had total assets of approximately \$456.0 million, total loans of approximately \$364.6 million, and total deposits of approximately \$370.8 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 credit losses, the valuation of securities available for sale, income tax expense, and the valuation of goodwill and other intangible assets.

Allowance for Credit Losses

The Company maintains an allowance for credit losses to cover the estimated expected credit losses over the expected contractual life of the loan portfolio. 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 credit 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 credit 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 individually analyzed 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, reasonable and supportable forecasts 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 credit losses deemed adequate to cover expected credit losses over the expected life of 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 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 reserves on individually analyzed 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 individually analyzed but for which the rate of loss is expected to be greater than other similar type loans, including non-performing consumer or residential real estate loans. Such allocations are based on past loss experience, reasonable and supportable forecasts and information about specific borrower situations and estimated collateral values.

General allocations are made for commercial and agricultural loans that are graded as substandard and special mention, but are not individually analyzed for specific reserves as well as 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 along with reasonable and supportable forecasts, judgmentally adjusted for economic, external and internal quantitative and qualitative 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.

The allowance for credit losses for loans represents management's estimate of all expected credit losses over the expected contractual life of the loan portfolio. Determining the appropriateness and adequacy of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio may result in significant changes in the allowance for credit losses in future periods.

Securities Valuation

Available-for-sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For available-for-sale debt securities in an unrealized loss position, the Company assesses whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for sale debt securities that do not meet the criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security and the issuer, among other factors. If this assessment indicates that a credit loss exists, the Company compares the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes. No allowance for credit losses for available-for-sale debt securities was needed at September 30, 2020. Accrued interest receivable on available-for-sale debt securities is excluded from the estimate of credit losses. As of September 30, 2020, gross unrealized gains on the securities available-for-sale portfolio totaled approximately \$40,885,000 and gross unrealized losses totaled approximately \$1,049,000 net of applicable taxes is included in other comprehensive income.

Equity securities that do not have readily determinable fair values are carried at cost, less impairment with observable price changes being recognized in earnings.

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. Goodwill is the only intangible asset with an indefinite life on the Company's balance sheet.

Based on recent economic developments related to the COVID-19 pandemic, the Company tested Goodwill for impairment as of the September 30, 2020 balance sheet date. No impairment to Goodwill was indicated based on this interim period testing.

Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. 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 September 30, 2020 totaled \$14,593,000, or \$0.55 per share, an increase of 12% on a per share basis compared with the third quarter 2019 net income of \$13,064,000, or \$0.49 per share. The improvement in the net income during the third quarter of 2020 was largely attributable to improved non-interest income and lower operating expenses partially mitigated by a higher level of provision for credit losses.

Net income for the nine months ended September 30, 2020 totaled \$41,320,000, or \$1.56 per share, a decline of 8% on a per share basis compared with the first nine months of 2019 net income of \$43,402,000, or \$1.70 per share. The decline in net income and earnings per share during the first nine months of 2020 was largely attributable to an increased level of provision for credit losses related to economic uncertainties and stress related to the COVID-19 pandemic.

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 September 30, 2020 and 2019. For tax-equivalent adjustments, an effective tax rate of 21% was used for both periods⁽¹⁾.

Average Balance Sheet (Tax-equivalent basis / dollars in thousands)						
	Three Months Ended September 30, 2020			Three Months Ended September 30, 2019		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
ASSETS						
Federal Funds Sold and Other Short-term Investments	\$ 197,203	\$ 45	0.09 %	\$ 31,230	\$ 163	2.07 %
Securities:						
Taxable	559,488	2,350	1.68 %	554,901	3,400	2.45 %
Non-taxable	461,623	4,019	3.48 %	315,468	3,072	3.90 %
Total Loans and Leases ⁽²⁾	3,260,435	36,612	4.47 %	3,076,931	41,008	5.29 %
TOTAL INTEREST EARNING ASSETS	4,478,749	43,026	3.83 %	3,978,530	47,643	4.76 %
Other Assets	399,138			392,849		
Less: Allowance for Credit Losses	(42,933)			(16,268)		
TOTAL ASSETS	\$ 4,834,954			\$ 4,355,111		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing Demand, Savings and Money Market Deposits	\$ 2,279,517	\$ 813	0.14 %	\$ 1,946,219	\$ 3,189	0.65 %
Time Deposits	540,248	1,679	1.24 %	725,347	3,210	1.75 %
FHLB Advances and Other Borrowings	212,859	1,233	2.30 %	286,587	1,934	2.68 %
TOTAL INTEREST-BEARING LIABILITIES	3,032,624	3,725	0.49 %	2,958,153	8,333	1.12 %
Demand Deposit Accounts	1,144,685			797,337		
Other Liabilities	54,490			42,174		
TOTAL LIABILITIES	4,231,799			3,797,664		
Shareholders' Equity	603,155			557,447		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,834,954			\$ 4,355,111		
COST OF FUNDS			0.33 %			0.83 %
NET INTEREST INCOME		\$ 39,301			\$ 39,310	
NET INTEREST MARGIN			3.50 %			3.93 %

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

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

During the third quarter of 2020, net interest income totaled \$38,388,000, a decline of \$190,000, or less than 1%, compared to the third quarter of 2019 net interest income of \$38,578,000.

The relative stability in net interest income during the third quarter of 2020 compared with the third quarter of 2019 was largely attributable to an increased level of average earning assets driven by participation in the PPP and a larger investment portfolio driven by significant deposit growth during the second quarter of 2020. The average balance of PPP loans during the third quarter of 2020 was \$351 million while net fees recognized through interest income on these loans totaled \$1.5 million. Also contributing to the relatively stable net interest income was a significantly reduced cost of funds and a corresponding decline in the interest cost of interest bearing liabilities.

