

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended March 31, 2021

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 May 5, 2021, the registrant had 26,545,704 outstanding shares of Common Stock, no par value.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

Information included in or incorporated by reference in this Quarterly Report on Form 10-Q, our other filings with the Securities and Exchange Commission (the “SEC”) and our press releases or other public statements contains or may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to the discussions of our forward-looking statements and associated risks in our Annual Report on Form 10-K for the year ended December 31, 2020, 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 Rules: Regulatory capital rules agreed to by the Basel Committee on Banking Supervision, as issued by the FRB and OCC and published in the Federal Register on October 11, 2013

CAA: 2021 Consolidated Appropriations Act enacted on December 27, 2020, which included a \$900 billion COVID-19 relief package

CARES Act: Coronavirus Aid, Relief and Economic Security Act

CBLR: Community bank leverage ratio

CECL: Current expected credit losses

CET1: Common Equity Tier 1

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. Unaudited Financial Statements**

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

|                                                                                                                                                                               | March 31,<br>2021   | December 31,<br>2020 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                 |                     |                      |
| Cash and Due from Banks                                                                                                                                                       | \$ 102,758          | \$ 57,972            |
| Federal Funds Sold and Other Short-term Investments                                                                                                                           | 290,486             | 287,776              |
| Cash and Cash Equivalents                                                                                                                                                     | 393,244             | 345,748              |
| Interest-bearing Time Deposits with Banks                                                                                                                                     | 1,241               | 1,241                |
| Securities Available-for-Sale, at Fair Value (Amortized Cost \$1,367,856 for March 31, 2021; Amortized Cost \$1,172,175 for December 31 2020; No Allowance for Credit Losses) | 1,385,873           | 1,217,852            |
| Other Investments                                                                                                                                                             | 353                 | 353                  |
| Loans Held-for-Sale, at Fair Value                                                                                                                                            | 18,493              | 16,904               |
| Loans                                                                                                                                                                         | 3,120,981           | 3,091,998            |
| Less: Unearned Income                                                                                                                                                         | (3,778)             | (3,926)              |
| Allowance for Credit Losses                                                                                                                                                   | (45,099)            | (46,859)             |
| Loans, Net                                                                                                                                                                    | 3,072,104           | 3,041,213            |
| Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost                                                                                                             | 13,048              | 13,168               |
| Premises, Furniture and Equipment, Net                                                                                                                                        | 92,044              | 96,593               |
| Other Real Estate                                                                                                                                                             | 325                 | 325                  |
| Goodwill                                                                                                                                                                      | 121,956             | 121,956              |
| Intangible Assets                                                                                                                                                             | 8,130               | 8,984                |
| Company Owned Life Insurance                                                                                                                                                  | 69,606              | 69,250               |
| Accrued Interest Receivable and Other Assets                                                                                                                                  | 43,417              | 43,990               |
| <b>TOTAL ASSETS</b>                                                                                                                                                           | <b>\$ 5,219,834</b> | <b>\$ 4,977,577</b>  |
| <b>LIABILITIES</b>                                                                                                                                                            |                     |                      |
| Non-interest-bearing Demand Deposits                                                                                                                                          | \$ 1,383,888        | \$ 1,183,442         |
| Interest-bearing Demand, Savings, and Money Market Accounts                                                                                                                   | 2,548,015           | 2,428,636            |
| Time Deposits                                                                                                                                                                 | 446,770             | 494,452              |
| Total Deposits                                                                                                                                                                | 4,378,673           | 4,106,530            |
| FHLB Advances and Other Borrowings                                                                                                                                            | 173,547             | 194,529              |
| Accrued Interest Payable and Other Liabilities                                                                                                                                | 50,401              | 51,809               |
| <b>TOTAL LIABILITIES</b>                                                                                                                                                      | <b>4,602,621</b>    | <b>4,352,868</b>     |
| <b>SHAREHOLDERS' EQUITY</b>                                                                                                                                                   |                     |                      |
| Common Stock, no par value, \$1 stated value; 45,000,000 shares authorized                                                                                                    | 26,546              | 26,502               |
| Additional Paid-in Capital                                                                                                                                                    | 274,670             | 274,385              |
| Retained Earnings                                                                                                                                                             | 302,450             | 288,447              |
| Accumulated Other Comprehensive Income                                                                                                                                        | 13,547              | 35,375               |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                                                                                                                             | <b>617,213</b>      | <b>624,709</b>       |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                             | <b>\$ 5,219,834</b> | <b>\$ 4,977,577</b>  |
| End of period shares issued and outstanding                                                                                                                                   | 26,546,280          | 26,502,157           |

See accompanying notes to consolidated financial statements.

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

|                                                                 | <b>Three Months Ended<br/>March 31,</b> |                  |
|-----------------------------------------------------------------|-----------------------------------------|------------------|
|                                                                 | <b>2021</b>                             | <b>2020</b>      |
| <b>INTEREST INCOME</b>                                          |                                         |                  |
| Interest and Fees on Loans                                      | \$ 35,104                               | \$ 37,858        |
| Interest on Federal Funds Sold and Other Short-term Investments | 85                                      | 158              |
| Interest and Dividends on Securities:                           |                                         |                  |
| Taxable                                                         | 2,607                                   | 3,110            |
| Non-taxable                                                     | 3,729                                   | 2,445            |
| <b>TOTAL INTEREST INCOME</b>                                    | <b>41,525</b>                           | <b>43,571</b>    |
| <b>INTEREST EXPENSE</b>                                         |                                         |                  |
| Interest on Deposits                                            | 1,442                                   | 5,657            |
| Interest on FHLB Advances and Other Borrowings                  | 1,151                                   | 1,658            |
| <b>TOTAL INTEREST EXPENSE</b>                                   | <b>2,593</b>                            | <b>7,315</b>     |
| <b>NET INTEREST INCOME</b>                                      | <b>38,932</b>                           | <b>36,256</b>    |
| Provision for Credit Losses                                     | (1,500)                                 | 5,150            |
| <b>NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES</b>    | <b>40,432</b>                           | <b>31,106</b>    |
| <b>NON-INTEREST INCOME</b>                                      |                                         |                  |
| Trust and Investment Product Fees                               | 2,358                                   | 2,031            |
| Service Charges on Deposit Accounts                             | 1,678                                   | 2,237            |
| Insurance Revenues                                              | 3,292                                   | 3,229            |
| Company Owned Life Insurance                                    | 352                                     | 1,222            |
| Interchange Fee Income                                          | 2,830                                   | 2,482            |
| Other Operating Income                                          | 1,350                                   | 427              |
| Net Gains on Sales of Loans                                     | 2,202                                   | 1,863            |
| Net Gains on Securities                                         | 975                                     | 590              |
| <b>TOTAL NON-INTEREST INCOME</b>                                | <b>15,037</b>                           | <b>14,081</b>    |
| <b>NON-INTEREST EXPENSE</b>                                     |                                         |                  |
| Salaries and Employee Benefits                                  | 17,805                                  | 17,400           |
| Occupancy Expense                                               | 3,372                                   | 2,570            |
| Furniture and Equipment Expense                                 | 976                                     | 1,011            |
| FDIC Premiums                                                   | 334                                     | —                |
| Data Processing Fees                                            | 1,743                                   | 1,686            |
| Professional Fees                                               | 1,160                                   | 1,084            |
| Advertising and Promotion                                       | 782                                     | 1,071            |
| Intangible Amortization                                         | 760                                     | 960              |
| Other Operating Expenses                                        | 4,327                                   | 4,546            |
| <b>TOTAL NON-INTEREST EXPENSE</b>                               | <b>31,259</b>                           | <b>30,328</b>    |
| Income before Income Taxes                                      | 24,210                                  | 14,859           |
| Income Tax Expense                                              | 4,653                                   | 2,387            |
| <b>NET INCOME</b>                                               | <b>\$ 19,557</b>                        | <b>\$ 12,472</b> |
| Basic Earnings per Share                                        | \$ 0.74                                 | \$ 0.47          |
| Diluted Earnings per Share                                      | \$ 0.74                                 | \$ 0.47          |

See accompanying notes to consolidated financial statements.

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

|                                                              | <b>Three Months Ended<br/>March 31,</b> |                  |
|--------------------------------------------------------------|-----------------------------------------|------------------|
|                                                              | <b>2021</b>                             | <b>2020</b>      |
| <b>NET INCOME</b>                                            | <u>\$ 19,557</u>                        | <u>\$ 12,472</u> |
| Other Comprehensive Income (Loss):                           |                                         |                  |
| Unrealized Gains (Losses) on Securities:                     |                                         |                  |
| Unrealized Holding Gain (Loss) Arising During the Period     | (26,685)                                | 17,479           |
| Reclassification Adjustment for Gains Included in Net Income | (975)                                   | (590)            |
| Tax Effect                                                   | 5,832                                   | (3,634)          |
| Net of Tax                                                   | <u>(21,828)</u>                         | <u>13,255</u>    |
| Total Other Comprehensive Income (Loss)                      | <u>(21,828)</u>                         | <u>13,255</u>    |
| <b>COMPREHENSIVE INCOME (LOSS)</b>                           | <u>\$ (2,271)</u>                       | <u>\$ 25,727</u> |

See accompanying notes to consolidated financial statements.

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

|                                    | <b>Common Stock</b> |                  |                                       |                              |                                                              |                                       |  |
|------------------------------------|---------------------|------------------|---------------------------------------|------------------------------|--------------------------------------------------------------|---------------------------------------|--|
|                                    | <b>Shares</b>       | <b>Amount</b>    | <b>Additional<br/>Paid-in Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Total Shareholders'<br/>Equity</b> |  |
| <b>Balances, December 31, 2020</b> | 26,502,157          | \$ 26,502        | \$ 274,385                            | \$ 288,447                   | \$ 35,375                                                    | \$ 624,709                            |  |
| Net Income                         |                     |                  |                                       | 19,557                       |                                                              | 19,557                                |  |
| Other Comprehensive Income         |                     |                  |                                       |                              | (21,828)                                                     | (21,828)                              |  |
| Cash Dividends (\$0.21 per share)  |                     |                  |                                       | (5,554)                      |                                                              | (5,554)                               |  |
| Issuance of Common Stock for:      |                     |                  |                                       |                              |                                                              |                                       |  |
| Restricted Share Grants            | 44,123              | 44               | 285                                   |                              |                                                              | 329                                   |  |
| <b>Balances, March 31, 2021</b>    | <u>26,546,280</u>   | <u>\$ 26,546</u> | <u>\$ 274,670</u>                     | <u>\$ 302,450</u>            | <u>\$ 13,547</u>                                             | <u>\$ 617,213</u>                     |  |

|                                                                                                      | <b>Common Stock</b> |                  |                                       |                              |                                                              |                                       |  |
|------------------------------------------------------------------------------------------------------|---------------------|------------------|---------------------------------------|------------------------------|--------------------------------------------------------------|---------------------------------------|--|
|                                                                                                      | <b>Shares</b>       | <b>Amount</b>    | <b>Additional<br/>Paid-in Capital</b> | <b>Retained<br/>Earnings</b> | <b>Accumulated Other<br/>Comprehensive<br/>Income (Loss)</b> | <b>Total Shareholders'<br/>Equity</b> |  |
| <b>Balances, December 31, 2019</b>                                                                   | 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)                               |  |
| <b>Balance, January 1, 2020</b>                                                                      | 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)                               |  |
| <b>Balances, March 31, 2020</b>                                                                      | <u>26,540,031</u>   | <u>\$ 26,540</u> | <u>\$ 274,860</u>                     | <u>\$ 253,780</u>            | <u>\$ 28,360</u>                                             | <u>\$ 583,540</u>                     |  |

See accompanying notes to consolidated financial statements.

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

|                                                                            | <b>Three Months Ended<br/>March 31,</b> |                  |
|----------------------------------------------------------------------------|-----------------------------------------|------------------|
|                                                                            | <b>2021</b>                             | <b>2020</b>      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |                                         |                  |
| Net Income                                                                 | \$ 19,557                               | \$ 12,472        |
| Adjustments to Reconcile Net Income to Net Cash from Operating Activities: |                                         |                  |
| Net Amortization on Securities                                             | 1,553                                   | 1,121            |
| Depreciation and Amortization                                              | 2,327                                   | 2,341            |
| Loans Originated for Sale                                                  | (70,550)                                | (54,906)         |
| Proceeds from Sales of Loans Held-for-Sale                                 | 71,465                                  | 58,459           |
| Provision for Credit Losses                                                | (1,500)                                 | 5,150            |
| Gain on Sale of Loans, net                                                 | (2,202)                                 | (1,863)          |
| Gain on Securities, net                                                    | (975)                                   | (590)            |
| Loss on Disposition and Donation of Premises and Equipment                 | 479                                     | 27               |
| Increase in Cash Surrender Value of Company Owned Life Insurance           | (356)                                   | (373)            |
| Equity Based Compensation                                                  | 329                                     | 270              |
| Change in Assets and Liabilities:                                          |                                         |                  |
| Interest Receivable and Other Assets                                       | 711                                     | (6,438)          |
| Interest Payable and Other Liabilities                                     | 5,852                                   | 8,271            |
| <b>Net Cash from Operating Activities</b>                                  | <b>26,690</b>                           | <b>23,941</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                |                                         |                  |
| Proceeds from Maturities of Securities Available-for-Sale                  | 57,093                                  | 31,698           |
| Proceeds from Sales of Securities Available-for-Sale                       | 51,370                                  | 10,989           |
| Purchase of Securities Available-for-Sale                                  | (304,722)                               | (47,292)         |
| Proceeds from Redemption of Federal Home Loan Bank Stock                   | 120                                     | —                |
| Loans Made to Customers, net of Payments Received                          | (29,391)                                | 69,603           |
| Property and Equipment Expenditures                                        | (835)                                   | (1,166)          |
| Proceeds from Sale of Land and Building                                    | 1,614                                   | 85               |
| Proceeds from Life Insurance                                               | —                                       | 1,082            |
| <b>Net Cash from Investing Activities</b>                                  | <b>(224,751)</b>                        | <b>64,999</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                |                                         |                  |
| Change in Deposits                                                         | 272,173                                 | 48,658           |
| Change in Short-term Borrowings                                            | (13,041)                                | (134,214)        |
| Repayments of Long-term Debt                                               | (8,021)                                 | (7,568)          |
| Issuance (Repurchase) of Common Stock                                      | —                                       | (4,495)          |
| Dividends Paid                                                             | (5,554)                                 | (5,065)          |
| <b>Net Cash from Financing Activities</b>                                  | <b>245,557</b>                          | <b>(102,684)</b> |
| <b>Net Change in Cash and Cash Equivalents</b>                             | <b>47,496</b>                           | <b>(13,744)</b>  |
| Cash and Cash Equivalents at Beginning of Year                             | 345,748                                 | 103,884          |
| Cash and Cash Equivalents at End of Period                                 | <u>\$ 393,244</u>                       | <u>\$ 90,140</u> |
| <b>Cash Paid During the Period for</b>                                     |                                         |                  |
| Interest                                                                   | \$ 2,391                                | \$ 6,929         |
| Income Taxes                                                               | (246)                                   | (45)             |
| <b>Supplemental Non Cash Disclosures</b>                                   |                                         |                  |
| Loans Transferred to Other Real Estate                                     | \$ —                                    | \$ 200           |
| Reclassification of Land and Buildings to Other Assets                     | 366                                     | —                |

See accompanying notes to consolidated financial statements.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2021**  
**(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, 2020. 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**

The novel coronavirus disease 2019 (COVID-19) pandemic continued to impact our operations during the quarter ended March 31, 2021. While uncertainty remains as to the future effects of the pandemic, an improving business climate, supported by unprecedented fiscal stimulus, an accommodative Federal Reserve, and accelerating COVID-19 vaccination rates, has helped to mitigate the negative impacts of the pandemic on our financial condition and results of operations, despite the challenges presented by very low interest rates, muted loan growth, and excess liquidity.