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 3.50% for the third quarter of 2020 compared to 3.93% during the third quarter of 2019. The tax equivalent yield on earning assets was 3.83% during the quarter ended September 30, 2020 compared to 4.76% in the same period of 2019, while the cost of funds (expressed as a percentage of average earning assets) was 0.33% during the quarter ended September 30, 2020 compared to 0.83% in the same period of 2019. The decline in the tax equivalent net interest margin during the third quarter of 2020 compared with the third quarter of 2019 was attributable to lower market interest rates, excess liquidity on the balance sheet, the 1% interest rate applicable to the PPP loans and a lower level of accretion on acquired loans. Accretion of loan discounts on acquired loans contributed approximately 11 basis points to the net interest margin on an annualized basis in the third quarter of 2020 and 20 basis points in the third quarter of 2019.

The following table summarizes net interest income (on a tax-equivalent basis) for the nine months ended September 30, 2020 and 2019. For tax-equivalent adjustments, an effective tax rate of 21% was used for both periods⁽¹⁾.

Average Balance Sheet (Tax-equivalent basis / dollars in thousands)						
	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
ASSETS						
Federal Funds Sold and Other Short-term Investments	\$ 160,818	\$ 287	0.24 %	\$ 25,699	\$ 389	2.03 %
Securities:						
Taxable	548,229	8,166	1.99 %	546,319	10,554	2.58 %
Non-taxable	381,530	10,495	3.67 %	299,937	8,996	4.00 %
Total Loans and Leases ⁽²⁾	3,191,254	112,702	4.72 %	2,840,435	111,350	5.24 %
TOTAL INTEREST EARNING ASSETS	4,281,831	131,650	4.10 %	3,712,390	131,289	4.73 %
Other Assets	397,224			355,759		
Less: Allowance for Credit Losses	(37,492)			(16,265)		
TOTAL ASSETS	\$ 4,641,563			\$ 4,051,884		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing Demand, Savings and Money Market Deposits	\$ 2,164,832	\$ 5,303	0.33 %	\$ 1,825,643	\$ 8,829	0.65 %
Time Deposits	588,121	6,589	1.50 %	668,037	8,745	1.75 %
FHLB Advances and Other Borrowings	225,477	4,230	2.51 %	287,599	5,752	2.67 %
TOTAL INTEREST-BEARING LIABILITIES	2,978,430	16,122	0.72 %	2,781,279	23,326	1.12 %
Demand Deposit Accounts	1,022,884			735,097		
Other Liabilities	51,324			32,976		
TOTAL LIABILITIES	4,052,638			3,549,352		
Shareholders' Equity	588,925			502,532		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,641,563			\$ 4,051,884		
COST OF FUNDS			0.50 %			0.84 %
NET INTEREST INCOME		\$ 115,528			\$ 107,963	
NET INTEREST MARGIN			3.60 %			3.89 %

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

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

Net interest income increased \$7,293,000, or 7%, for the nine months ended September 30, 2020 compared with the same period of 2019. The increased level of net interest income during the first nine months of 2020 compared with the same period of 2019 was driven primarily by a higher level of average earning assets resulting from the acquisition of Citizens First, participation in the PPP and a larger investment portfolio driven by significant deposit growth during 2020.

The tax equivalent net interest margin was 3.60% during the first nine months of 2020 compared to 3.89% during the first nine months of 2019. The tax equivalent yield on earning assets was 4.10% during the nine months ended September 30, 2020 compared to 4.73% in the same period of 2019, while the cost of funds was 0.50% during the first nine months of 2020 compared to 0.84% in the same period of 2019.

The lower net interest margin during the nine months of 2020 compared with the first nine months of 2019 was attributable to lower market interest rates, excess liquidity on the balance sheet that resulted from significant deposit growth during the second quarter of 2020 and the 1% interest rate applicable to the PPP loans. Accretion of loan discounts on acquired loans contributed approximately 15 basis points to the net interest margin on an annualized basis in the nine months ended September 30, 2020 and 16 basis points in the same period of 2019.

Provision for Credit Losses:

The Company provides for credit losses through regular provisions to the allowance for credit losses. The provision is affected by net charge-offs on loans and changes in specific and general allocations of the allowance. During the quarter ended September 30, 2020, the provision for credit losses totaled \$4,500,000 under the CECL methodology adopted during the first quarter of 2020 compared with a \$2,800,000 provision for loan losses during the third quarter of 2019 under the incurred loss model. The provision for credit losses represented approximately 55 basis points of average loans on an annualized basis in the third quarter of 2020 compared to a provision for loan losses of 36 basis points of average loans on an annualized basis in the third quarter of 2019.

During the nine months ended September 30, 2020, the provision for credit losses totaled \$15,550,000 under the CECL methodology compared with a \$3,725,000 provision for loan losses during the same period of 2019 under the incurred loss model. The provision for credit losses represented approximately 65 basis points of average loans on an annualized basis in the first nine months of 2020 compared to a provision for loan losses of 17 basis points of average loans on an annualized basis in the same period of 2019.

The increase in the provision for credit losses during the three and nine months ended September 30, 2020 compared to the provision for loan losses during the same periods of 2019 was primarily due to the recent developments related to the COVID-19 pandemic and the resulting impact on the economic assumptions used in the Company's CECL model.

Net charge-offs totaled \$163,000 or 2 basis points on an annualized basis of average loans outstanding during the three months ended September 30, 2020, compared with \$3,170,000 or 41 basis points on an annualized basis of average loans outstanding during the same period of 2019. Net charge-offs totaled \$713,000 or 3 basis points on an annualized basis of average loans outstanding during the first nine months of 2020, compared with \$3,679,000 or 17 basis points on an annualized basis of average loans outstanding during the same period of 2019. The higher level of net charge-offs during the three and nine months ended September 30, 2019 was primarily attributable to a partial charge-off on a single adversely classified commercial lending relationship in the third quarter of 2019.