**NOTE 2 - Recent Accounting Pronouncements**

**Loan Modifications and Troubled Debt Restructurings 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 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. This TDR exemption, which was set to expire on December 31, 2020, was extended under the CAA to the earlier of (i) 60 days after the national emergency concerning the COVID-19 outbreak terminates, and (ii) January 1, 2022.

**Adopted Accounting Guidance in 2020**

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 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

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**NOTE 2 - Recent Accounting Pronouncements (continued)**

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>                      |

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, which was finalized effective September 30, 2020, 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 has elected to adopt the five-year transition option. This election of the transition option is applicable only to

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regulatory capital computations under federal banking regulations and does not otherwise impact the financial statements prepared in accordance with GAAP.

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 \$13,141 at March 31, 2021 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.

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.

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**NOTE 2 - Recent Accounting Pronouncements (continued)**

**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 rate specified within the restructuring. See "Loan Modifications and Troubled Debt Restructurings 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.

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**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:

|                                             | <b>Three Months Ended<br/>March 31,</b> |             |
|---------------------------------------------|-----------------------------------------|-------------|
|                                             | <b>2021</b>                             | <b>2020</b> |
| Basic Earnings per Share:                   |                                         |             |
| Net Income                                  | \$ 19,557                               | \$ 12,472   |
| Weighted Average Shares Outstanding         | 26,510,001                              | 26,663,604  |
| Basic Earnings per Share                    | \$ 0.74                                 | \$ 0.47     |
| Diluted Earnings per Share:                 |                                         |             |
| Net Income                                  | \$ 19,557                               | \$ 12,472   |
| Weighted Average Shares Outstanding         | 26,510,001                              | 26,663,604  |
| Potentially Dilutive Shares, Net            | —                                       | —           |
| Diluted Weighted Average Shares Outstanding | 26,510,001                              | 26,663,604  |
| Diluted Earnings per Share                  | \$ 0.74                                 | \$ 0.47     |

For the three months ended March 31, 2021 and 2020, 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:

| <b>Securities Available-for-Sale:</b>           | <b>Amortized Cost</b> | <b>Gross Unrealized Gains</b> | <b>Gross Unrealized Losses</b> | <b>Allowance for Credit Losses</b> | <b>Fair Value</b>   |
|-------------------------------------------------|-----------------------|-------------------------------|--------------------------------|------------------------------------|---------------------|
| <b>March 31, 2021</b>                           |                       |                               |                                |                                    |                     |
| Obligations of State and Political Subdivisions | \$ 601,546            | \$ 24,849                     | \$ (2,547)                     | \$ —                               | \$ 623,848          |
| MBS/CMO                                         | \$ 654,447            | \$ 7,873                      | \$ (8,871)                     | \$ —                               | \$ 653,449          |
| US Gov't Sponsored Entities & Agencies          | 111,863               | —                             | (3,287)                        | —                                  | 108,576             |
| Total                                           | <u>\$ 1,367,856</u>   | <u>\$ 32,722</u>              | <u>\$ (14,705)</u>             | <u>\$ —</u>                        | <u>\$ 1,385,873</u> |
| <b>December 31, 2020</b>                        |                       |                               |                                |                                    |                     |
| Obligations of State and Political Subdivisions | \$ 548,273            | \$ 33,077                     | \$ (103)                       | \$ —                               | \$ 581,247          |
| MBS/CMO                                         | 535,526               | 12,806                        | (25)                           | —                                  | 548,307             |
| US Gov't Sponsored Entities & Agencies          | 88,376                | 120                           | (198)                          | —                                  | 88,298              |
| Total                                           | <u>\$ 1,172,175</u>   | <u>\$ 46,003</u>              | <u>\$ (326)</u>                | <u>\$ —</u>                        | <u>\$ 1,217,852</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 US Gov't Sponsored Entities & Agencies in the above table have underlying collateral of equipment, machinery and commercial real estate.

The amortized cost and fair value of Securities at March 31, 2021 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations with or without call or prepayment penalties. Mortgage-backed Securities are not due at a single maturity date and are shown separately.

| <b>Securities Available-for-Sale:</b>  | <b>Amortized Cost</b> | <b>Fair Value</b>   |
|----------------------------------------|-----------------------|---------------------|
| Due in one year or less                | \$ 5,739              | \$ 5,770            |
| Due after one year through five years  | 17,354                | 18,027              |
| Due after five years through ten years | 66,272                | 70,572              |
| Due after ten years                    | 512,181               | 529,479             |
| MBS/CMO                                | 654,447               | 653,449             |
| US Gov't Sponsored Entities & Agencies | 111,863               | 108,576             |
| Total                                  | <u>\$ 1,367,856</u>   | <u>\$ 1,385,873</u> |

Proceeds from the Sales of Securities are summarized below:

|                             | <b>Three Months Ended<br/>March 31, 2021</b> | <b>Three Months Ended<br/>March 31, 2020</b> |
|-----------------------------|----------------------------------------------|----------------------------------------------|
| Proceeds from Sales         | \$ 51,370                                    | \$ 10,989                                    |
| Gross Gains on Sales        | 975                                          | 590                                          |
| Income Taxes on Gross Gains | 205                                          | 127                                          |

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$186,885 and \$237,506 as of March 31, 2021 and December 31, 2020, respectively.

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**NOTE 4 - Securities (continued)**

Below is a summary of securities with unrealized losses as of March 31, 2021 and December 31, 2020, presented by length of time the securities have been in a continuous unrealized loss position:

|                                                 | Less than 12 Months |                 | 12 Months or More |                 | Total      |                 |
|-------------------------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|                                                 | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value | Unrealized Loss |
| <b>March 31, 2021</b>                           |                     |                 |                   |                 |            |                 |
| Obligations of State and Political Subdivisions | \$ 155,320          | \$ (2,547)      | \$ —              | \$ —            | \$ 155,320 | \$ (2,547)      |
| MBS/CMO                                         | 405,387             | (8,871)         | —                 | —               | 405,387    | (8,871)         |
| US Gov't Sponsored Entities & Agencies          | 108,576             | (3,287)         | —                 | —               | 108,576    | (3,287)         |
| Total                                           | \$ 669,283          | \$ (14,705)     | \$ —              | \$ —            | \$ 669,283 | \$ (14,705)     |

|                                                 | Less than 12 Months |                 | 12 Months or More |                 | Total      |                 |
|-------------------------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|                                                 | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value | Unrealized Loss |
| <b>December 31, 2020</b>                        |                     |                 |                   |                 |            |                 |
| Obligations of State and Political Subdivisions | \$ 10,652           | \$ (103)        | \$ —              | \$ —            | \$ 10,652  | \$ (103)        |
| MBS/CMO                                         | 19,631              | (25)            | —                 | —               | 19,631     | (25)            |
| US Gov't Sponsored Entities & Agencies          | 59,054              | (198)           | —                 | —               | 59,054     | (198)           |
| Total                                           | \$ 89,337           | \$ (326)        | \$ —              | \$ —            | \$ 89,337  | \$ (326)        |

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 March 31, 2021. Accrued interest receivable on available-for-sale debt securities totaled \$6,937 at March 31, 2021 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 March 31, 2021 and December 31, 2020. 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 March 31, 2021, there was no additional impairment recognized through earnings.

**NOTE 5 – Derivatives**

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of these interest rate swaps and the offsetting counterparty derivative instruments were \$120,721 at March 31, 2021 and \$117,621 at December 31, 2020. 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.

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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:

|                                | March 31, 2021  |            | December 31, 2020 |            |
|--------------------------------|-----------------|------------|-------------------|------------|
|                                | Notional Amount | Fair Value | Notional Amount   | Fair Value |
| Included in Other Assets:      |                 |            |                   |            |
| Interest Rate Swaps            | \$ 120,721      | \$ 5,772   | \$ 117,621        | \$ 8,806   |
| Included in Other Liabilities: |                 |            |                   |            |
| Interest Rate Swaps            | \$ 120,721      | \$ 5,970   | \$ 117,621        | \$ 9,353   |

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

|                                    | Three Months Ended March 31, |          |
|------------------------------------|------------------------------|----------|
|                                    | 2021                         | 2020     |
| Interest Rate Swaps:               |                              |          |
| Included in Other Operating Income | \$ 485                       | \$ (280) |

**NOTE 6 – Loans**

Loans were comprised of the following classifications:

|                                 | March 31, 2021      | December 31, 2020   |
|---------------------------------|---------------------|---------------------|
| Commercial:                     |                     |                     |
| Commercial and Industrial Loans | \$ 672,300          | \$ 638,773          |
| Commercial Real Estate Loans    | 1,492,617           | 1,467,397           |
| Agricultural Loans              | 347,231             | 376,186             |
| Leases                          | 55,714              | 55,664              |
| Retail:                         |                     |                     |
| Home Equity Loans               | 212,306             | 219,348             |
| Consumer Loans                  | 60,570              | 66,717              |
| Credit Cards                    | 12,609              | 11,637              |
| Residential Mortgage Loans      | 267,634             | 256,276             |
| Subtotal                        | 3,120,981           | 3,091,998           |
| Less: Unearned Income           | (3,778)             | (3,926)             |
| Allowance for Credit Losses     | (45,099)            | (46,859)            |
| Loans, net                      | <u>\$ 3,072,104</u> | <u>\$ 3,041,213</u> |

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**NOTE 6 - Loans (continued)**

As previously disclosed, the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”) was signed into law in March 2020, providing an approximately \$2 trillion stimulus package that included 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”), a lending program administered by the Small Business Administration (“SBA”) that is intended to incentivize participants to retain their employees by providing them with loans that are fully guaranteed by the U.S. government and subject to forgiveness if program guidelines are met. The PPP was later extended and modified by the Paycheck Protection Program and Health Care Enhancement Act in April 2020 and the Paycheck Protection Program Flexibility Act in June 2020, with PPP funding under this initial round expiring on August 8, 2020.

In December 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act was signed into law as part of the Consolidated Appropriations Act, 2021 (the “CAA”). In addition to direct stimulus payments and other aid, this Act provided for a second round of PPP loans through March 31, 2021, and included the establishment of PPP second draw loans. Certain borrowers that had obtained a PPP loan in 2020 (a “first draw PPP loan”) became eligible in January 2021 to apply for a “second draw PPP loan” on generally the same terms and conditions as their first draw loans. The eligibility requirements for a second draw PPP loan, however, are much narrower than the eligibility requirements for a first draw PPP loan. More recently, the American Rescue Plan Act of 2021 was signed into law on March 11, 2021, providing additional funds for the PPP and expanding certain PPP eligibility requirements. Further, on March 30, 2021, the PPP Extension Act of 2021 (was signed into law, providing applicants two additional months (through May 31, 2021) to apply for a first draw or second draw PPP loan and giving the SBA until June 30, 2021 to process loan applications.

Having previously participated in the first round of the PPP during 2020, the Company is also participating in the second round that commenced in January 2021. Under the PPP, the Company has lent and is lending funds primarily to its existing loan and/or deposit customers, based on a pre-determined SBA-developed formula. These loans carry a customer interest rate of 1.00% plus a processing fee that varies depending on the balance of the loan at origination. The vast majority of the Company's first round PPP loans have two-year maturities. The second round PPP loans have five-year maturities.

As of March 31, 2021, the Company had \$97,331 in PPP loans outstanding with approximately \$1,232 of net fees remaining under the first round of this program and had \$145,364 in PPP loans outstanding with approximately \$7,234 of net fees remaining under the second round of this program, all of which are included in the above table in the Commercial and Industrial Loan category. As of December 31, 2020, the Company had \$186,038 in PPP loans outstanding with approximately \$4,054 of net fees remaining. Fees recognized during the first quarter of 2021 totaled \$3,008 while no fees were recognized during the first quarter of 2020. 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.

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**NOTE 6 - Loans (continued)**

**Allowance for Credit Losses for Loans**

The following tables present the activity in the allowance for credit losses by portfolio segment for the three months ended March 31, 2021 and 2020:

| <b>March 31, 2021</b>             | <b>Commercial and Industrial Loans</b> | <b>Commercial Real Estate Loans</b> | <b>Agricultural Loans</b> | <b>Leases</b> | <b>Consumer Loans</b> | <b>Home Equity Loans</b> | <b>Credit Cards</b> | <b>Residential Mortgage Loans</b> | <b>Unallocated</b> | <b>Total</b>     |
|-----------------------------------|----------------------------------------|-------------------------------------|---------------------------|---------------|-----------------------|--------------------------|---------------------|-----------------------------------|--------------------|------------------|
| Allowance for Credit Losses:      |                                        |                                     |                           |               |                       |                          |                     |                                   |                    |                  |
| Beginning balance                 | \$ 6,445                               | \$ 29,878                           | \$ 6,756                  | \$ 200        | \$ 490                | \$ 996                   | \$ 150              | \$ 1,944                          | \$ —               | \$ 46,859        |
| Provision for credit loss expense | (22)                                   | (1,334)                             | (294)                     | 1             | (18)                  | (31)                     | 59                  | 139                               | —                  | (1,500)          |
| Loans charged-off                 | (190)                                  | (9)                                 | —                         | —             | (125)                 | —                        | (47)                | (1)                               | —                  | (372)            |
| Recoveries collected              | 15                                     | 5                                   | —                         | —             | 92                    | —                        | —                   | —                                 | —                  | 112              |
| Total ending allowance balance    | <u>\$ 6,248</u>                        | <u>\$ 28,540</u>                    | <u>\$ 6,462</u>           | <u>\$ 201</u> | <u>\$ 439</u>         | <u>\$ 965</u>            | <u>\$ 162</u>       | <u>\$ 2,082</u>                   | <u>\$ —</u>        | <u>\$ 45,099</u> |

| <b>March 31, 2020</b>                                          | <b>Commercial and Industrial Loans</b> | <b>Commercial Real Estate Loans</b> | <b>Agricultural Loans</b> | <b>Leases</b> | <b>Consumer Loans</b> | <b>Home Equity Loans</b> | <b>Credit Cards</b> | <b>Residential Mortgage Loans</b> | <b>Unallocated</b> | <b>Total</b>     |
|----------------------------------------------------------------|----------------------------------------|-------------------------------------|---------------------------|---------------|-----------------------|--------------------------|---------------------|-----------------------------------|--------------------|------------------|
| 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                              | (137)                                  | 5,167                               | (396)                     | 67            | 205                   | (20)                     | 35                  | 229                               | —                  | 5,150            |
| Initial allowance on loans purchased with credit deterioration | —                                      | —                                   | —                         | —             | —                     | —                        | —                   | —                                 | —                  | —                |
| Loans charged-off                                              | (296)                                  | —                                   | —                         | —             | (237)                 | —                        | (36)                | —                                 | —                  | (569)            |
| Recoveries collected                                           | 12                                     | 3                                   | —                         | —             | 112                   | —                        | 1                   | 1                                 | —                  | 129              |
| Total ending allowance balance                                 | <u>\$ 8,814</u>                        | <u>\$ 17,310</u>                    | <u>\$ 6,485</u>           | <u>\$ 172</u> | <u>\$ 455</u>         | <u>\$ 977</u>            | <u>\$ 124</u>       | <u>\$ 2,304</u>                   | <u>\$ —</u>        | <u>\$ 36,641</u> |

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.