The provision for credit losses made during the three and nine months ended September 30, 2020 was made at a level deemed necessary by management to absorb estimated losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for credit losses is completed quarterly by management, the results of which are used to determine provision for credit 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 reasonable and supportable forecasts along with other qualitative and quantitative factors.

Non-interest Income:

During the quarter ended September 30, 2020, non-interest income totaled \$13,279,000, an increase of \$1,223,000, or 10%, compared with the third quarter of 2019.

Non-interest Income (dollars in thousands)	Three Months Ended September 30,		Change From Prior Period	
	2020	2019	Amount Change	Percent Change
Trust and Investment Product Fees	\$ 1,957	\$ 1,885	\$ 72	4 %
Service Charges on Deposit Accounts	1,773	2,395	(622)	(26)
Insurance Revenues	1,989	1,883	106	6
Company Owned Life Insurance	355	364	(9)	(2)
Interchange Fee Income	2,795	2,538	257	10
Other Operating Income	942	1,029	(87)	(8)
Subtotal	9,811	10,094	(283)	(3)
Net Gains on Sales of Loans	2,861	1,649	1,212	73
Net Gains on Securities	607	313	294	94
Total Non-interest Income	\$ 13,279	\$ 12,056	\$ 1,223	10

Service charges on deposit accounts declined \$622,000, or 26%, during the third quarter of 2020 compared with the third quarter of 2019. The decline during the third quarter of 2020 compared with the third quarter of 2019 was largely related to the economic impacts of the COVID-19 pandemic and resulting change in deposit customer activity.

Interchange fee income increased \$257,000, or 10%, during the quarter ended September 30, 2020 compared with the third quarter of 2019. The increased level of fees during the third quarter of 2020 compared with the third quarter of 2019 was due to increased card utilization by customers.

Net gains on sales of loans increased \$1,212,000, or 73%, during the third quarter of 2020 compared with the third quarter of 2019. The increase during the third quarter of 2020 compared with the third quarter of 2019 was generally attributable to a higher sales volume and higher pricing levels on loans sold. Loan sales totaled \$83.5 million during the third quarter of 2020, compared with \$60.4 million during the third quarter of 2019.

The Company realized \$607,000 in gains on sales of securities during the third quarter of 2020 compared with \$313,000 during the third quarter of 2019. The sales of securities in all periods were done as part of modest shifts in the allocations within the securities portfolio.

During the nine months ended September 30, 2020, non-interest income totaled \$39,783,000, an increase of \$5,560,000, or 16%, compared with the first nine months of 2019.

Non-interest Income (dollars in thousands)	Nine Months Ended September 30,		Change From Prior Period	
	2020	2019	Amount Change	Percent Change
Trust and Investment Product Fees	\$ 5,855	\$ 5,365	\$ 490	9 %
Service Charges on Deposit Accounts	5,375	6,319	(944)	(15)
Insurance Revenues	7,048	7,017	31	—
Company Owned Life Insurance	1,933	1,552	381	25
Interchange Fee Income	7,753	6,965	788	11
Other Operating Income	2,251	2,361	(110)	(5)
Subtotal	30,215	29,579	636	2
Net Gains on Sales of Loans	7,378	3,660	3,718	102
Net Gains on Securities	2,190	984	1,206	123
Total Non-interest Income	\$ 39,783	\$ 34,223	\$ 5,560	16

Trust and investment product fees increased \$490,000, or 9%, during the first nine months of 2020 compared with the first nine months of 2019. The increase was primarily attributable to fees generated from increased assets under management in the Company's wealth management group.

Service charges on deposit accounts declined \$944,000, or 15%, during the nine months ended September 30, 2020 compared with the same period of 2019. The decline during 2020 compared with 2019 was largely related to the economic impacts of the COVID-19 pandemic and resulting change in deposit customer activity, partially mitigated by the acquisition of Citizens First.

Company owned life insurance revenue increased \$381,000, or 25%, during the nine months ended September 30, 2020, compared with the first nine months of 2019. The increase was largely related to death benefits received from life insurance policies.

Interchange fees increased \$788,000, or 11%, during the nine months ended September 30, 2020 compared with the first nine months of 2019. The increase during 2020 compared with 2019 was largely attributable to the acquisition of Citizens First and increased card utilization by customers.

Net gains on sales of loans increased \$3,718,000, or 102%, during the first nine months of 2020 compared with the same period of 2019. The increase in the net gains on sales of loans during 2020 compared with 2019 was generally attributable to a higher sales volume and higher pricing levels on loans sold. Loan sales totaled \$219.4 million during the first nine months of 2020 and \$128.8 million during the same period of 2019.

The Company realized \$2,190,000 in gains on sales of securities during first nine months of 2020 compared with \$984,000 during the same period of 2019. The sales of securities in both periods were done as part of modest shifts in the allocations within the securities portfolio.

Non-interest Expense:

During the quarter ended September 30, 2020, non-interest expense totaled \$29,420,000, a decline of \$2,541,000, or 8%, compared with the third quarter of 2019. The third quarter of 2019 non-interest expense included \$2,258,000 in acquisition related expenses related to the acquisition of Citizens First Corporation on July 1, 2019.

Non-interest Expense (dollars in thousands)	Three Months Ended September 30,		Change From Prior Period	
	2020	2019	Amount Change	Percent Change
Salaries and Employee Benefits	\$ 17,409	\$ 17,579	\$ (170)	(1) %
Occupancy, Furniture and Equipment Expense	3,362	3,751	(389)	(10)
FDIC Premiums	326	—	326	n/m ⁽¹⁾
Data Processing Fees	1,693	2,860	(1,167)	(41)
Professional Fees	875	1,324	(449)	(34)
Advertising and Promotion	708	1,054	(346)	(33)
Intangible Amortization	860	1,064	(204)	(19)
Other Operating Expenses	4,187	4,329	(142)	(3)
Total Non-interest Expense	<u>\$ 29,420</u>	<u>\$ 31,961</u>	<u>\$ (2,541)</u>	(8)

⁽¹⁾ n/m = not meaningful

Salaries and benefits declined \$170,000, or 1%, during the quarter ended September 30, 2020 compared with the third quarter of 2019. The decline in salaries and benefits during the third quarter of 2020 compared with the third quarter of 2019 was primarily attributable to acquisition related expenses of \$695,000 during the third quarter of 2019.

Occupancy, furniture and equipment expense declined \$389,000, or 10%, during the third quarter of 2020 compared with the third quarter of 2019. The decline during the third quarter of 2020 compared with the third quarter of 2019 was primarily due to the consolidation of three branch office facilities during 2020 and the timing of expenses for normal repairs and maintenance across the Company's branch office network.

FDIC premiums increased \$326,000, or 100%, during the third quarter of 2020 compared with the third quarter of 2019. The increase during the third quarter of 2020 to the third quarter of 2019 was related to credits received from the FDIC during the third quarter of 2019. There were no credits received during the third quarter of 2020. The credits received were due to the reserve ratio of the deposit insurance fund exceeding the FDIC targeted levels.

Data processing fees declined \$1,167,000, or 41%, in the third quarter of 2020 compared with the the third quarter of 2019. The decline in the third quarter of 2020 compared with the third quarter of 2019 was primarily attributable to acquisition related expenses of \$999,000 during the third quarter of 2019.

Professional fees declined \$449,000, or 34%, in the third quarter of 2020 compared with the third quarter of 2019. The decline in the third quarter of 2020 compared with the third quarter of 2019 was primarily attributable to acquisition related expenses of \$401,000 during the third quarter of 2019.

Advertising and promotion expense declined \$346,000, or 33%, in the third quarter of 2020 compared with the third quarter of 2019. The decline in the third quarter of 2020 compared with the third quarter of 2019 was largely attributable to a decline in advertising expense due in part to the COVID-19 pandemic.

During the nine months ended September 30, 2020, non-interest expense totaled \$87,836,000, an increase of \$3,498,000, or 4%, compared with the first nine months of 2019. The increase in the first nine months of 2020 was largely impacted by the inclusion of operating expenses related to the acquisition of Citizens First.

Non-interest Expense (dollars in thousands)	Nine Months Ended September 30,		Change From Prior Period	
	2020	2019	Amount Change	Percent Change
Salaries and Employee Benefits	\$ 50,691	\$ 46,740	\$ 3,951	8 %
Occupancy, Furniture and Equipment Expense	10,424	10,182	242	2
FDIC Premiums	449	533	(84)	(16)
Data Processing Fees	5,142	6,246	(1,104)	(18)
Professional Fees	3,041	3,825	(784)	(20)
Advertising and Promotion	2,661	2,860	(199)	(7)
Intangible Amortization	2,729	2,709	20	1
Other Operating Expenses	12,699	11,243	1,456	13
Total Non-interest Expense	\$ 87,836	\$ 84,338	\$ 3,498	4

Salaries and benefits increased \$3,951,000, or 8%, during the nine months ended September 30, 2020 compared with the same period of 2019. The increase in salaries and benefits during the first nine months of 2020 compared with the first nine months of 2019 was largely attributable to an increased number of full-time equivalent employees due in part to the acquisition of Citizens First.

Occupancy, furniture and equipment expense increased \$242,000, or 2%, during the first nine months of 2020 compared with the same period of 2019. The increase during 2020 compared with 2019 was primarily due to operating costs related to the Citizens First acquisition.

Data processing fees declined \$1,104,000, or 18%, during the nine months ended September 30, 2020 compared with the same period of 2019. The decline in data processing fees during the first nine months of 2020 compared with 2019 was largely due to acquisition related costs during 2019 which totaled \$1,233,000.

Professional fees declined \$784,000, or 20%, during the first nine months of 2020 compared with the first nine months of 2019. The first nine months of 2019 included \$1,115,000 of professional fees related to the Citizens First acquisition which resulted in the overall decline in professional fees when comparing the nine months ended September 30, 2020 with the same period of 2019.

Other operating expenses increased \$1,456,000, or 13%, during the nine months ended September 30, 2020 compared with the same period of 2019. The increase during 2020 compared with 2019 was largely impacted by the recent acquisition activity.

Income Taxes:

The Company's effective income tax rate was 17.8% and 17.7%, respectively, during the three months ended September 30, 2020 and 2019. The Company's effective income tax rate was 16.5% during the nine months ended September 30, 2020 and 2019. 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 \$4.853 billion at September 30, 2020, representing an increase of \$455.2 million, or 14% on an annualized basis, compared with December 31, 2019. The increase in total assets during the first nine months of 2020 has been impacted by the Company's participation in the PPP and by significant growth of deposits. As of September 30, 2020 compared with December 31, 2019, federal funds sold and other short-term investments increased by \$149.1 million and the Company's securities available for sale portfolio increased by \$182.1 million. These increases were largely driven by the increased level of deposits. In addition, loans increased \$143.3 million as of the end of September 30, 2020 compared with December 31, 2019 impacted primarily by the Company's participation in the PPP.