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.

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

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**NOTE 6 - Loans (continued)**

exist. 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.

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.

For the three months ended March 31, 2021, the allowance for credit losses decreased primarily due to a decline in the loan portfolio, excluding PPP loans, and a decline in certain adversely criticized assets. While there continues to be great uncertainty related to COVID-19 on our borrowers and communities, we have recognized improvements in employment and gross domestic product which are key indicators utilized in our forecasting for our allowance calculations. The impact of fiscal stimulus, including direct payments to individuals, ongoing increased unemployment benefits, as well as the various government-sponsored loan programs, was also considered in our qualitative adjustments. 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 tables present the amortized cost in non-accrual loans and loans past due over 89 days still accruing by class of loans as of March 31, 2021 and December 31, 2020:

| <b>March 31, 2021</b>           | <b>Non-Accrual With No Allowance for Credit Loss <sup>(1)</sup></b> | <b>Non-Accrual</b> | <b>Loans Past Due Over 89 Days Still Accruing</b> |
|---------------------------------|---------------------------------------------------------------------|--------------------|---------------------------------------------------|
| Commercial and Industrial Loans | \$ 4,061                                                            | \$ 7,312           | \$ —                                              |
| Commercial Real Estate Loans    | 3,144                                                               | 10,133             | —                                                 |
| Agricultural Loans              | 1,220                                                               | 1,841              | —                                                 |
| Leases                          | —                                                                   | —                  | —                                                 |
| Home Equity Loans               | 293                                                                 | 293                | —                                                 |
| Consumer Loans                  | 109                                                                 | 112                | —                                                 |
| Credit Cards                    | 154                                                                 | 154                | —                                                 |
| Residential Mortgage Loans      | 480                                                                 | 1,149              | —                                                 |
| <b>Total</b>                    | <b>\$ 9,461</b>                                                     | <b>\$ 20,994</b>   | <b>\$ —</b>                                       |

<sup>(1)</sup> Includes non-accrual loans with no allowance for credit loss and are also included in Non-Accrual loans totaling \$20,994.

Interest income on non-accrual loans recognized during the three months ended March 31, 2021 totaled \$2.

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**NOTE 6 - Loans (continued)**

| <b>December 31, 2020</b>        | <b>Non-Accrual With No Allowance for Credit Loss <sup>(1)</sup></b> | <b>Non-Accrual</b> | <b>Loans Past Due Over 89 Days Still Accruing</b> |
|---------------------------------|---------------------------------------------------------------------|--------------------|---------------------------------------------------|
| Commercial and Industrial Loans | \$ 4,571                                                            | \$ 8,133           | \$ —                                              |
| Commercial Real Estate Loans    | 3,152                                                               | 10,188             | —                                                 |
| Agricultural Loans              | 1,291                                                               | 1,915              | —                                                 |
| Leases                          | —                                                                   | —                  | —                                                 |
| Home Equity Loans               | 271                                                                 | 271                | —                                                 |
| Consumer Loans                  | 77                                                                  | 84                 | —                                                 |
| Credit Cards                    | 86                                                                  | 86                 | —                                                 |
| Residential Mortgage Loans      | 671                                                                 | 830                | —                                                 |
| <b>Total</b>                    | <b>\$ 10,119</b>                                                    | <b>\$ 21,507</b>   | <b>\$ —</b>                                       |

<sup>(1)</sup> Includes non-accrual loans with no allowance for credit loss and are also included in Non-Accrual loans totaling \$21,507.

Interest income on non-accrual loans recognized during the year ended December 31, 2020 totaled \$28.

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of March 31, 2021 and December 31, 2020:

| <b>March 31, 2021</b>           | <b>Real Estate</b> | <b>Equipment</b> | <b>Accounts Receivable</b> | <b>Other</b>    | <b>Total</b>     |
|---------------------------------|--------------------|------------------|----------------------------|-----------------|------------------|
| Commercial and Industrial Loans | \$ 4,350           | \$ 2,846         | \$ 639                     | \$ 30           | \$ 7,865         |
| Commercial Real Estate Loans    | 11,629             | —                | —                          | 1,472           | 13,101           |
| Agricultural Loans              | 2,980              | —                | —                          | —               | 2,980            |
| Leases                          | —                  | —                | —                          | —               | —                |
| Home Equity Loans               | 406                | —                | —                          | —               | 406              |
| Consumer Loans                  | 4                  | —                | —                          | 3               | 7                |
| Credit Cards                    | —                  | —                | —                          | —               | —                |
| Residential Mortgage Loans      | 1,320              | —                | —                          | —               | 1,320            |
| <b>Total</b>                    | <b>\$ 20,689</b>   | <b>\$ 2,846</b>  | <b>\$ 639</b>              | <b>\$ 1,505</b> | <b>\$ 25,679</b> |

| <b>December 31, 2020</b>        | <b>Real Estate</b> | <b>Equipment</b> | <b>Accounts Receivable</b> | <b>Other</b>    | <b>Total</b>     |
|---------------------------------|--------------------|------------------|----------------------------|-----------------|------------------|
| Commercial and Industrial Loans | \$ 4,943           | \$ 3,014         | \$ 669                     | \$ 154          | \$ 8,780         |
| Commercial Real Estate Loans    | 11,877             | —                | —                          | 1,530           | 13,407           |
| Agricultural Loans              | 3,064              | —                | —                          | —               | 3,064            |
| Leases                          | —                  | —                | —                          | —               | —                |
| Home Equity Loans               | 416                | —                | —                          | —               | 416              |
| Consumer Loans                  | 4                  | 4                | —                          | 3               | 11               |
| Credit Cards                    | —                  | —                | —                          | —               | —                |
| Residential Mortgage Loans      | 817                | —                | —                          | —               | 817              |
| <b>Total</b>                    | <b>\$ 21,121</b>   | <b>\$ 3,018</b>  | <b>\$ 669</b>              | <b>\$ 1,687</b> | <b>\$ 26,495</b> |

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**NOTE 6 - Loans (continued)**

The following tables present the aging of the amortized cost basis in past due loans by class of loans as of March 31, 2021 and December 31, 2020:

| <b>March 31, 2021</b>           | <b>30-59 Days<br/>Past Due</b> | <b>60-89 Days<br/>Past Due</b> | <b>Greater Than 89<br/>Days Past Due</b> | <b>Total<br/>Past Due</b> | <b>Loans Not<br/>Past Due</b> | <b>Total</b>        |
|---------------------------------|--------------------------------|--------------------------------|------------------------------------------|---------------------------|-------------------------------|---------------------|
| Commercial and Industrial Loans | \$ 729                         | \$ 384                         | \$ 1,982                                 | \$ 3,095                  | \$ 669,205                    | \$ 672,300          |
| Commercial Real Estate Loans    | 158                            | —                              | 8,526                                    | 8,684                     | 1,483,933                     | 1,492,617           |
| Agricultural Loans              | —                              | —                              | 651                                      | 651                       | 346,580                       | 347,231             |
| Leases                          | —                              | —                              | —                                        | —                         | 55,714                        | 55,714              |
| Home Equity Loans               | 327                            | 74                             | 293                                      | 694                       | 211,612                       | 212,306             |
| Consumer Loans                  | 328                            | 38                             | 94                                       | 460                       | 60,110                        | 60,570              |
| Credit Cards                    | 26                             | 5                              | 154                                      | 185                       | 12,424                        | 12,609              |
| Residential Mortgage Loans      | 3,014                          | 35                             | 918                                      | 3,967                     | 263,667                       | 267,634             |
| Total                           | <u>\$ 4,582</u>                | <u>\$ 536</u>                  | <u>\$ 12,618</u>                         | <u>\$ 17,736</u>          | <u>\$ 3,103,245</u>           | <u>\$ 3,120,981</u> |

  

| <b>December 31, 2020</b>        | <b>30-59 Days<br/>Past Due</b> | <b>60-89 Days<br/>Past Due</b> | <b>Greater Than 89<br/>Days Past Due</b> | <b>Total<br/>Past Due</b> | <b>Loans Not<br/>Past Due</b> | <b>Total</b>        |
|---------------------------------|--------------------------------|--------------------------------|------------------------------------------|---------------------------|-------------------------------|---------------------|
| Commercial and Industrial Loans | \$ 477                         | \$ 909                         | \$ 2,441                                 | \$ 3,827                  | \$ 634,946                    | \$ 638,773          |
| Commercial Real Estate Loans    | 5                              | 4,877                          | 3,682                                    | 8,564                     | 1,458,833                     | 1,467,397           |
| Agricultural Loans              | —                              | —                              | 651                                      | 651                       | 375,535                       | 376,186             |
| Leases                          | —                              | —                              | —                                        | —                         | 55,664                        | 55,664              |
| Home Equity Loans               | 672                            | 5                              | 271                                      | 948                       | 218,400                       | 219,348             |
| Consumer Loans                  | 233                            | 84                             | 65                                       | 382                       | 66,335                        | 66,717              |
| Credit Cards                    | 95                             | 80                             | 86                                       | 261                       | 11,376                        | 11,637              |
| Residential Mortgage Loans      | 3,737                          | 1,590                          | 529                                      | 5,856                     | 250,420                       | 256,276             |
| Total                           | <u>\$ 5,219</u>                | <u>\$ 7,545</u>                | <u>\$ 7,725</u>                          | <u>\$ 20,489</u>          | <u>\$ 3,071,509</u>           | <u>\$ 3,091,998</u> |

**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 March 31, 2021, the Company had troubled debt restructurings totaling \$109. The Company had no specific allocation of allowance for these loans at March 31, 2021. As of December 31, 2020, the Company had troubled debt restructurings totaling \$111. The Company had no specific allocation of allowance for these loans at December 31, 2020.

The Company had not committed to lending any additional amounts as of March 31, 2021 and December 31, 2020 to customers with outstanding loans that are classified as troubled debt restructurings.

For the three months ended March 31, 2021 and 2020, 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 months ended March 31, 2021 and 2020.

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 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. This TDR exemption, which was set to expire on December 31, 2020, was extended under the CAA to the earlier of (i) 60 days after the national emergency concerning the COVID-19 outbreak terminates, and (ii) January 1, 2022.

In response to requests from borrowers who have experienced pandemic-related business or personal cash flow interruptions, and in accordance with regulatory guidance, the Company has made short-term loan modifications involving both partial and full payment deferrals. The table below shows the payment modifications that were still in effect as of March 31, 2021, with the majority of these credit relationships making full interest payments.

| Type of Loans<br>(dollars in thousands) | Number of Loans | Outstanding Balance | % of Loan Category<br>(Excludes PPP Loans) |                    |
|-----------------------------------------|-----------------|---------------------|--------------------------------------------|--------------------|
|                                         |                 |                     | As of 3/31/2021                            | As of 12/31/2020   |
| Commercial & Industrial Loans           | 4               | \$ 4,413            | 0.9 %                                      | 0.8 %              |
| Commercial Real Estate Loans            | 15              | 36,137              | 2.4 %                                      | 3.0 %              |
| Agricultural Loans                      | —               | —                   | — %                                        | — %                |
| Consumer Loans                          | 2               | 40                  | n/m <sup>(1)</sup>                         | n/m <sup>(1)</sup> |
| Residential Mortgage Loans              | 2               | 173                 | 0.1 %                                      | 0.1 %              |
| <b>Total</b>                            | <b>23</b>       | <b>\$ 40,763</b>    | <b>1.4 %</b>                               | <b>1.7 %</b>       |

<sup>(1)</sup> n/m = not meaningful

**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.

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**NOTE 6 - Loans (continued)**

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Based on the analysis performed at March 31, 2021 and December 31, 2020, the risk category of loans by class of loans is as follows:

| Term Loans Amortized Cost Basis by Origination Year |                   |                   |                   |                   |                   |                   |                                               |                     |
|-----------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------------------------|---------------------|
| As of March 31, 2021                                | 2021              | 2020              | 2019              | 2018              | 2017              | Prior             | Revolving<br>Loans<br>Amortized<br>Cost Basis | Total               |
| Commercial and Industrial:                          |                   |                   |                   |                   |                   |                   |                                               |                     |
| Risk Rating                                         |                   |                   |                   |                   |                   |                   |                                               |                     |
| Pass                                                | \$ 176,630        | \$ 165,352        | \$ 78,654         | \$ 41,565         | \$ 28,684         | \$ 64,123         | \$ 85,946                                     | \$ 640,954          |
| Special Mention                                     | —                 | 573               | 1,011             | 1,996             | 1,585             | 2,070             | 9,313                                         | 16,548              |
| Substandard                                         | —                 | 186               | 154               | 1,876             | 1,493             | 5,156             | 5,933                                         | 14,798              |
| Doubtful                                            | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Total Commercial & Industrial Loans                 | <u>\$ 176,630</u> | <u>\$ 166,111</u> | <u>\$ 79,819</u>  | <u>\$ 45,437</u>  | <u>\$ 31,762</u>  | <u>\$ 71,349</u>  | <u>\$ 101,192</u>                             | <u>\$ 672,300</u>   |
| Commercial Real Estate:                             |                   |                   |                   |                   |                   |                   |                                               |                     |
| Risk Rating                                         |                   |                   |                   |                   |                   |                   |                                               |                     |
| Pass                                                | \$ 89,120         | \$ 301,184        | \$ 210,976        | \$ 168,708        | \$ 167,909        | \$ 436,255        | \$ 29,556                                     | \$ 1,403,708        |
| Special Mention                                     | —                 | 1,628             | 1,222             | 15,387            | 23,220            | 20,791            | —                                             | 62,248              |
| Substandard                                         | —                 | —                 | 8,365             | 1,722             | 1,657             | 14,817            | 100                                           | 26,661              |
| Doubtful                                            | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Total Commercial Real Estate Loans                  | <u>\$ 89,120</u>  | <u>\$ 302,812</u> | <u>\$ 220,563</u> | <u>\$ 185,817</u> | <u>\$ 192,786</u> | <u>\$ 471,863</u> | <u>\$ 29,656</u>                              | <u>\$ 1,492,617</u> |
| Agricultural:                                       |                   |                   |                   |                   |                   |                   |                                               |                     |
| Risk Rating                                         |                   |                   |                   |                   |                   |                   |                                               |                     |
| Pass                                                | \$ 13,084         | \$ 43,509         | \$ 24,244         | \$ 28,419         | \$ 27,630         | \$ 81,385         | \$ 55,256                                     | \$ 273,527          |
| Special Mention                                     | 636               | 13,445            | 9,806             | 3,262             | 8,765             | 13,227            | 12,900                                        | 62,041              |
| Substandard                                         | —                 | 578               | 73                | 384               | 1,156             | 9,472             | —                                             | 11,663              |
| Doubtful                                            | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Total Agricultural Loans                            | <u>\$ 13,720</u>  | <u>\$ 57,532</u>  | <u>\$ 34,123</u>  | <u>\$ 32,065</u>  | <u>\$ 37,551</u>  | <u>\$ 104,084</u> | <u>\$ 68,156</u>                              | <u>\$ 347,231</u>   |
| Leases:                                             |                   |                   |                   |                   |                   |                   |                                               |                     |
| Risk Rating                                         |                   |                   |                   |                   |                   |                   |                                               |                     |
| Pass                                                | \$ 4,996          | \$ 16,615         | \$ 16,616         | \$ 8,235          | \$ 4,643          | \$ 4,609          | \$ —                                          | \$ 55,714           |
| Special Mention                                     | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Substandard                                         | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Doubtful                                            | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Total Leases                                        | <u>\$ 4,996</u>   | <u>\$ 16,615</u>  | <u>\$ 16,616</u>  | <u>\$ 8,235</u>   | <u>\$ 4,643</u>   | <u>\$ 4,609</u>   | <u>\$ —</u>                                   | <u>\$ 55,714</u>    |