September 30, 2020 total loans increased \$143.3 million, or 6% on an annualized basis, compared with December 31, 2019. The increase in loans during the first nine months of 2020 compared with year-end 2019 was primarily the result in the Company's participation in the PPP. Excluding the \$351.3 million in PPP loans (\$341.8 million net of deferred fees) at September 30, 2020, total loans declined by \$198.5 million, or 6% on an annualized basis, during the first nine months of 2020 compared with year-end 2019. The decline in total loans, excluding the PPP loans, was impacted by continued elevated pay-offs within the commercial real estate loan portfolio, reduced line utilization within the commercial loan portfolio partially attributable to the PPP loan originations during 2020, and continued pay-downs in the Company's residential and home equity loan portfolios related to the current interest rate environment.

End of Period Loan Balances: (dollars in thousands)	September 30, 2020	December 31, 2019	Current Period Change
Commercial and Industrial Loans and Leases	\$ 839,022	\$ 589,758	\$ 249,264
Commercial Real Estate Loans	1,453,280	1,495,862	(42,582)
Agricultural Loans	376,215	384,526	(8,311)
Home Equity and Consumer Loans	294,276	306,972	(12,696)
Residential Mortgage Loans	262,439	304,855	(42,416)
Total Loans	\$ 3,225,232	\$ 3,081,973	\$ 143,259

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

	September 30, 2020	December 31, 2019
Commercial and Industrial Loans and Leases	\$ 7,906	\$ 4,799
Commercial Real Estate Loans	28,382	4,692
Agricultural Loans	6,715	5,315
Home Equity and Consumer Loans	1,624	634
Residential Mortgage Loans	2,141	333
Unallocated	—	505
Total Allowance for Credit Losses	\$ 46,768	\$ 16,278

The Company's allowance for credit losses totaled \$46.8 million at September 30, 2020 compared to \$16.3 million at December 31, 2019. The allowance for credit losses represented 1.45% of period-end loans at September 30, 2020 compared with 0.53% of period-end loans at December 31, 2019. Total PPP loans included in the Commercial and Industrial Loan category totaled \$351.3 million at September 30, 2020. These loans are guaranteed by the SBA and have minimal impact on the allowance for credit losses.

The Company adopted ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("CECL") on January 1, 2020. As a result, the Company recognized a one-time cumulative adjustment to the allowance for credit losses of \$15.7 million. The increase was primarily related to the Company's acquired loan portfolio which totaled approximately \$851.1 million at the time of adoption. The increase included \$6.9 million in non-accretable credit marks allocated to purchased credit deteriorated loans which were grossed up between loans and the allowance for credit losses. Under the CECL model, certain acquired loans continue to carry a fair value discount as well as an allowance for credit losses. As of September 30, 2020, the Company held net discounts on acquired loans of \$8.6 million.

In addition, the allowance for credit losses increased during the nine months ended September 30, 2020, as a result of the Company recording a \$15.6 million provision for credit losses while recording net charge-offs of approximately \$713,000. The provision for credit losses was elevated in the first nine months of 2020 primarily due to the recent developments related to the COVID-19 pandemic and the resulting impact on the economic assumptions used in the CECL model.

The following is an analysis of the Company's non-performing assets at September 30, 2020 and December 31, 2019:

Non-performing Assets: (dollars in thousands)	September 30, 2020	December 31, 2019
Non-accrual Loans	\$ 22,878	\$ 13,802
Past Due Loans (90 days or more)	—	190
Total Non-performing Loans	22,878	13,992
Other Real Estate	425	425
Total Non-performing Assets	\$ 23,303	\$ 14,417
Restructured Loans	\$ 113	\$ 116
Non-performing Loans to Total Loans	0.71 %	0.45 %
Allowance for Loan Loss to Non-performing Loans	204.42 %	116.34 %

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	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
Commercial and Industrial Loans and Leases	\$ 8,519	\$ 4,940	\$ —	\$ 190
Commercial Real Estate Loans	10,282	3,433	—	—
Agricultural Loans	2,643	2,739	—	—
Home Equity Loans	200	79	—	—
Consumer Loans	171	115	—	—
Residential Mortgage Loans	1,063	2,496	—	—
Total	\$ 22,878	\$ 13,802	\$ —	\$ 190

Non-performing assets totaled \$23.3 million at September 30, 2020 compared to \$14.4 million at December 31, 2019. Non-performing assets represented 0.48% of total assets at September 30, 2020 and 0.33% at December 31, 2019. Non-performing loans totaled \$22.9 million at September 30, 2020 compared to \$14.0 million at December 31, 2019. Non-performing loans represented 0.71% of total loans at September 30, 2020 compared to 0.45% at December 31, 2019. The increase in the level of non-performing assets and non-performing loans at September 30, 2020 compared with year-end 2019 was largely attributable to the \$6.9 million gross-up of purchase credit deteriorated loans upon the adoption of the CECL standard. Also contributing to the increase in the level of non-performing assets and non-performing loans at September 30, 2020 compared with year-end 2019 was the movement of a single commercial real estate credit relationship in the lodging industry to non-accrual status during the third quarter of 2020.

September 30, 2020 total deposits increased \$549.7 million, or 21% on an annualized basis, compared to December 31, 2019. The increase in total deposits at September 30, 2020 compared with year-end 2019 was partially attributable to the Company's participation in the PPP as well as an overall inflow of customer deposits since the start of the COVID-19 pandemic.

End of Period Deposit Balances: (dollars in thousands)	September 30, 2020	December 31, 2019	Current Period Change
Non-interest-bearing Demand Deposits	\$ 1,185,814	\$ 832,985	\$ 352,829
Interest-bearing Demand, Savings, & Money Market Accounts	2,278,826	1,965,640	313,186
Time Deposits < \$100,000	272,530	314,789	(42,259)
Time Deposits of \$100,000 or more	242,504	316,607	(74,103)
Total Deposits	\$ 3,979,674	\$ 3,430,021	\$ 549,653

Capital Resources:

On January 27, 2020, the Company's Board of Directors approved a plan to repurchase up to one million shares of the Company's outstanding common stock. On a share basis, the amount of common stock subject to the repurchase plan represents approximately 4% of the Company's outstanding shares. The Company is not obligated to purchase any shares under the plan,

and the plan may be discontinued at any time. The actual timing, number and share price of shares purchased under the repurchase plan will be determined by the Company at its discretion and will depend upon such factors as the market price of the stock, general market and economic conditions and applicable legal requirements. At the time it approved the new plan, the Board also terminated a similar program that had been adopted in 2001. At the time of its termination, the Company had been authorized to purchase up to 409,184 shares of common stock under the 2001 program. The Company repurchased 4,047 shares of common stock under the 2020 repurchase plan during the third quarter of 2020 at an average price of \$26.93 per share. The Company repurchased 221,302 shares of common stock under the 2020 repurchase plan during the first nine months of 2020 at an average price of \$26.09 per share.

As of September 30, 2020, shareholders' equity increased by \$30.2 million to \$604.0 million compared with \$573.8 million at year-end 2019. The increase in shareholders' equity was in part attributable to an increase of \$15.6 million in accumulated other comprehensive income primarily related to the increase in value of the Company's available-for-sale securities portfolio. In addition, retained earnings increased \$19.5 million due to the first nine months of 2020 net income of \$41.3 million which was partially offset by the payment of \$15.1 million in shareholder dividends and a \$6.7 million charge relating to the implementation of CECL on January 1, 2020. Also impacting total shareholders' equity was the repurchase of common stock under the Company's share repurchase plan which totaled \$5.8 million during the first nine months of 2020.

Shareholders' equity represented 12.4% of total assets at September 30, 2020 and 13.0% of total assets at December 31, 2019. Shareholders' equity included \$131.8 million of goodwill and other intangible assets at September 30, 2020 compared to \$134.0 million of goodwill and other intangible assets at December 31, 2019.

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 both September 30, 2020 and December 31, 2019, the capital conservation buffer was 2.50%. At September 30, 2020, 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:

	9/30/2020 Ratio	12/31/2019 Ratio	Minimum for Capital Adequacy Purposes ⁽¹⁾	Well-Capitalized Guidelines
Total Capital (to Risk Weighted Assets)				
Consolidated	15.62 %	14.28 %	8.00 %	N/A
Bank	13.60 %	12.82 %	8.00 %	10.00 %
Tier 1 (Core) Capital (to Risk Weighted Assets)				
Consolidated	13.66 %	12.67 %	6.00 %	N/A
Bank	12.80 %	12.35 %	6.00 %	8.00 %
Common Tier 1, (CET 1) Capital Ratio (to Risk Weighted Assets)				
Consolidated	13.21 %	12.23 %	4.50 %	N/A
Bank	12.80 %	12.35 %	4.50 %	6.50 %
Tier 1 Capital (to Average Assets)				
Consolidated	10.05 %	10.53 %	4.00 %	N/A
Bank	9.42 %	10.27 %	4.00 %	5.00 %

⁽¹⁾ Excludes capital conservation buffer.

In December 2018, the federal banking regulators approved a final rule to address changes to credit loss accounting under GAAP, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard. On March 27, 2020, in an action related to the CARES Act, the federal banking regulators announced an interim final rule to delay the estimated impact on regulatory capital stemming from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). The Company is adopting the capital transition relief over the permissible five-year period.

On April 6, 2020, federal banking regulators issued two interim final rules that make changes to the community bank leverage ratio ("CBLR") framework and implementing certain directives of the CARES Act. Under the existing CBLR framework, which became effective as of January 1, 2020, community banks and holding companies (which would include the Bank and the Company) that satisfy certain qualifying criteria, including having less than \$10 billion in average total consolidated assets and a leverage ratio (referred to as the "community bank leverage ratio") of greater than 9%, were eligible to opt-in to the CBLR framework. The first of the April 2020 interim final rules provides that, as of the second quarter 2020, banking organizations with leverage ratios of 8% or greater (and that meet the other existing qualifying criteria) may elect to use the CBLR framework. It also establishes a two-quarter grace period for qualifying community banking organizations whose leverage ratios fall below the 8% CBLR requirement, so long as the banking organization maintains a leverage ratio of 7% or greater. The second interim final rule provides a transition from the temporary 8% CBLR requirement to a 9% CBLR requirement. It establishes a minimum CBLR of 8% for the second through fourth quarters of 2020, 8.5% for 2021, and 9% thereafter, and maintains a two-quarter grace period for qualifying community banking organizations whose leverage ratios fall no more than 100 basis points below the applicable CBLR requirement. The federal banking regulators adopted the two interim rules as final, without any changes, on October 9, 2020. Notwithstanding these changes, the Company intends to continue with the existing layered ratio structure. Under either framework, the Company and the Bank would be considered well-capitalized under the applicable guidelines.

On April 9, 2020, federal banking regulators issued an interim final rule to modify the Basel III regulatory capital rules applicable to banking organizations to allow those organizations participating in the PPP to neutralize the regulatory capital effects of participating in the program. Specifically, the agencies have clarified that banking organizations, including the Company and the Bank, are permitted to assign a zero percent risk weight to PPP loans for purposes of determining risk-weighted assets and risk-based capital ratios. Additionally, in order to facilitate use of the PPPL Facility, the agencies further clarified that, for purposes of determining leverage ratios, a banking organization is permitted to exclude from total average assets PPP loans that have been pledged as collateral for a PPPL Facility.