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**NOTE 6 - Loans (continued)**

| Term Loans Amortized Cost Basis by Origination Year |                   |                   |                   |                   |                   |                   |                                               |                     |
|-----------------------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------------------------------|---------------------|
| As of December 31, 2020                             | 2020              | 2019              | 2018              | 2017              | 2016              | Prior             | Revolving<br>Loans<br>Amortized<br>Cost Basis | Total               |
| Commercial and Industrial:                          |                   |                   |                   |                   |                   |                   |                                               |                     |
| Risk Rating                                         |                   |                   |                   |                   |                   |                   |                                               |                     |
| Pass                                                | \$ 260,027        | \$ 88,273         | \$ 46,681         | \$ 31,612         | \$ 21,025         | \$ 48,508         | \$ 109,228                                    | \$ 605,354          |
| Special Mention                                     | 618               | 1,102             | 2,756             | 1,739             | 206               | 1,972             | 9,948                                         | 18,341              |
| Substandard                                         | 143               | 164               | 1,283             | 1,530             | 607               | 5,416             | 5,935                                         | 15,078              |
| Doubtful                                            | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Total Commercial & Industrial Loans                 | <u>\$ 260,788</u> | <u>\$ 89,539</u>  | <u>\$ 50,720</u>  | <u>\$ 34,881</u>  | <u>\$ 21,838</u>  | <u>\$ 55,896</u>  | <u>\$ 125,111</u>                             | <u>\$ 638,773</u>   |
| Commercial Real Estate:                             |                   |                   |                   |                   |                   |                   |                                               |                     |
| Risk Rating                                         |                   |                   |                   |                   |                   |                   |                                               |                     |
| Pass                                                | \$ 296,265        | \$ 215,226        | \$ 179,129        | \$ 183,703        | \$ 171,016        | \$ 295,641        | \$ 29,634                                     | \$ 1,370,614        |
| Special Mention                                     | 883               | 9,361             | 15,232            | 23,489            | 7,578             | 20,294            | 147                                           | 76,984              |
| Substandard                                         | —                 | 1,131             | 1,735             | 1,692             | 4,292             | 10,849            | 100                                           | 19,799              |
| Doubtful                                            | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Total Commercial Real Estate Loans                  | <u>\$ 297,148</u> | <u>\$ 225,718</u> | <u>\$ 196,096</u> | <u>\$ 208,884</u> | <u>\$ 182,886</u> | <u>\$ 326,784</u> | <u>\$ 29,881</u>                              | <u>\$ 1,467,397</u> |
| Agricultural:                                       |                   |                   |                   |                   |                   |                   |                                               |                     |
| Risk Rating                                         |                   |                   |                   |                   |                   |                   |                                               |                     |
| Pass                                                | \$ 49,242         | \$ 25,449         | \$ 31,285         | \$ 32,368         | \$ 22,702         | \$ 64,890         | \$ 75,871                                     | \$ 301,807          |
| Special Mention                                     | 11,503            | 9,911             | 3,111             | 8,767             | 2,707             | 10,125            | 16,318                                        | 62,442              |
| Substandard                                         | 578               | 73                | 394               | 1,228             | 4,466             | 5,198             | —                                             | 11,937              |
| Doubtful                                            | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Total Agricultural Loans                            | <u>\$ 61,323</u>  | <u>\$ 35,433</u>  | <u>\$ 34,790</u>  | <u>\$ 42,363</u>  | <u>\$ 29,875</u>  | <u>\$ 80,213</u>  | <u>\$ 92,189</u>                              | <u>\$ 376,186</u>   |
| Leases:                                             |                   |                   |                   |                   |                   |                   |                                               |                     |
| Risk Rating                                         |                   |                   |                   |                   |                   |                   |                                               |                     |
| Pass                                                | \$ 18,258         | \$ 17,517         | \$ 9,176          | \$ 5,415          | \$ 1,605          | \$ 3,693          | \$ —                                          | \$ 55,664           |
| Special Mention                                     | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Substandard                                         | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Doubtful                                            | —                 | —                 | —                 | —                 | —                 | —                 | —                                             | —                   |
| Total Leases                                        | <u>\$ 18,258</u>  | <u>\$ 17,517</u>  | <u>\$ 9,176</u>   | <u>\$ 5,415</u>   | <u>\$ 1,605</u>   | <u>\$ 3,693</u>   | <u>\$ —</u>                                   | <u>\$ 55,664</u>    |

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**NOTE 6 - Loans (continued)**

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 tables present the amortized cost in residential, home equity and consumer loans based on payment activity.

|                                  | Term Loans Amortized Cost Basis by Origination Year |                  |                  |                  |                  |                   | Revolving<br>Loans<br>Amortized<br>Cost Basis | Total             |
|----------------------------------|-----------------------------------------------------|------------------|------------------|------------------|------------------|-------------------|-----------------------------------------------|-------------------|
| As of March 31, 2021             | 2021                                                | 2020             | 2019             | 2018             | 2017             | Prior             |                                               |                   |
| <b>Consumer:</b>                 |                                                     |                  |                  |                  |                  |                   |                                               |                   |
| Payment performance              |                                                     |                  |                  |                  |                  |                   |                                               |                   |
| Performing                       | \$ 8,563                                            | \$ 28,248        | \$ 9,349         | \$ 7,567         | \$ 1,669         | \$ 2,757          | \$ 2,305                                      | \$ 60,458         |
| Nonperforming                    | —                                                   | —                | 32               | 10               | 2                | 33                | 35                                            | 112               |
| Total Consumer Loans             | <u>\$ 8,563</u>                                     | <u>\$ 28,248</u> | <u>\$ 9,381</u>  | <u>\$ 7,577</u>  | <u>\$ 1,671</u>  | <u>\$ 2,790</u>   | <u>\$ 2,340</u>                               | <u>\$ 60,570</u>  |
| <b>Home Equity:</b>              |                                                     |                  |                  |                  |                  |                   |                                               |                   |
| Payment performance              |                                                     |                  |                  |                  |                  |                   |                                               |                   |
| Performing                       | \$ —                                                | \$ —             | \$ —             | \$ 55            | \$ 46            | \$ 540            | \$ 211,372                                    | \$ 212,013        |
| Nonperforming                    | —                                                   | —                | —                | —                | —                | —                 | 293                                           | 293               |
| Total Home Equity Loans          | <u>\$ —</u>                                         | <u>\$ —</u>      | <u>\$ —</u>      | <u>\$ 55</u>     | <u>\$ 46</u>     | <u>\$ 540</u>     | <u>\$ 211,665</u>                             | <u>\$ 212,306</u> |
| <b>Residential Mortgage:</b>     |                                                     |                  |                  |                  |                  |                   |                                               |                   |
| Payment performance              |                                                     |                  |                  |                  |                  |                   |                                               |                   |
| Performing                       | \$ 33,640                                           | \$ 45,639        | \$ 22,574        | \$ 23,597        | \$ 27,040        | \$ 113,996        | \$ —                                          | \$ 266,486        |
| Nonperforming                    | —                                                   | —                | —                | —                | —                | 1,148             | —                                             | 1,148             |
| Total Residential Mortgage Loans | <u>\$ 33,640</u>                                    | <u>\$ 45,639</u> | <u>\$ 22,574</u> | <u>\$ 23,597</u> | <u>\$ 27,040</u> | <u>\$ 115,144</u> | <u>\$ —</u>                                   | <u>\$ 267,634</u> |

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**NOTE 6 - Loans (continued)**

| As of December 31, 2020          | Term Loans Amortized Cost Basis by Origination Year |                  |                  |                  |                  |                   | Revolving Loans Amortized Cost Basis | Total             |
|----------------------------------|-----------------------------------------------------|------------------|------------------|------------------|------------------|-------------------|--------------------------------------|-------------------|
|                                  | 2020                                                | 2019             | 2018             | 2017             | 2016             | Prior             |                                      |                   |
| <b>Consumer:</b>                 |                                                     |                  |                  |                  |                  |                   |                                      |                   |
| Payment performance              |                                                     |                  |                  |                  |                  |                   |                                      |                   |
| Performing                       | \$ 33,857                                           | \$ 16,486        | \$ 8,456         | \$ 2,115         | \$ 910           | \$ 2,245          | \$ 2,563                             | \$ 66,632         |
| Nonperforming                    | —                                                   | —                | 11               | 2                | 14               | 23                | 35                                   | 85                |
| Total Consumer Loans             | <u>\$ 33,857</u>                                    | <u>\$ 16,486</u> | <u>\$ 8,467</u>  | <u>\$ 2,117</u>  | <u>\$ 924</u>    | <u>\$ 2,268</u>   | <u>\$ 2,598</u>                      | <u>\$ 66,717</u>  |
| <b>Home Equity:</b>              |                                                     |                  |                  |                  |                  |                   |                                      |                   |
| Payment performance              |                                                     |                  |                  |                  |                  |                   |                                      |                   |
| Performing                       | \$ —                                                | \$ —             | \$ 34            | \$ 46            | \$ 67            | \$ 490            | \$ 218,440                           | \$ 219,077        |
| Nonperforming                    | —                                                   | —                | —                | —                | —                | —                 | 271                                  | 271               |
| Total Home Equity Loans          | <u>\$ —</u>                                         | <u>\$ —</u>      | <u>\$ 34</u>     | <u>\$ 46</u>     | <u>\$ 67</u>     | <u>\$ 490</u>     | <u>\$ 218,711</u>                    | <u>\$ 219,348</u> |
| <b>Residential Mortgage:</b>     |                                                     |                  |                  |                  |                  |                   |                                      |                   |
| Payment performance              |                                                     |                  |                  |                  |                  |                   |                                      |                   |
| Performing                       | \$ 45,945                                           | \$ 26,536        | \$ 28,050        | \$ 28,764        | \$ 25,155        | \$ 100,998        | \$ —                                 | \$ 255,448        |
| Nonperforming                    | —                                                   | —                | —                | —                | —                | 828               | —                                    | 828               |
| Total Residential Mortgage Loans | <u>\$ 45,945</u>                                    | <u>\$ 26,536</u> | <u>\$ 28,050</u> | <u>\$ 28,764</u> | <u>\$ 25,155</u> | <u>\$ 101,826</u> | <u>\$ —</u>                          | <u>\$ 256,276</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 credit cards based on payment activity:

| Credit Cards  | March 31, 2021   | December 31, 2020 |
|---------------|------------------|-------------------|
| Performing    | \$ 12,455        | \$ 11,551         |
| Nonperforming | 154              | 86                |
| Total         | <u>\$ 12,609</u> | <u>\$ 11,637</u>  |

The following tables present loans purchased and/or sold during the year by portfolio segment:

| March 31, 2021    | Commercial and Industrial Loans | Commercial Real Estate Loans | Agricultural Loans | Leases | Consumer Loans | Home Equity Loans | Credit Cards | Residential Mortgage Loans | Total |
|-------------------|---------------------------------|------------------------------|--------------------|--------|----------------|-------------------|--------------|----------------------------|-------|
| Purchases         | \$ —                            | \$ —                         | \$ —               | \$ —   | \$ —           | \$ —              | \$ —         | \$ —                       | \$ —  |
| Sales             | —                               | —                            | —                  | —      | —              | —                 | —            | —                          | —     |
| December 31, 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             | —                               | 3,128                        | —                  | —      | —              | —                 | —            | —                          | 3,128 |

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**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 \$39,863 and \$52,904 as of March 31, 2021 and December 31, 2020, 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, brokerage and retirement planning 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 March 31, 2021. 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, brokerage and retirement planning services to its customers. The insurance segment primarily consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

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

|                                   | <b>Core<br/>Banking</b> | <b>Wealth Management<br/>Services</b> | <b>Insurance</b> | <b>Other</b> | <b>Consolidated<br/>Totals</b> |
|-----------------------------------|-------------------------|---------------------------------------|------------------|--------------|--------------------------------|
| <b>Three Months Ended</b>         |                         |                                       |                  |              |                                |
| <b>March 31, 2021</b>             |                         |                                       |                  |              |                                |
| Net Interest Income               | \$ 39,582               | \$ 8                                  | \$ 2             | \$ (660)     | \$ 38,932                      |
| Net Gains on Sales of Loans       | 2,202                   | —                                     | —                | —            | 2,202                          |
| Net Gains on Securities           | 975                     | —                                     | —                | —            | 975                            |
| Trust and Investment Product Fees | 1                       | 2,357                                 | —                | —            | 2,358                          |
| Insurance Revenues                | 2                       | 2                                     | 3,288            | —            | 3,292                          |
| <b>Noncash Items:</b>             |                         |                                       |                  |              |                                |
| Provision for Credit Losses       | (1,500)                 | —                                     | —                | —            | (1,500)                        |
| Depreciation and Amortization     | 2,217                   | 13                                    | 17               | 80           | 2,327                          |
| Income Tax Expense (Benefit)      | 4,424                   | 151                                   | 395              | (317)        | 4,653                          |
| Segment Profit (Loss)             | 18,628                  | 470                                   | 1,248            | (789)        | 19,557                         |
| Segment Assets at March 31, 2021  | 5,210,711               | 5,000                                 | 12,068           | (7,945)      | 5,219,834                      |

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

|                                     | <b>Core<br/>Banking</b> | <b>Wealth Management<br/>Services</b> | <b>Insurance</b> | <b>Other</b> | <b>Consolidated<br/>Totals</b> |
|-------------------------------------|-------------------------|---------------------------------------|------------------|--------------|--------------------------------|
| <b>Three Months Ended</b>           |                         |                                       |                  |              |                                |
| <b>March 31, 2020</b>               |                         |                                       |                  |              |                                |
| Net Interest Income                 | \$ 36,952               | \$ 4                                  | \$ 4             | \$ (704)     | \$ 36,256                      |
| Net Gains on Sales of Loans         | 1,863                   | —                                     | —                | —            | 1,863                          |
| Net Gains on Securities             | 590                     | —                                     | —                | —            | 590                            |
| Trust and Investment Product Fees   | 1                       | 2,030                                 | —                | —            | 2,031                          |
| Insurance Revenues                  | 3                       | 1                                     | 3,225            | —            | 3,229                          |
| <b>Noncash Items:</b>               |                         |                                       |                  |              |                                |
| Provision for Credit Losses         | 5,150                   | —                                     | —                | —            | 5,150                          |
| Depreciation and Amortization       | 2,243                   | 1                                     | 17               | 80           | 2,341                          |
| Income Tax Expense (Benefit)        | 2,241                   | 117                                   | 360              | (331)        | 2,387                          |
| Segment Profit (Loss)               | 11,847                  | 334                                   | 1,094            | (803)        | 12,472                         |
| Segment Assets at December 31, 2020 | 4,963,655               | 4,480                                 | 10,263           | (821)        | 4,977,577                      |

**NOTE 9 – Stock Repurchase Plan**

On January 25, 2021, 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 plan that had been adopted in January 2020. At the time of its termination, the Company had been authorized to purchase up to 778,088 shares of common stock under the 2020 repurchase plan. The Company has not repurchased any shares of common stock under the 2021 repurchase plan.