Liquidity:

The Consolidated Statement of Cash Flows details the elements of changes in the Company's consolidated cash and cash equivalents. Total cash and cash equivalents increased \$145.8 million during the nine months ended September 30, 2020 ending at \$249.7 million. During the nine months ended September 30, 2020, operating activities resulted in net cash inflows of \$56.2 million. Investing activities resulted in net cash outflows of \$304.1 million during the nine months months ended September 30, 2020 primarily resulting from the investment of excess liquidity into the available for sale securities portfolio and loan portfolio growth resulting from the Company's participation in the PPP. Financing activities resulted in net cash inflows for the nine months ended September 30, 2020 of \$393.7 million primarily related to growth in the Company's deposit portfolio.

The parent company is a corporation separate and distinct from its bank and other subsidiaries. The Company uses funds at the parent-company level to pay dividends to its shareholders, to acquire or make other investments in other businesses or their securities or assets, to repurchase its stock from time to time, and for other general corporate purposes including debt service. The parent company does not have access at the parent-company level to the deposits and certain other sources of funds that are available to its bank subsidiary to support its operations. Instead, the parent company has historically derived most of its revenues from dividends paid to the parent company by its bank subsidiary. The Company's banking subsidiary is subject to statutory restrictions on its ability to pay dividends to the parent company. The parent company has in recent years supplemented the dividends received from its subsidiaries with borrowings. As of September 30, 2020, the parent company had approximately \$57.9 million of cash and cash equivalents available to meet its cash flow needs.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

The Company from time to time in its oral and written communications makes statements relating to its expectations regarding the future. These types of statements are considered "forward-looking statements" within the meaning of the Private Securities

Litigation Reform Act of 1995. The Company may include forward-looking statements in filings with the Securities and Exchange Commission ("SEC"), such as this Form 10-Q, in other written materials, and in oral statements made by senior management to analysts, investors, representatives of the media, and others. Such forward looking statements can include statements about the Company's net interest income or net interest margin; its adequacy of allowance for loan losses, levels of provisions for loan losses, and the quality of the Company's loans, investment securities and other assets; simulations of changes in interest rates; expected results from mergers with or acquisitions of other businesses; litigation results; tax estimates and recognition; dividend policy; parent company cash resources and cash requirements, and parent company capital resources; estimated cost savings, plans and objectives for future operations; and expectations about the Company's financial and business performance and other business matters as well as economic and market conditions and trends. They often can be identified by the use of words like "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; the severity and duration of the COVID-19 pandemic and its impact on general economic and financial market conditions and our business, results of operations, and financial condition; our participation as a lender in the PPP; 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, 2019, this Quarterly Report on Form 10-Q, and other SEC filings from time to time, when considering any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

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

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

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

Interest Rate Sensitivity as of September 30, 2020 - Net Interest Income

Changes in Rates	Net Interest Income	
	Amount	% Change
+2%	\$ 161,473	1.90 %
+1%	159,746	0.81 %
Base	158,469	—
-1%	156,284	(1.38)%
-2%	155,749	(1.72)%

The above table is a measurement of the Company's net interest income at risk, assuming a static balance sheet as of September 30, 2020 and instantaneous parallel changes in interest rates. The Company also monitors interest rate risk under other scenarios including a more gradual movement in market interest rates. This type of scenario can at times produce different modeling results in measuring interest rate risk sensitivity.

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

Interest Rate Sensitivity as of September 30, 2020 - 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%	\$ 495,769	7.40 %	10.90 %	115 b.p.
+1%	485,320	5.14 %	10.45 %	70 b.p.
Base	461,603	—	9.75 %	—
-1%	376,646	(18.40)%	7.89 %	(186) b.p.
-2%	380,907	(17.48)%	7.93 %	(182) b.p.

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

Item 4. Controls and Procedures

As of September 30, 2020, the Company carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, the Company’s principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures were, as of that date, effective in timely alerting them to material information required to be included in the Company’s periodic reports filed with the Securities and Exchange Commission. There are inherent limitations to the effectiveness of systems of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective systems of disclosure controls and procedures can provide only reasonable assurances of achieving their control objectives.

There was no change in the Company’s internal control over financial reporting that occurred during the Company’s third fiscal quarter of 2020 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 have been no material developments in any pending legal proceedings previously reported by the Company. In addition, there are no other 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

Except for the additional risk factors set forth below, 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, 2019.

The ongoing COVID-19 pandemic and measures intended to prevent its spread have adversely impacted the Company's business and financial results, and the continued impact will depend on future developments, which are highly uncertain and cannot be predicted, including the severity and duration of the pandemic and further actions taken by governmental authorities and other third parties to contain and treat the virus.

In March 2020, the World Health Organization declared novel coronavirus disease 2019 (COVID-19) as a global pandemic. Also in March 2020, the President of the United States declared the COVID-19 outbreak a national emergency. The health concerns relating to the COVID-19 outbreak and related governmental actions taken to reduce the spread of the virus have significantly impacted the global economy (including the state and local economies in which we operate), disrupted supply chains, lowered equity market valuations, and created significant volatility and disruption in financial markets. The outbreak has resulted in authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place or total lock-down orders and business limitations and shutdowns. Such measures have significantly contributed to rising unemployment and negatively impacted consumer and business spending. As a result, the demand for the Company's products and services has been, and will continue to be, significantly impacted. Furthermore, the pandemic has caused, and could continue to influence, the recognition of credit losses in the Company's loan portfolios and increases in the Company's allowance for credit losses as our customers are negatively impacted by the economic downturn. In addition, governmental actions have resulted in decreased interest rates and yields, which may lead to decreases in the Company's net interest income and noninterest income.

As our banking regulators have encouraged us to work prudently with borrowers who are unable to meet their contractual payment obligations due to the effects of COVID-19, the Bank has provided certain hardship relief primarily in the form of payment deferrals. As a result, the Bank has made short-term loan modifications for borrowers who are current and otherwise not past due. As provided under the CARES Act, these qualified loan modifications are currently exempt by law from classification as troubled debt restructures as defined by GAAP. The potential adverse impact resulting from the inability of these borrowers to repay loans on a timely basis cannot be determined at this time. However, the extent of such impact, as reflected in the Company's financial statements, may be muted by these loan modifications, which could have the effect of delaying loss recognition until after any applicable deferral period.

The spread of COVID-19 has caused the Company to modify its business practices (including developing work from home and social distancing plans for our employees), and we may take further actions as may be required by government authorities or as we determine are in the best interests of our employees, customers and business partners. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus or will otherwise be satisfactory to government authorities. Furthermore, the Company's business operations have been, and may again in the future be, disrupted due to vendors and third-party service providers being unable to work or provide services effectively, including because of illness, quarantines, government actions, or other restrictions in connection with the pandemic.

The extent to which the coronavirus outbreak impacts the Company's business, results of operations and financial condition, as well as its regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, the duration and spread of the outbreak, its severity, actions taken by governmental authorities and other third parties to contain and treat the virus, and how quickly and to what extent normal economic and operating conditions can resume. Moreover, the effects of the COVID-19 pandemic may heighten many of the other risks described in the section entitled "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, and any subsequent Quarterly Report on Form 10-Q or Current Report on Form 8-K. While we do not yet know the full extent of the COVID-19 impact, the negative effects on the Company's business, results of operations and financial condition could be material.

As a participating lender in the SBA Paycheck Protection Program (“PPP”), the Company and the Bank are subject to additional risks of litigation from the Bank’s clients or other parties in connection with the Bank’s processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guaranties.

On March 27, 2020, the CARES Act was enacted, which included a \$349 billion loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses, eligible nonprofits and certain others can apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. Under the terms of the PPP, loans are to be fully guaranteed by the SBA. The Bank is participating as a lender in the PPP. Because of the short timeframe between the passing of the CARES Act and the April 3, 2020 opening of the PPP, there is some ambiguity in the laws, rules and guidance regarding the operation of the PPP, which exposes the Company to risks relating to noncompliance with the PPP. On or about April 16, 2020, the SBA notified lenders that the \$349 billion earmarked for the PPP was exhausted. Congress has approved additional funding for the PPP and the related new legislation was enacted on April 24, 2020. Since the opening of the PPP, several larger banks have been subject to litigation relating to the policies and procedures that they used in processing applications for the PPP. The Company and the Bank may be exposed to the risk of litigation, from both customers and non-customers that have approached the Bank in connection with PPP loans and its policies and procedures used in processing applications for the PPP. If any such litigation is filed against the Company or the Bank and is not resolved in a manner favorable to the Company or the Bank, it may result in significant financial liability or adversely affect the Company’s reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP-related litigation could have a material adverse impact on our business, financial condition and results of operations.

The Bank also has credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, funded, or serviced by the Bank, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, funded, or serviced by the Company, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from the Bank.

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

Issuer Purchases of Equity Securities

The following table sets forth information regarding the Company’s purchases of its common shares during each of the three months ended September 30, 2020.

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 ⁽¹⁾	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs ⁽¹⁾
July 2020	—	—	—	782,745
August 2020	—	—	—	782,745
September 2020	4,047	\$26.93	4,047	778,698
Total	4,047	\$26.93	4,047	

⁽¹⁾ On January 27, 2020, the Company announced that its Board of Directors had approved a stock repurchase program for up to 1.0 million of its outstanding common shares. The Company is not obligated to purchase any shares under the plan, and the plan may be discontinued at any time. The actual timing, number and share price of shares purchased under the repurchase plan will be determined by the Company at its discretion and will depend upon such factors as the market price of the stock, general market and economic conditions and applicable legal requirements. The Company repurchased 4,047 shares of common stock under the repurchase plan during the quarter ended September 30, 2020.

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
<u>2.1</u>	<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>
<u>3.1</u>	<u>Amended and Restated Articles of Incorporation of German American Bancorp. Inc., are incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed May 26, 2020 (SEC File No. 001-15877).</u>
<u>3.2</u>	<u>Amended and Restated Bylaws of German American Bancorp. Inc. are incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed July 1, 2020 (SEC File No. 001-15877).</u>
<u>4.1</u>	<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>
<u>4.2</u>	<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>
<u>4.3</u>	<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>
<u>4.4</u>	<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>
<u>31.1+</u>	<u>Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman of the Board and Chief Executive Officer.</u>
<u>31.2+</u>	<u>Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer.</u>
<u>32.1++</u>	<u>Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman of the Board and Chief Executive Officer.</u>
<u>32.2++</u>	<u>Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer.</u>
101.INS+	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.)
101.SCH+	Inline XBRL Taxonomy Extension Schema Document
101.CAL+	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE+	Inline XBRL Taxonomy Extension Presentation Linkbase Document
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.

+Filed with this Report (other than through incorporation by reference to other disclosures or exhibits).

++Furnished with this Report.

SIGNATURES

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

GERMAN AMERICAN BANCORP, INC.

Date: November 6, 2020

By: /s/Mark A. Schroeder

Mark A. Schroeder
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2020

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.

November 6, 2020

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.

November 6, 2020

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 September 30, 2020 (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.

November 6, 2020

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 September 30, 2020 (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.

November 6, 2020

Date

/s/ Bradley M. Rust

Bradley M. Rust

Executive Vice President and Chief Financial Officer

(principal accounting officer and principal financial officer)