**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 have been or 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 months ended March 31, 2021 and 2020, the Company granted no options. The Company recorded no stock compensation expense applicable to options during the three months ended March 31, 2021 and 2020. 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. 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

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

cash credit entitlements, generally, vested in three annual installments of 33.33% each. 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. Beginning in 2021 for named executive officers, awards are granted in the form of 100% restricted stock grants which will vest in one-third installments on the first, second and third anniversaries of the award date. 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 does not satisfy certain meeting attendance requirements, at which time they generally vest 100 percent. For measuring compensation costs, restricted stock awards are valued based upon the market value of the common shares on the date of grant. During the three months ended March 31, 2021, the Company awarded grants of 44,123 shares of restricted stock. During the three months ended March 31, 2020, the Company granted awards of 41,752 shares of restricted stock. Total unvested restricted stock awards at March 31, 2021 and December 31, 2020 were 108,524 and 64,401, respectively.

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

|                          | <b>Three Months Ended March 31,</b> |               |
|--------------------------|-------------------------------------|---------------|
|                          | <b>2021</b>                         | <b>2020</b>   |
| Restricted Stock Expense | \$ 329                              | \$ 270        |
| Cash Entitlement Expense | 83                                  | 244           |
| Tax Effect               | (107)                               | (128)         |
| Net of Tax               | <u>\$ 305</u>                       | <u>\$ 386</u> |

Unrecognized expense associated with the restricted stock grants and cash entitlements totaled \$4,083 and \$1,665 as of March 31, 2021 and 2020, respectively.

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 on May 16, 2019, as well as an Amended and Restated 2019 Employee Stock Purchase Plan on May 21, 2020, which was amended and restated to reflect certain clarifying changes (the "2019 ESPP"). 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 March 31, 2021, the Company recorded \$10 of expense, \$7 net of tax, for the employee stock purchase plan. For the three months ended March 31, 2020, the Company recorded \$16 of expense, \$12 net of tax, for the employee stock purchase plan. There was no unrecognized compensation expense as of March 31, 2021 and 2020 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 March 31, 2021, the Company held no Level 3 securities. 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 March 31, 2021 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 | \$ —                                                           | \$ 623,848                                    | \$ —                                      | \$ 623,848   |
| MBS/CMO                                         | —                                                              | 653,449                                       | —                                         | 653,449      |
| US Gov't Sponsored Entities & Agencies          | —                                                              | 108,576                                       | —                                         | 108,576      |
| Total Securities                                | \$ —                                                           | \$ 1,385,873                                  | \$ —                                      | \$ 1,385,873 |
| Loans Held-for-Sale                             | \$ —                                                           | \$ 18,493                                     | \$ —                                      | \$ 18,493    |
| Derivative Assets                               | \$ —                                                           | \$ 5,772                                      | \$ —                                      | \$ 5,772     |
| Derivative Liabilities                          | \$ —                                                           | \$ 5,970                                      | \$ —                                      | \$ 5,970     |

|                                                 | Fair Value Measurements at December 31, 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 | \$ —                                                           | \$ 580,750                                    | \$ 497                                    | \$ 581,247   |
| MBS/CMO                                         | —                                                              | 548,307                                       | —                                         | 548,307      |
| US Gov't Sponsored Entities & Agencies          | —                                                              | 88,298                                        | —                                         | 88,298       |
| Total Securities                                | \$ —                                                           | \$ 1,217,355                                  | \$ 497                                    | \$ 1,217,852 |
| Loans Held-for-Sale                             | \$ —                                                           | \$ 16,904                                     | \$ —                                      | \$ 16,904    |
| Derivative Assets                               | \$ —                                                           | \$ 8,806                                      | \$ —                                      | \$ 8,806     |
| Derivative Liabilities                          | \$ —                                                           | \$ 9,353                                      | \$ —                                      | \$ 9,353     |

As of March 31, 2021 and December 31, 2020, the aggregate fair value, contractual balance (including accrued interest), and gain or loss on Loans Held-for-Sale was as follows:

|                      | March 31, 2021 | December 31, 2020 |
|----------------------|----------------|-------------------|
| Aggregate Fair Value | \$ 18,493      | \$ 16,904         |
| Contractual Balance  | 18,014         | 16,378            |
| Gain (Loss)          | 479            | 526               |

The total amount of gains and losses from changes in fair value included in earnings for the three months ended March 31, 2021 and 2020 were \$(47) and \$5, respectively.

**GERMAN AMERICAN BANCORP, INC.**  
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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 months ended March 31, 2021 and 2020:

|                                                     | Obligations of State and Political Subdivisions |                 |
|-----------------------------------------------------|-------------------------------------------------|-----------------|
|                                                     | 2021                                            | 2020            |
| Balance of Recurring Level 3 Assets at January 1    | \$ 497                                          | \$ 4,021        |
| Total Losses Included in Other Comprehensive Income | (2)                                             | (16)            |
| Maturities / Calls                                  | (495)                                           | (523)           |
| Purchases                                           | —                                               | —               |
| Balance of Recurring Level 3 Assets at March 31     | <u>\$ —</u>                                     | <u>\$ 3,482</u> |

Of the total gain/loss included in earnings for the three months ended March 31, 2021 and 2020, \$(2) 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 March 31, 2021 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                 | \$ —                                                           | \$ —                                          | \$ 4,662                                  | \$    | 4,662 |
| Commercial Real Estate Loans                    | \$ —                                                           | \$ —                                          | \$ 7,548                                  | \$    | 7,548 |
| Agricultural Loans                              | \$ —                                                           | \$ —                                          | \$ 548                                    | \$    | 548   |
| Consumer Loans                                  | \$ —                                                           | \$ —                                          | \$ —                                      | \$    | —     |
| Home Equity Loans                               | \$ —                                                           | \$ —                                          | \$ 369                                    | \$    | 369   |
| Residential Mortgage Loans                      | \$ —                                                           | \$ —                                          | \$ 507                                    | \$    | 507   |

| Fair Value Measurements at December 31, 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                    | \$ —                                                           | \$ —                                          | \$ 4,985                                  | \$    | 4,985 |
| Commercial Real Estate Loans                       | \$ —                                                           | \$ —                                          | \$ 8,893                                  | \$    | 8,893 |
| Agricultural Loans                                 | \$ —                                                           | \$ —                                          | \$ 551                                    | \$    | 551   |
| Consumer Loans                                     | \$ —                                                           | \$ —                                          | \$ —                                      | \$    | —     |
| Home Equity Loans                                  | \$ —                                                           | \$ —                                          | \$ 369                                    | \$    | 369   |
| Residential Mortgage Loans                         | \$ —                                                           | \$ —                                          | \$ 75                                     | \$    | 75    |

**GERMAN AMERICAN BANCORP, INC.**  
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**NOTE 11 - Fair Value (continued)**

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 March 31, 2021 and December 31, 2020:

| <b>March 31, 2021</b>                                       | <b>Fair Value</b> | <b>Valuation Technique(s)</b> | <b>Unobservable Input(s)</b>                                    | <b>Range (Weighted Average)</b> |
|-------------------------------------------------------------|-------------------|-------------------------------|-----------------------------------------------------------------|---------------------------------|
| Individual Analyzed Loans - Commercial and Industrial Loans | \$ 4,662          | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 26%-100% (60%)                  |
| Individual Analyzed Loans - Commercial Real Estate Loans    | \$ 7,548          | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 22%-100% (40%)                  |
| Individual Analyzed Loans - Agricultural Loans              | \$ 548            | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 30%-96% (64%)                   |
| Individual Analyzed Loans - Consumer Loans                  | \$ —              | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 100% (100%)                     |
| Individual Analyzed Loans - Home Equity Loans               | \$ 369            | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 23%-23% (23%)                   |
| Individual Analyzed Loans - Residential Mortgage Loans      | \$ 507            | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 7%-51% (31%)                    |

| <b>December 31, 2020</b>                                    | <b>Fair Value</b> | <b>Valuation Technique(s)</b> | <b>Unobservable Input(s)</b>                                    | <b>Range (Weighted Average)</b> |
|-------------------------------------------------------------|-------------------|-------------------------------|-----------------------------------------------------------------|---------------------------------|
| Individual Analyzed Loans - Commercial and Industrial Loans | \$ 4,985          | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 26%-100% (61%)                  |
| Individual Analyzed Loans - Commercial Real Estate Loans    | \$ 8,893          | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 30%-100% (56%)                  |
| Individual Analyzed Loans - Agricultural Loans              | \$ 551            | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 30%-96% (65%)                   |
| Individual Analyzed Loans - Consumer Loans                  | \$ —              | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 100% (100%)                     |
| Individual Analyzed Loans - Home Equity Loans               | \$ 369            | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 9%-9% (9%)                      |
| Individual Analyzed Loans - Residential Mortgage Loans      | \$ 75             | Sales comparison approach     | Adjustment for physical condition of comparable properties sold | 43%-97% (67%)                   |

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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 March 31, 2021 and December 31, 2020. 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.

|                                            | Carrying Value | Fair Value Measurements at<br>March 31, 2021 Using |            |           |             |
|--------------------------------------------|----------------|----------------------------------------------------|------------|-----------|-------------|
|                                            |                | Level 1                                            | Level 2    | Level 3   | Total       |
| Financial Assets:                          |                |                                                    |            |           |             |
| Cash and Short-term Investments            | \$ 393,244     | \$ 102,758                                         | \$ 290,486 | \$ —      | \$ 393,244  |
| Interest Bearing Time Deposits with Banks  | 1,241          | —                                                  | 1,241      | —         | 1,241       |
| Loans, Net                                 | 3,058,470      | —                                                  | —          | 3,067,070 | 3,067,070   |
| Accrued Interest Receivable                | 20,285         | —                                                  | 7,144      | 13,141    | 20,285      |
| Financial Liabilities:                     |                |                                                    |            |           |             |
| Demand, Savings, and Money Market Deposits | (3,931,903)    | (3,931,903)                                        | —          | —         | (3,931,903) |
| Time Deposits                              | (446,770)      | —                                                  | (446,842)  | —         | (446,842)   |
| Short-term Borrowings                      | (39,863)       | —                                                  | (39,863)   | —         | (39,863)    |
| Long-term Debt                             | (133,684)      | —                                                  | (79,865)   | (51,180)  | (131,045)   |
| Accrued Interest Payable                   | (1,286)        | —                                                  | (1,253)    | (33)      | (1,286)     |

|                                            |                | Fair Value Measurements at<br>December 31, 2020 Using |            |           |             |
|--------------------------------------------|----------------|-------------------------------------------------------|------------|-----------|-------------|
|                                            | Carrying Value | Level 1                                               | Level 2    | Level 3   | Total       |
| Financial Assets:                          |                |                                                       |            |           |             |
| Cash and Short-term Investments            | \$ 345,748     | \$ 57,972                                             | \$ 287,776 | \$ —      | \$ 345,748  |
| Interest Bearing Time Deposits with Banks  | 1,241          | —                                                     | 1,241      | —         | 1,241       |
| Loans, Net                                 | 3,026,340      | —                                                     | —          | 3,032,690 | 3,032,690   |
| Accrued Interest Receivable                | 20,278         | —                                                     | 6,137      | 14,141    | 20,278      |
| Financial Liabilities:                     |                |                                                       |            |           |             |
| Demand, Savings, and Money Market Deposits | (3,612,078)    | (3,612,078)                                           | —          | —         | (3,612,078) |
| Time Deposits                              | (494,452)      | —                                                     | (495,171)  | —         | (495,171)   |
| Short-term Borrowings                      | (52,905)       | —                                                     | (52,905)   | —         | (52,905)    |
| Long-term Debt                             | (141,624)      | —                                                     | (88,342)   | (54,960)  | (143,302)   |
| Accrued Interest Payable                   | (1,084)        | —                                                     | (1,049)    | (35)      | (1,084)     |

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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 months ended March 31, 2021 and 2020, net of tax:

| <b>March 31, 2021</b>                                                   | <b>Unrealized Gains and Losses on Available-for-Sale Securities</b> | <b>Postretirement Benefit Items</b> | <b>Total</b>     |
|-------------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------|------------------|
| Beginning Balance at January 1, 2021                                    | \$ 35,943                                                           | \$ (568)                            | \$ 35,375        |
| Other Comprehensive Income (Loss) Before Reclassification               | (21,058)                                                            | —                                   | (21,058)         |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | (770)                                                               | —                                   | (770)            |
| Net Current Period Other Comprehensive Income (Loss)                    | (21,828)                                                            | —                                   | (21,828)         |
| Ending Balance at March 31, 2021                                        | <u>\$ 14,115</u>                                                    | <u>\$ (568)</u>                     | <u>\$ 13,547</u> |

| <b>March 31, 2020</b>                                                   | <b>Unrealized Gains and Losses on Available-for-Sale Securities</b> | <b>Postretirement Benefit Items</b> | <b>Total</b>     |
|-------------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------|------------------|
| Beginning Balance at January 1, 2020                                    | \$ 15,673                                                           | \$ (568)                            | \$ 15,105        |
| Other Comprehensive Income (Loss) Before Reclassification               | 13,718                                                              | —                                   | 13,718           |
| Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) | (463)                                                               | —                                   | (463)            |
| Net Current Period Other Comprehensive Income (Loss)                    | 13,255                                                              | —                                   | 13,255           |
| Ending Balance at March 31, 2020                                        | <u>\$ 28,928</u>                                                    | <u>\$ (568)</u>                     | <u>\$ 28,360</u> |

The tables below summarize the classifications out of accumulated other comprehensive income (loss) by component for the three months ended March 31, 2021 and 2020:

| <b>Details about Accumulated Other Comprehensive Income (Loss) Components</b> | <b>Amount Reclassified From Accumulated Other Comprehensive Income (Loss)</b> | <b>Affected Line Item in the Statement Where Net Income is Presented</b> |
|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------|--------------------------------------------------------------------------|
| Unrealized Gains and Losses on Available-for-Sale Securities                  | \$ 975                                                                        | Net Gains on Securities                                                  |
|                                                                               | (205)                                                                         | Income Tax Expense                                                       |
|                                                                               | <u>770</u>                                                                    | <u>Net of Tax</u>                                                        |
| Total Reclassifications for the Three Months Ended March 31, 2021             | <u>\$ 770</u>                                                                 |                                                                          |

**GERMAN AMERICAN BANCORP, INC.**  
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**NOTE 12 - Other Comprehensive Income (Loss) (continued)**

| Details about Accumulated Other Comprehensive Income (Loss) Components | Amount Reclassified From Accumulated Other Comprehensive Income (Loss) | Affected Line Item in the Statement Where Net Income is Presented |
|------------------------------------------------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------|
| Unrealized Gains and Losses on Available-for-Sale Securities           | \$ 590                                                                 | Net Gains on Securities                                           |
|                                                                        | (127)                                                                  | Income Tax Expense                                                |
|                                                                        | 463                                                                    | Net of Tax                                                        |
| Total Reclassifications for the Three Months Ended March 31, 2020      | \$ 463                                                                 |                                                                   |

**NOTE 13 - Revenue Recognition**

The following table presents 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 months ended March 31, 2021 and 2020. Trust and investment product fees are included in the wealth management 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 March 31, |           |
|-------------------------------------------------|------------------------------|-----------|
|                                                 | 2021                         | 2020      |
| <b>Non-interest Income</b>                      |                              |           |
| In-Scope of Topic 606:                          |                              |           |
| Trust and Investment Product Fees               | \$ 2,358                     | \$ 2,031  |
| Service Charges on Deposit Accounts             | 1,678                        | 2,237     |
| Insurance Revenues                              | 3,292                        | 3,229     |
| Interchange Fee Income                          | 2,830                        | 2,482     |
| Other Operating Income                          | 663                          | 520       |
| Non-interest Income (in-scope of Topic 606)     | 10,821                       | 10,499    |
| Non-interest Income (out-of-scope of Topic 606) | 4,216                        | 3,582     |
| Total Non-interest Income                       | \$ 15,037                    | \$ 14,081 |

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

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

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

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

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**NOTE 13 - Revenue Recognition (continued)**

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 were as follows:

|                                      | Three Months Ended<br>March 31, 2021 | Three Months Ended<br>March 31, 2020 |
|--------------------------------------|--------------------------------------|--------------------------------------|
| Finance Lease Cost:                  |                                      |                                      |
| Amortization of Right-of -Use Assets | \$ 52                                | \$ 52                                |
| Interest on Lease Liabilities        | 88                                   | 92                                   |
| Operating Lease Cost                 | 419                                  | 453                                  |
| Short-term Lease Cost                | —                                    | 25                                   |
| Total Lease Cost                     | <u>\$ 559</u>                        | <u>\$ 622</u>                        |

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

|                                        | March 31, 2021 | March 31, 2020 |
|----------------------------------------|----------------|----------------|
| Weighted Average Remaining Lease Term: |                |                |
| Finance Leases                         | 11 years       | 12 years       |
| Operating Leases                       | 8 years        | 8 years        |
| Weighted Average Discount Rate:        |                |                |
| Finance Leases                         | 11.47 %        | 11.48 %        |
| Operating Leases                       | 3.14 %         | 3.18 %         |

**GERMAN AMERICAN BANCORP, INC.**  
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**NOTE 14 - Leases (continued)**

Supplemental balance sheet information related to leases were as follows:

|                                        | <b>March 31, 2021</b> | <b>March 31, 2020</b> |
|----------------------------------------|-----------------------|-----------------------|
| <b>Finance Leases</b>                  |                       |                       |
| Premises, Furniture and Equipment, Net | \$ 2,225              | \$ 2,435              |
| Other Borrowings                       | 3,183                 | 3,343                 |
| <b>Operating Leases</b>                |                       |                       |
| Operating Lease Right-of-Use Assets    | \$ 6,531              | \$ 9,215              |
| Operating Lease Liabilities            | 6,619                 | 9,289                 |

Supplemental cash flow information related to leases were as follows:

|                                                                | <b>Three Months Ended<br/>March 31, 2021</b> | <b>Three Months Ended<br/>March 31, 2020</b> |
|----------------------------------------------------------------|----------------------------------------------|----------------------------------------------|
| Cash paid for amounts in the measurement of lease liabilities: |                                              |                                              |
| Operating Cash Flows from Finance Leases                       | \$ 88                                        | \$ 92                                        |
| Operating Cash Flows from Operating Leases                     | 1,281                                        | 412                                          |
| Financing Cash Flows from Finance Leases                       | 34                                           | 30                                           |

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

|                       | <b>March 31, 2021</b> |                         |
|-----------------------|-----------------------|-------------------------|
|                       | <b>Finance Leases</b> | <b>Operating Leases</b> |
| Year 1                | \$ 519                | \$ 1,230                |
| Year 2                | 519                   | 1,100                   |
| Year 3                | 519                   | 1,008                   |
| Year 4                | 519                   | 863                     |
| Year 5                | 519                   | 728                     |
| Thereafter            | 2,823                 | 2,619                   |
| Total Lease Payments  | 5,418                 | 7,548                   |
| Less Imputed Interest | (2,235)               | (929)                   |
| Total                 | \$ 3,183              | \$ 6,619                |

## **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 March 31, 2021 and December 31, 2020 and the consolidated results of operations for the three months ended March 31, 2021 and 2020. 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, 2020.

#### **RECENT DEVELOPMENTS - COVID-19 PANDEMIC BUSINESS UPDATE**

The novel coronavirus disease 2019 (COVID-19) pandemic continued to impact our operations during the quarter ended March 31, 2021. While uncertainty remains as to the future effects of the pandemic, an improving business climate, supported by unprecedented fiscal stimulus, an accommodative Federal Reserve, and accelerating COVID-19 vaccination rates, has helped to mitigate the negative impacts of the pandemic on our financial condition and results of operations, despite the challenges presented by very low interest rates, muted loan growth, and excess liquidity.

#### **CARES Act and the Paycheck Protection Program**

As previously disclosed, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was signed into law in March 2020, providing an approximately \$2 trillion stimulus package that included 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"), a lending program administered by the Small Business Administration ("SBA") that is intended to incentivize participants to retain their employees by providing them with loans that are fully guaranteed by the U.S. government and subject to forgiveness if program guidelines are met. The PPP was later extended and modified by the Paycheck Protection Program and Health Care Enhancement Act in April 2020 and the Paycheck Protection Program Flexibility Act in June 2020, with PPP funding under this initial round expiring on August 8, 2020.

In December 2020, the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act was signed into law as part of the Consolidated Appropriations Act, 2021 (the "CAA"). In addition to direct stimulus payments and other aid, this Act provided for a second round of PPP loans through March 31, 2021, and included the establishment of PPP second draw loans. Certain borrowers that had obtained a PPP loan in 2020 (a "first draw PPP loan") became eligible in January 2021 to apply for a "second draw PPP loan" on generally the same terms and conditions as their first draw loans. The eligibility requirements for a second draw PPP loan, however, are much narrower than the eligibility requirements for a first draw PPP loan. More recently, the American Rescue Plan Act of 2021 was signed into law on March 11, 2021, providing additional funds for the PPP and expanding certain PPP eligibility requirements. Further, on March 30, 2021, the PPP Extension Act of 2021 (was signed into law, providing applicants two additional months (through May 31, 2021) to apply for a first draw or second draw PPP loan and giving the SBA until June 30, 2021 to process loan applications.

Having previously participated in the first round of the PPP during 2020, the Company is also participating in the second round that commenced in January 2021. Under the PPP, the Company has lent and is lending funds primarily to its existing loan and/or deposit customers, based on a pre-determined SBA-developed formula. These loans carry a customer interest rate of 1.00% plus a processing fee that varies depending on the balance of the loan at origination. The vast majority of the Company's first round PPP loans have two-year maturities. The second round PPP loans have five-year maturities.

The Company originated loans totaling approximately \$351.3 million in principal amount, on 3,070 PPP loan relationships, under the first round of this program. The net processing fees related to the PPP, totaled approximately \$12.0 million, and are being recognized over the life of the loans. As a result of the forgiveness of the first round PPP loans which began in the fourth quarter of 2020 for the Company, remaining PPP loans outstanding totaled \$97.3 million with approximately \$1.2 million of net fees remaining deferred as of March 31, 2021.

Through March 31, 2021, the Company has originated loans totaling approximately \$145.4 million in principal amount, on 2,034 PPP loan relationships, under the second round of this program. Through March 31, 2021 net processing fees related to the second round of PPP, totaled approximately \$7.4 million, and are being recognized over the life of the loans. The Company is continuing to actively originate PPP loans.

### Modifications and Troubled Debt Restructurings

In April 2020, 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. This TDR exemption, which was set to expire on December 31, 2020, was extended under the CAA to the earlier of (i) 60 days after the national emergency concerning the COVID-19 outbreak terminates, and (ii) January 1, 2022.

In response to requests from borrowers who have experienced pandemic-related business or personal cash flow interruptions, and in accordance with regulatory guidance, the Company has made short-term loan modifications involving both partial and full payment deferrals. The table below shows the payment modifications that were still in effect as of March 31, 2021, with the majority of these credit relationships making full interest payments.

| Type of Loans<br>(dollars in thousands) | Number of Loans | Outstanding Balance | % of Loan Category<br>(Excludes PPP Loans) |   |                    |   |
|-----------------------------------------|-----------------|---------------------|--------------------------------------------|---|--------------------|---|
|                                         |                 |                     | As of 03/31/2021                           |   | As of 12/31/2020   |   |
| Commercial & Industrial Loans           | 4               | \$ 4,413            | 0.9                                        | % | 0.8                | % |
| Commercial Real Estate Loans            | 15              | 36,137              | 2.4                                        | % | 3.0                | % |
| Agricultural Loans                      | —               | —                   | —                                          | % | —                  | % |
| Consumer Loans                          | 2               | 40                  | n/m <sup>(1)</sup>                         |   | n/m <sup>(1)</sup> |   |
| Residential Mortgage Loans              | 2               | 173                 | 0.1                                        | % | 0.1                | % |
| Total                                   | 23              | \$ 40,763           | 1.4                                        | % | 1.7                | % |

<sup>(1)</sup> 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 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 March 31, 2021, the Company had the following exposure to these potentially sensitive COVID-19 identified loan segments:

| Industry Segment<br>(dollars in thousands) | Number of Loans | Outstanding Balance | % of Total Loans<br>(excludes PPP Loans) |   | % of Industry Segment<br>Under Deferral |   |
|--------------------------------------------|-----------------|---------------------|------------------------------------------|---|-----------------------------------------|---|
| Lodging / Hotels                           | 44              | \$ 130,599          | 4.5                                      | % | 22.8                                    | % |
| Student Housing                            | 104             | 86,430              | 3.0                                      | % | —                                       | % |
| Retail Shopping / Strip Centers            | 66              | 87,928              | 3.0                                      | % | —                                       | % |
| Restaurants                                | 169             | 44,862              | 1.6                                      | % | 12.8                                    | % |

## 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, 2020.

Net income for the quarter ended March 31, 2021 totaled \$19,557,000, or \$0.74 per share, an increase of 57% on a per share basis compared with the first quarter 2020 net income of \$12,472,000, or \$0.47 per share. The net income growth during the first quarter 2021 compared with the same period of 2020 was driven by a number of factors including improved net interest income, lower provision for credit losses and increased non-interest revenue which was partially offset by a modestly higher level of non-interest expense.

On March 12, 2021, the Company announced an operating optimization plan, pursuant to which the Company's banking subsidiary will consolidate seven branch offices and will implement various staff reductions during 2021. In making its decision to consolidate these branches, which are generally expected to be integrated with other nearby bank branches, the Company considered, among other factors, the operating costs of the branches, certain physical limitations impacting the bank facilities, and their proximity to other branch locations. In addition, the Company's evaluation of the branch consolidations and the reductions in staff also took into consideration the numbers and types of transactions being conducted by its customers and the increased usage of online and mobile banking. As a result of these optimization actions, the Company recorded pre-tax charges of approximately \$2.0 million during the first quarter of 2021, primarily for valuation adjustments on branch facilities, lease termination costs, and severance and related payments. The branch consolidations and staff reductions are expected to primarily be completed by year-end 2021.

## 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 March 31, 2021. Accrued interest receivable on available-for-sale debt securities is excluded from the estimate of credit losses. As of March 31, 2021, gross unrealized gains on the securities available-for-sale portfolio totaled approximately \$32,722,000 and gross unrealized losses totaled approximately \$14,705,000 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. No impairment to Goodwill was indicated based on year-end testing and no triggering events occurred in 2021 causing reassessment.

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 March 31, 2021 totaled \$19,557,000, or \$0.74 per share, an increase of 57% on a per share basis compared with the first quarter 2020 net income of \$12,472,000, or \$0.47 per share. The net income growth during the first quarter 2021 compared with the same period of 2020 was driven by a number of factors including improved net interest income, lower provision for credit losses and increased non-interest revenue which was partially offset by a modestly higher level of non-interest expense.

### **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 March 31, 2021 and 2020. For tax-equivalent adjustments, an effective tax rate of 21% was used for both periods<sup>(1)</sup>.

| Average Balance Sheet<br>(Tax-equivalent basis / dollars in thousands) |                                      |                     |              |                                      |                     |              |
|------------------------------------------------------------------------|--------------------------------------|---------------------|--------------|--------------------------------------|---------------------|--------------|
|                                                                        | Three Months Ended<br>March 31, 2021 |                     |              | Three Months Ended<br>March 31, 2020 |                     |              |
|                                                                        | Principal<br>Balance                 | Income /<br>Expense | Yield / Rate | Principal<br>Balance                 | Income /<br>Expense | Yield / Rate |
| <b>ASSETS</b>                                                          |                                      |                     |              |                                      |                     |              |
| Federal Funds Sold and Other<br>Short-term Investments                 | \$ 337,981                           | \$ 85               | 0.10 %       | \$ 45,687                            | \$ 158              | 1.39 %       |
| Securities:                                                            |                                      |                     |              |                                      |                     |              |
| Taxable                                                                | 706,574                              | 2,607               | 1.48 %       | 546,193                              | 3,110               | 2.28 %       |
| Non-taxable                                                            | 589,056                              | 4,720               | 3.21 %       | 323,776                              | 3,095               | 3.82 %       |
| Total Loans and Leases <sup>(2)</sup>                                  | 3,107,902                            | 35,164              | 4.58 %       | 3,059,398                            | 37,936              | 4.98 %       |
| TOTAL INTEREST EARNING ASSETS                                          | 4,741,513                            | 42,576              | 3.63 %       | 3,975,054                            | 44,299              | 4.48 %       |
| Other Assets                                                           | 396,290                              |                     |              | 393,143                              |                     |              |
| Less: Allowance for Credit Losses                                      | (47,434)                             |                     |              | (32,356)                             |                     |              |
| TOTAL ASSETS                                                           | <u>\$ 5,090,369</u>                  |                     |              | <u>\$ 4,335,841</u>                  |                     |              |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                            |                                      |                     |              |                                      |                     |              |
| Interest-bearing Demand, Savings<br>and Money Market Deposits          | \$ 2,490,953                         | \$ 637              | 0.10 %       | \$ 1,993,171                         | \$ 2,956            | 0.60 %       |
| Time Deposits                                                          | 467,310                              | 805                 | 0.70 %       | 638,460                              | 2,701               | 1.70 %       |
| FHLB Advances and Other Borrowings                                     | 183,376                              | 1,151               | 2.55 %       | 236,148                              | 1,658               | 2.82 %       |
| TOTAL INTEREST-BEARING LIABILITIES                                     | 3,141,639                            | 2,593               | 0.33 %       | 2,867,779                            | 7,315               | 1.03 %       |
| Demand Deposit Accounts                                                | 1,268,409                            |                     |              | 847,891                              |                     |              |
| Other Liabilities                                                      | 53,053                               |                     |              | 44,176                               |                     |              |
| TOTAL LIABILITIES                                                      | 4,463,101                            |                     |              | 3,759,846                            |                     |              |
| Shareholders' Equity                                                   | 627,268                              |                     |              | 575,995                              |                     |              |
| TOTAL LIABILITIES AND<br>SHAREHOLDERS' EQUITY                          | <u>\$ 5,090,369</u>                  |                     |              | <u>\$ 4,335,841</u>                  |                     |              |
| COST OF FUNDS                                                          |                                      |                     | 0.22 %       |                                      |                     | 0.74 %       |
| NET INTEREST INCOME                                                    |                                      | <u>\$ 39,983</u>    |              |                                      | <u>\$ 36,984</u>    |              |
| NET INTEREST MARGIN                                                    |                                      |                     | 3.41 %       |                                      |                     | 3.74 %       |

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

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

During the first quarter of 2021, net interest income totaled \$38,932,000, an increase of \$2,676,000, or 7%, compared to the first quarter of 2020 net interest income of \$36,256,000. The increase in net interest income during the first quarter of 2021 compared with the first quarter of 2020 was largely attributable to fee recognition related to PPP loans. Fees recognized on PPP loans through net interest income during the first quarter of 2021 totaled \$3,008,000 while no fees were recognized during the first quarter of 2020. The relative stability in net interest income, excluding PPP fee recognition, during the first quarter of 2021 compared with the first quarter of 2020 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 past year including the first quarter of 2021, which was offset by a reduction in the Company's net interest margin.

The net interest margin represents tax-equivalent net interest income expressed as a percentage of average earning assets. The tax equivalent net interest margin was 3.41% for the first quarter of 2021 compared to 3.74% during the first quarter of 2020. The tax equivalent yield on earning assets was 3.63% during the quarter ended March 31, 2021 compared to 4.48% in the same period of 2020, while the cost of funds (expressed as a percentage of average earning assets) was 0.22% during the quarter ended March 31, 2021 compared to 0.74% in the same period of 2020.

The Company's net interest margin has been impacted by fees recognized as a part of the PPP and accretion of loan discounts on acquired loans. The fees recognized related to the PPP contributed approximately 25 basis points to the net interest margin on an annualized basis in the first quarter of 2021 while PPP fees recognition had no impact in the first quarter of 2020. Accretion of loan discounts on acquired loans contributed approximately 7 basis points to the net interest margin in the first

quarter of 2021 and 14 basis points in the first quarter of 2020. Accretion of discounts on acquired loans totaled \$867,000 during the first quarter of 2021 and \$1,406,000 during the first quarter of 2020.

Historically low market interest rates continue to impact the Company's net interest margin. Lower market interest rates continue to negatively impact earning asset yields, with these declines being partially mitigated by a lower cost of funds. The Company has also continued to carry excess liquidity on the balance sheet that resulted from significant deposit growth during 2020, which has continued in the first quarter of 2021, and continued somewhat muted loan growth.

#### 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 March 31, 2021, the Company recorded a negative provision for credit losses of \$1,500,000 compared with the first quarter of 2020 provision for credit losses of \$5,150,000. The negative provision for credit losses represented approximately 19 basis points of average loans on an annualized basis in the first quarter of 2021 compared to a provision for credit losses of 67 basis points of average loans on an annualized basis in the first quarter of 2020.

The decline in the level of provision for credit losses in the first quarter of 2021 was largely impacted by a decline in the loan portfolio, excluding PPP loans, and a decline in certain adversely criticized assets. The level of provision for credit losses in the first quarter of 2020 was primarily due to the developments related to the COVID-19 pandemic and the resulting impact on the economic assumptions used in the CECL model.

Net charge-offs totaled \$260,000 or 3 basis points on an annualized basis of average loans outstanding during the three months ended March 31, 2021, compared with \$440,000 or 6 basis points on an annualized basis of average loans outstanding during the same period of 2020.

The provision for credit losses losses made during the three months ended March 31, 2021 was made at a level deemed necessary by management to absorb expected 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 March 31, 2021, non-interest income totaled \$15,037,000, an increase of \$956,000, or 7%, compared with the first quarter of 2020.

| Non-interest Income<br>(dollars in thousands) | Three Months<br>Ended March 31, |                  | Change From<br>Prior Period |                   |
|-----------------------------------------------|---------------------------------|------------------|-----------------------------|-------------------|
|                                               | 2021                            | 2020             | Amount<br>Change            | Percent<br>Change |
| Trust and Investment Product Fees             | \$ 2,358                        | \$ 2,031         | \$ 327                      | 16 %              |
| Service Charges on Deposit Accounts           | 1,678                           | 2,237            | (559)                       | (25)              |
| Insurance Revenues                            | 3,292                           | 3,229            | 63                          | 2                 |
| Company Owned Life Insurance                  | 352                             | 1,222            | (870)                       | (71)              |
| Interchange Fee Income                        | 2,830                           | 2,482            | 348                         | 14                |
| Other Operating Income                        | 1,350                           | 427              | 923                         | 216               |
| Subtotal                                      | 11,860                          | 11,628           | 232                         | 2                 |
| Net Gains on Sales of Loans                   | 2,202                           | 1,863            | 339                         | 18                |
| Net Gains on Securities                       | 975                             | 590              | 385                         | 65                |
| <b>Total Non-interest Income</b>              | <b>\$ 15,037</b>                | <b>\$ 14,081</b> | <b>\$ 956</b>               | <b>7</b>          |

Trust and investment product fees increased \$327,000, or 16%, during the first quarter of 2021 compared with the first quarter of 2020. The increase during the first quarter of 2021 was largely attributable to increased assets under management within the Company's wealth management group.

Service charges on deposit accounts declined \$559,000, or 25%, during the first quarter of 2021 compared with the first quarter of 2020. The decline during the first quarter of 2021 was largely related to the economic impacts of the COVID-19 pandemic and resulting change in deposit customer activity.

Insurance revenues increased \$63,000, or 2%, during the quarter ended March 31, 2021, compared with the first quarter of 2020. The increase during the first quarter of 2021 compared with the first quarter of 2020 was primarily due to increased contingency revenue. Contingency revenue during the first quarter of 2021 totaled \$1,445,000 compared to \$1,319,000 during the first quarter of 2020. Contingency revenue is reflective of claims and loss experience with insurance carriers that the Company represents through its property and casualty insurance agency. Typically, the majority of contingency revenue is recognized during the first quarter of the year.

Company owned life insurance revenue declined \$870,000, or 71%, compared with the first quarter of 2020. The higher level of revenue in the first quarter of 2020 was largely related to death benefits of \$838,000 received from life insurance policies during the first quarter of 2020.

Interchange fee income increased \$348,000, or 14%, during the quarter ended March 31, 2021 compared with the first quarter of 2020. The increased level of fees during the first quarter of 2021 was due to increased card utilization by customers.

Other operating income increased \$923,000, or 216%, during the first quarter of 2021 compared with the first quarter of 2020. The increase during the first quarter of 2021 was largely attributable to fair value adjustments associated with interest rate swap transactions with loan customers.

Net gains on sales of loans increased \$339,000, or 18%, during the first quarter of 2021 compared with the first quarter of 2020. The increase during the first quarter of 2021 compared with the first quarter of 2020 was generally attributable to a higher sales volume and higher pricing levels on loans sold. Loan sales totaled \$68.5 million during the first quarter of 2021 compared with \$56.2 million during the first quarter of 2020.

The Company realized \$975,000 in gains on sales of securities during the first quarter of 2021 compared with \$590,000 during the first quarter of 2020. The sales of securities in both periods was done as part of modest shifts in the allocations within the securities portfolio.

#### Non-interest Expense:

During the quarter ended March 31, 2021, non-interest expense totaled \$31,259,000, an increase of \$931,000, or 3%, compared with the first quarter of 2020. The first quarter of 2021 included non-recurring expenses totaling \$2,012,000 related to the Company's previously discussed operating optimization plan (see "Management Overview" for additional information).

| Non-interest Expense<br>(dollars in thousands) | Three Months<br>Ended March 31, |                  | Change From<br>Prior Period |                    |
|------------------------------------------------|---------------------------------|------------------|-----------------------------|--------------------|
|                                                | 2021                            | 2020             | Amount<br>Change            | Percent<br>Change  |
| Salaries and Employee Benefits                 | \$ 17,805                       | \$ 17,400        | \$ 405                      | 2 %                |
| Occupancy, Furniture and Equipment Expense     | 4,348                           | 3,581            | 767                         | 21                 |
| FDIC Premiums                                  | 334                             | —                | 334                         | n/m <sup>(1)</sup> |
| Data Processing Fees                           | 1,743                           | 1,686            | 57                          | 3                  |
| Professional Fees                              | 1,160                           | 1,084            | 76                          | 7                  |
| Advertising and Promotion                      | 782                             | 1,071            | (289)                       | (27)               |
| Intangible Amortization                        | 760                             | 960              | (200)                       | (21)               |
| Other Operating Expenses                       | 4,327                           | 4,546            | (219)                       | (5)                |
| <b>Total Non-interest Expense</b>              | <b>\$ 31,259</b>                | <b>\$ 30,328</b> | <b>\$ 931</b>               | <b>3</b>           |

<sup>(1)</sup> n/m = not meaningful

Salaries and benefits increased \$405,000, or 2%, during the quarter ended March 31, 2021 compared with the first quarter of 2020. The increase in salaries and benefits during the first quarter of 2021 was largely impacted by the employee severance and related costs associated with the Company's operating optimization plan that totaled approximately \$594,000 during the first quarter of 2021. Partially mitigating the increase from the costs of the operating optimization plan was the deferral of salary costs related to the origination of PPP loans during the first quarter of 2021.

Occupancy, furniture and equipment expense increased \$767,000, or 21%, during the first quarter of 2021 compared with the first quarter of 2020. The increase during the first quarter of 2021 was primarily due to lease termination costs associated with the Company's operating optimization plan that totaled approximately \$875,000 during the first quarter of 2021.

FDIC premiums increased \$334,000 during the first quarter of 2021 compared with the first quarter of 2020. The increase during the first quarter of 2021 compared to the first quarter of 2020 was related to credits received from the FDIC during the first quarter of 2020. There were no credits received during the first quarter of 2021. The credits received in 2020 were due to the reserve ratio of the deposit insurance fund exceeding the FDIC targeted levels.

Advertising and promotion expense declined \$289,000, or 27%, in the first quarter of 2021 compared with the first quarter of 2020. The decline in the first quarter of 2021 compared with the first quarter of 2020 was largely attributable to a decline in advertising expense due in part to the COVID-19 pandemic.

Other operating expenses declined \$219,000, or 5%, during the first quarter of 2021 compared with the first quarter of 2020. While the first quarter of 2021 included the write-down of leasehold improvements and furniture and equipment of approximately \$543,000 related to the Company's operating optimization plan, those charges were more than offset by generally lower levels of other expenses across several categories.

#### Income Taxes:

The Company's effective income tax rate was 19.2% and 16.1%, respectively, during the three months ended March 31, 2021 and 2020. 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 \$5.220 billion at March 31, 2021, representing an increase of \$242.3 million, or 19% on an annualized basis, compared with December 31, 2020. The increase in total assets during the first quarter of 2021 compared with December 31, 2020 was primarily driven by significant growth of deposits.

Securities available for sale increased \$168.0 million as of March 31, 2021 compared with year-end 2020. The increase in the securities portfolio in the first quarter of 2021 was the result of increased levels of deposits.

March 31, 2021 total loans increased \$29.0 million, or 4% on an annualized basis, compared with December 31, 2020. The increase in total loans at March 31, 2021 compared with year-end 2020 was due to an increase in PPP loans. PPP loans totaled \$242.7 million (\$234.2 million net of deferred fees) at March 31, 2021 compared with \$186.0 million in PPP loans (\$182.0 million net of deferred fees) at December 31, 2020.

Excluding PPP loans, total loans declined \$23.3 million, or 3% on an annualized basis, at March 31, 2021 compared with year-end 2020. Commercial real estate loans increased approximately \$25.2 million during the first quarter of 2021 compared with year-end 2020 while commercial and industrial loans declined \$18.7 million (excluding PPP loans) largely due to reduced utilization of lines of credit. During the first quarter of 2021 compared with year-end 2020, agricultural loans declined \$29.0 million largely as a result of a reduction in the utilization of lines of credit.

As previously discussed, lower levels of commercial, agricultural and home equity lines of credit balances resulting from lower line utilization rates during the first quarter of 2021 compared to year-end 2020 was the primary driver to overall loan portfolio declines excluding PPP loans. Outstanding commercial lines of credit balances totaled \$137.9 million, or 27% utilization, at March 31, 2021 compared to \$161.0 million, or 32% utilization, at year-end 2020. Outstanding agricultural lines of credit balances and utilization totaled \$68.2 million, or 44% utilization, at March 31, 2021 compared to \$92.2 million, or 59% utilization, at year-end 2020. Outstanding home equity lines of credit balances totaled \$212.3 million, or 42% utilization, at March 31, 2021 compared to \$219.3 million, or 44% utilization, at year-end 2020.

| <b>End of Period Loan Balances:<br/>(dollars in thousands)</b> | <b>March 31,<br/>2021</b> | <b>December 31,<br/>2020</b> | <b>Current Period<br/>Change</b> |
|----------------------------------------------------------------|---------------------------|------------------------------|----------------------------------|
| Commercial and Industrial Loans and Leases                     | \$ 728,014                | \$ 694,437                   | \$ 33,577                        |
| Commercial Real Estate Loans                                   | 1,492,617                 | 1,467,397                    | 25,220                           |
| Agricultural Loans                                             | 347,231                   | 376,186                      | (28,955)                         |
| Home Equity and Consumer Loans                                 | 285,485                   | 297,702                      | (12,217)                         |
| Residential Mortgage Loans                                     | 267,634                   | 256,276                      | 11,358                           |
| <b>Total Loans</b>                                             | <b>\$ 3,120,981</b>       | <b>\$ 3,091,998</b>          | <b>\$ 28,983</b>                 |

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

|                                            | March 31,<br>2021 | December 31,<br>2020 |
|--------------------------------------------|-------------------|----------------------|
| Commercial and Industrial Loans and Leases | \$ 6,449          | \$ 6,645             |
| Commercial Real Estate Loans               | 28,540            | 29,878               |
| Agricultural Loans                         | 6,462             | 6,756                |
| Home Equity and Consumer Loans             | 1,566             | 1,636                |
| Residential Mortgage Loans                 | 2,082             | 1,944                |
| Unallocated                                | —                 | —                    |
| <b>Total Allowance for Credit Losses</b>   | <b>\$ 45,099</b>  | <b>\$ 46,859</b>     |

The Company's allowance for credit losses totaled \$45.1 million at March 31, 2021 compared to \$46.9 million at year-end 2020. The allowance for credit losses represented 1.45% of period-end loans at March 31, 2021 compared with 1.52% of period-end loans at December 31, 2020.

The Company adopted ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326) ("CECL") on January 1, 2020. Under the CECL model, certain acquired loans continue to carry a fair value discount as well as an allowance for credit losses. As of March 31, 2021, the Company held net discounts on acquired loans of \$6.7 million.

The allowance for credit losses declined during the quarter ended March 31, 2021, as a result of the Company recording a negative \$1.5 million provision for credit losses while recording modest net charge-offs. During 2020, the allowance for credit losses increased through elevated provision for credit losses primarily due to the developments during 2020 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 March 31, 2021 and December 31, 2020:

| <b>Non-performing Assets:<br/>(dollars in thousands)</b> | March 31,<br>2021 | December 31,<br>2020 |
|----------------------------------------------------------|-------------------|----------------------|
| Non-accrual Loans                                        | \$ 20,994         | \$ 21,507            |
| Past Due Loans (90 days or more)                         | —                 | —                    |
| Total Non-performing Loans                               | 20,994            | 21,507               |
| Other Real Estate                                        | 325               | 325                  |
| <b>Total Non-performing Assets</b>                       | <b>\$ 21,319</b>  | <b>\$ 21,832</b>     |
| Restructured Loans                                       | \$ 109            | \$ 111               |
| Non-performing Loans to Total Loans                      | 0.67 %            | 0.70 %               |
| Allowance for Loan Loss to Non-performing Loans          | 214.82 %          | 217.88 %             |

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<br>or More & Still Accruing |                      |
|--------------------------------------------|-------------------|----------------------|----------------------------------------------------|----------------------|
|                                            | March 31,<br>2021 | December 31,<br>2020 | March 31,<br>2021                                  | December 31,<br>2020 |
| Commercial and Industrial Loans and Leases | \$ 7,312          | \$ 8,133             | \$ —                                               | \$ —                 |
| Commercial Real Estate Loans               | 10,133            | 10,188               | —                                                  | —                    |
| Agricultural Loans                         | 1,841             | 1,915                | —                                                  | —                    |
| Home Equity Loans                          | 293               | 271                  | —                                                  | —                    |
| Consumer Loans                             | 266               | 170                  | —                                                  | —                    |
| Residential Mortgage Loans                 | 1,149             | 830                  | —                                                  | —                    |
| <b>Total</b>                               | <b>\$ 20,994</b>  | <b>\$ 21,507</b>     | <b>\$ —</b>                                        | <b>\$ —</b>          |

Non-performing assets totaled \$21.3 million at March 31, 2021 compared to \$21.8 million at December 31, 2020. Non-performing assets represented 0.41% of total assets at March 31, 2021 and 0.44% at December 31, 2020. Non-performing loans totaled \$21.0 million at March 31, 2021 compared to \$21.5 million at December 31, 2020. Non-performing loans represented 0.67% of total loans at March 31, 2021 compared to 0.70% at December 31, 2020.

March 31, 2021 total deposits increased \$272.1 million, or 27% on an annualized basis, compared to December 31, 2020. The increase in total deposits at March 31, 2021 compared with year-end 2020 was impacted by participation in the PPP, continued stimulus payments provided by the federal government and general inflows of customer deposits.

| <b>End of Period Deposit Balances:<br/>(dollars in thousands)</b> | <b>March 31,<br/>2021</b> | <b>December 31,<br/>2020</b> | <b>Current Period<br/>Change</b> |
|-------------------------------------------------------------------|---------------------------|------------------------------|----------------------------------|
| Non-interest-bearing Demand Deposits                              | \$ 1,383,888              | \$ 1,183,442                 | \$ 200,446                       |
| Interest-bearing Demand, Savings, & Money Market Accounts         | 2,548,015                 | 2,428,636                    | 119,379                          |
| Time Deposits < \$100,000                                         | 239,911                   | 255,941                      | (16,030)                         |
| Time Deposits of \$100,000 or more                                | 206,859                   | 238,511                      | (31,652)                         |
| <b>Total Deposits</b>                                             | <b>\$ 4,378,673</b>       | <b>\$ 4,106,530</b>          | <b>\$ 272,143</b>                |

#### **Capital Resources:**

As of March 31, 2021, shareholders' equity declined by \$7.5 million to \$617.2 million compared with \$624.7 million at year-end 2020. The decline in shareholders' equity was primarily attributable to a decline in accumulated other comprehensive income of \$21.8 million related to the decrease in value of the Company's available-for-sale securities portfolio. Partially mitigating the decline in accumulated other comprehensive income was increased retained earnings of \$14.0 million due to first quarter 2021 net income of \$19.6 million which was partially offset by the payment of \$5.6 million in shareholder dividends.

Shareholders' equity represented 11.8% of total assets at March 31, 2021 and 12.6% of total assets at December 31, 2020. Shareholders' equity included \$130.1 million of goodwill and other intangible assets at March 31, 2021 compared to \$130.9 million of goodwill and other intangible assets at December 31, 2020.

On January 25, 2021, 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 represented approximately 4% of the Company's outstanding shares on the date it was approved. 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 plan that had been adopted in January 2020. At the time of its termination, the Company had been authorized to purchase up to 778,088 shares of common stock under the 2020 repurchase plan. The Company has not repurchased any shares of common stock under the 2021 repurchase plan.

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.

The current risk-based capital rules, as adopted by federal banking regulators, are based upon guidelines developed by the Basel Committee on Banking Supervision and reflect various requirements of the Dodd-Frank Act (the "Basel III Rules"). The Basel III Rules require banking organizations to, among other things, maintain a minimum ratio of Total Capital to risk-weighted assets, a minimum ratio of Tier 1 Capital to risk-weighted assets, a minimum ratio of "Common Equity Tier 1 Capital" to risk-weighted assets, and a minimum leverage ratio (calculated as the ratio of Tier 1 Capital to adjusted average consolidated assets). In addition, under the Basel III Rules, in order to avoid limitations on capital distributions, including dividend payments, the Company is required to maintain a 2.5% capital conservation buffer above the adequately capitalized regulatory capital ratios. At March 31, 2021, the capital levels for the Company and its subsidiary bank remained well in excess of the minimum amounts needed for capital adequacy purposes and the Bank's capital levels met the necessary requirements to be considered well-capitalized.

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

|                                                                           | 3/31/2021<br>Ratio | 12/31/2020<br>Ratio | Minimum for Capital<br>Adequacy Purposes <sup>(1)</sup> | Well-Capitalized<br>Guidelines |
|---------------------------------------------------------------------------|--------------------|---------------------|---------------------------------------------------------|--------------------------------|
| <b>Total Capital (to Risk Weighted Assets)</b>                            |                    |                     |                                                         |                                |
| Consolidated                                                              | 16.04 %            | 15.86 %             | 8.00 %                                                  | N/A                            |
| Bank                                                                      | 13.67 %            | 14.00 %             | 8.00 %                                                  | 10.00 %                        |
| <b>Tier 1 (Core) Capital (to Risk Weighted Assets)</b>                    |                    |                     |                                                         |                                |
| Consolidated                                                              | 14.17 %            | 13.93 %             | 6.00 %                                                  | N/A                            |
| Bank                                                                      | 12.93 %            | 13.21 %             | 6.00 %                                                  | 8.00 %                         |
| <b>Common Tier 1, (CET 1) Capital Ratio<br/>(to Risk Weighted Assets)</b> |                    |                     |                                                         |                                |
| Consolidated                                                              | 13.73 %            | 13.48 %             | 4.50 %                                                  | N/A                            |
| Bank                                                                      | 12.93 %            | 13.21 %             | 4.50 %                                                  | 6.50 %                         |
| <b>Tier 1 Capital (to Average Assets)</b>                                 |                    |                     |                                                         |                                |
| Consolidated                                                              | 10.16 %            | 10.07 %             | 4.00 %                                                  | N/A                            |
| Bank                                                                      | 9.28 %             | 9.56 %              | 4.00 %                                                  | 5.00 %                         |

<sup>(1)</sup> 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, which was finalized effective September 30, 2020, 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 has elected to adopt the five-year transition option.

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 Paycheck Protection Program Liquidity Facility (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 \$47.5 million during the three months ended March 31, 2021 ending at \$393.2 million. During the three months ended March 31, 2021, operating activities resulted in net cash inflows of \$26.7 million. Investing activities resulted in net cash outflows of \$224.8 million during the three months ended March 31, 2021 primarily resulting from the investment of excess liquidity into the available for sale securities portfolio. Financing activities resulted in net cash inflows for the three months ended March 31, 2021 of \$245.6 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 March 31, 2021, the parent company had approximately \$66.6 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 credit losses, levels of provisions for credit 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, 2020, 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 March 31, 2021 - Net Interest Income**

| Changes in Rates | Net Interest Income |          |
|------------------|---------------------|----------|
|                  | Amount              | % Change |
| +2%              | \$ 159,619          | (0.76)%  |
| +1%              | 159,755             | (0.67)%  |
| Base             | 160,839             | —        |
| -1%              | 157,576             | (2.03)%  |
| -2%              | 155,900             | (3.07)%  |

The above table is a measurement of the Company's net interest income at risk, assuming a static balance sheet as of March 31, 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 March 31, 2021 - 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%              | \$ 566,311          | (3.50)%  | 11.68 %                                               | 19 b.p.    |
| +1%              | 579,126             | (1.31)%  | 11.64 %                                               | 15 b.p.    |
| Base             | 586,831             | —        | 11.49 %                                               | —          |
| -1%              | 545,018             | (7.13)%  | 10.41 %                                               | (108) b.p. |
| -2%              | 458,157             | (21.93)% | 8.74 %                                                | (275) b.p. |

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

**Item 4. Controls and Procedures**

As of March 31, 2021, the Company carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, the Company’s principal executive officer and principal financial officer concluded that the Company’s disclosure controls and procedures were, as of that date, effective in timely alerting them to material information required to be included in the Company’s periodic reports filed with the Securities and Exchange Commission. There are inherent limitations to the effectiveness of systems of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective systems of disclosure controls and procedures can provide only reasonable assurances of achieving their control objectives.

There was no change in the Company’s internal control over financial reporting that occurred during the Company’s first fiscal quarter of 2021 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

In July 2020, the Company was named in a putative class action lawsuit filed in Marion County, Indiana Superior Court challenging the Company's checking account practices associated with its assessment of overdraft fees for certain debit card transactions. The relief sought by the plaintiff includes restitution, other monetary damages, and injunctive and declaratory relief. The plaintiff also seeks to have the case certified by the Court as a class action on behalf all citizens of Indiana who are checking account holders at German American Bank and who were assessed overdraft fees on certain debit card transactions. The Company believes the plaintiff's claims are unfounded and intends to defend against them. As such, the Company has filed a motion to dismiss the complaint. Before any ruling on the motion to dismiss, the plaintiff amended her complaint to include different account documents, but continues to maintain her claim. On May 3, 2021, the Company filed a motion to dismiss the plaintiff's amended complaint. All discovery has been stayed by the Court pending a ruling on any motion to dismiss. At this stage of the litigation, it is not possible for the Company's management to determine the probability of a material adverse outcome or reasonably estimate the amount of any potential loss.

There are no other pending legal proceedings, other than routine litigation incidental to the business of the Company's subsidiaries, to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

### Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in German American Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2020.

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

#### Issuer Purchases of Equity Securities

The following table sets forth information regarding the Company's purchases of its common shares during each of the three months ended March 31, 2021.

| 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 <sup>(1)</sup> | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs <sup>(1)</sup> |
|---------------|---------------------------------------------|----------------------------------------|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| January 2021  | —                                           | —                                      | —                                                                                                          | 1,000,000                                                                                                                              |
| February 2021 | —                                           | —                                      | —                                                                                                          | 1,000,000                                                                                                                              |
| March 2021    | —                                           | —                                      | —                                                                                                          | 1,000,000                                                                                                                              |
| Total         | —                                           | —                                      | —                                                                                                          |                                                                                                                                        |

<sup>(1)</sup> On January 25, 2021, the Company's Board of Directors approved a plan to repurchase up to 1.0 million shares of the Company's outstanding common stock. On a share basis, the amount of common stock subject to the repurchase plan represented approximately 4% of the Company's outstanding shares on the date it was approved. 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 has not repurchased any shares of common stock under the 2021 repurchase plan.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

## Item 6. Exhibits

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

| Exhibit No.                    | Description                                                                                                                                                                                                                                                                                        |
|--------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <a href="#"><u>3.1</u></a>     | <a href="#"><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></a>                                                   |
| <a href="#"><u>3.2</u></a>     | <a href="#"><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></a>                                                                       |
| <a href="#"><u>4.1</u></a>     | <a href="#"><u>Terms of Common Shares and Preferred Shares of the Registrant (included in Restatement of Articles of Incorporation) are incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed May 26, 2020 (SEC File No. 001-15877).</u></a>               |
| <a href="#"><u>4.2</u></a>     | <a href="#"><u>Specimen stock certificate for Common Shares of the Registrant is incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K filed October 21, 2010 (SEC File No. 001-15877).</u></a>                                                                 |
| <a href="#"><u>4.3</u></a>     | <a href="#"><u>Indenture, dated as of June 25, 2019, by and between German American Bancorp. Inc. and U.S. Bank National Association, as trustee, is incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K filed June 25, 2019 (SEC File No. 001-15877).</u></a> |
| <a href="#"><u>4.4</u></a>     | <a href="#"><u>Form of 4.50% Fixed-to-Floating Subordinated Note due 2029 of German American Bancorp. Inc. is incorporated by reference to Exhibit 4.2 of the Registrant's Current Report on Form 8-K filed June 25, 2019 (SEC File No. 001-15877).</u></a>                                        |
| <a href="#"><u>10.1</u></a> *  | <a href="#"><u>Description of Executive Management Incentive Plan for 2021 (awards payable in 2022) is incorporated by reference from the description contained in Item 5.02 of the Registrant's Current Report on Form 8-K filed March 12, 2021 (SEC File No. 001-15877).</u></a>                 |
| <a href="#"><u>10.2</u></a> *  | <a href="#"><u>Supplemental Executive Retirement Agreement between German American Bank and Randall L. Braun, dated March 8, 2021, is incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed March 12, 2021 (SEC File No. 001-15877).</u></a>              |
| <a href="#"><u>31.1</u></a> +  | <a href="#"><u>Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman of the Board and Chief Executive Officer.</u></a>                                                                                                                                                                |
| <a href="#"><u>31.2</u></a> +  | <a href="#"><u>Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer.</u></a>                                                                                                                                                             |
| <a href="#"><u>32.1</u></a> ++ | <a href="#"><u>Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman of the Board and Chief Executive Officer.</u></a>                                                                                                                                                                |
| <a href="#"><u>32.2</u></a> ++ | <a href="#"><u>Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer.</u></a>                                                                                                                                                             |
| 101.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.

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

+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: May 7, 2021

By: /s/Mark A. Schroeder

Mark A. Schroeder

Chairman and Chief Executive Officer

(Principal Executive Officer)

Date: May 7, 2021

By: /s/Bradley M. Rust

Bradley M. Rust

Senior 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.

May 7, 2021

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 Senior Executive Vice President and Chief Financial Officer

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

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

May 7, 2021

Date

/s/ Bradley M. Rust

Bradley M. Rust

Senior Executive Vice President and Chief Financial Officer

(principal accounting officer and principal financial officer)

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

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

1. The Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 (the "Periodic Report"), which this statement accompanies, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. Information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of German American Bancorp, Inc.

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

May 7, 2021

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 Senior Executive Vice President and Chief Financial Officer

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

1. The Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 (the "Periodic Report"), which this statement accompanies, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. Information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of German American Bancorp, Inc.

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

May 7, 2021

Date

/s/ Bradley M. Rust

Bradley M. Rust

Senior Executive Vice President and Chief Financial Officer

(principal accounting officer and principal financial officer)