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GERMAN AMERICAN BANCORP, INC.
Form 10-Q
May 11, 2015
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, 2015

Commission File Number 001-15877

German American Bancorp, Inc.
(Exact name of registrant as specified in its charter)
Indiana
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

YES ☒ NO ☐

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

YES ☒ NO ☐

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

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

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

YES ☐ NO ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 1, 2015
Common Shares, no par value	13,253,951

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, 2014, in Item 1, “Business – Forward-Looking Statements and Associated Risks” and our discussion of risk factors in Item 1A, “Risk Factors” of that annual report on Form 10-K, as updated from time to time in our subsequent SEC filings, including by Item 2 of Part I of this Report (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”) at the conclusion of that Item 2 under the heading “Forward-Looking Statements and Associated Risks.”

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GERMAN AMERICAN BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited, dollars in thousands except share and per share data)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and Due from Banks	\$34,277	\$33,481
Federal Funds Sold and Other Short-term Investments	26,590	8,965
Cash and Cash Equivalents	60,867	42,446
Interest-bearing Time Deposits with Banks	100	100
Securities Available-for-Sale, at Fair Value	619,578	630,995
Securities Held-to-Maturity, at Cost (Fair value of \$95 and \$186 on March 31, 2015 and December 31, 2014, respectively)	95	184
Loans Held-for-Sale, at Fair Value	6,290	6,311
Loans	1,450,884	1,451,990
Less: Unearned Income	(3,871)	(4,008)
Allowance for Loan Losses	(15,169)	(14,929)
Loans, Net	1,431,844	1,433,053
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	7,200	7,040
Premises, Furniture and Equipment, Net	39,370	39,930
Other Real Estate	324	356
Goodwill	20,536	20,536
Intangible Assets	1,829	2,074
Company Owned Life Insurance	32,254	32,043
Accrued Interest Receivable and Other Assets	19,936	22,031
TOTAL ASSETS	\$2,240,223	\$2,237,099
LIABILITIES		
Non-interest-bearing Demand Deposits	\$426,373	\$428,016
Interest-bearing Demand, Savings, and Money Market Accounts	1,009,368	1,018,320
Time Deposits	364,658	333,425
Total Deposits	1,800,399	1,779,761
FHLB Advances and Other Borrowings	178,825	206,064
Accrued Interest Payable and Other Liabilities	23,391	22,450
TOTAL LIABILITIES	2,002,615	2,008,275
SHAREHOLDERS' EQUITY		
Preferred Stock, no par value; 500,000 shares authorized, no shares issued	—	—
Common Stock, no par value, \$1 stated value; 30,000,000 shares authorized	13,251	13,216
Additional Paid-in Capital	108,852	108,660
Retained Earnings	109,118	104,058
Accumulated Other Comprehensive Income	6,387	2,890
TOTAL SHAREHOLDERS' EQUITY	237,608	228,824

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,240,223	\$2,237,099
End of period shares issued and outstanding	13,251,470	13,215,800

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
INTEREST INCOME		
Interest and Fees on Loans	\$16,299	\$15,944
Interest on Federal Funds Sold and Other Short-term Investments	3	3
Interest and Dividends on Securities:		
Taxable	2,435	2,759
Non-taxable	1,263	975
TOTAL INTEREST INCOME	20,000	19,681
INTEREST EXPENSE		
Interest on Deposits	993	1,036
Interest on FHLB Advances and Other Borrowings	458	449
TOTAL INTEREST EXPENSE	1,451	1,485
NET INTEREST INCOME	18,549	18,196
Provision for Loan Losses	250	350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	18,299	17,846
NON-INTEREST INCOME		
Trust and Investment Product Fees	984	922
Service Charges on Deposit Accounts	1,137	1,061
Insurance Revenues	2,545	2,556
Company Owned Life Insurance	205	201
Interchange Fee Income	483	447
Other Operating Income	576	390
Net Gains on Sales of Loans	749	476
Net Gains on Securities	463	228
TOTAL NON-INTEREST INCOME	7,142	6,281
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	8,825	8,424
Occupancy Expense	1,226	1,316
Furniture and Equipment Expense	479	509
FDIC Premiums	282	275
Data Processing Fees	837	1,010
Professional Fees	644	692
Advertising and Promotion	443	478
Intangible Amortization	245	348
Other Operating Expenses	1,852	2,038
TOTAL NON-INTEREST EXPENSE	14,833	15,090
Income before Income Taxes	10,608	9,037
Income Tax Expense	3,302	2,732
NET INCOME	\$7,306	\$6,305

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Basic Earnings Per Share	\$0.55	\$0.48
Diluted Earnings Per Share	\$0.55	\$0.48
Dividends Per Share	\$0.17	\$0.16

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
NET INCOME	\$7,306	\$6,305
Other Comprehensive Income:		
Unrealized Gains on Securities		
Unrealized Holding Gain Arising During the Period	5,868	3,733
Reclassification Adjustment for Gains Included in Net Income	(463	) (228
Tax Effect	(1,908	) (1,241
Net of Tax	3,497	2,264
Total Other Comprehensive Income	3,497	2,264
COMPREHENSIVE INCOME	\$10,803	\$8,569

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$7,306	\$6,305
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	565	479
Depreciation and Amortization	1,121	1,216
Loans Originated for Sale	(32,640)	(22,414)
Proceeds from Sales of Loans Held-for-Sale	33,260	22,255
Provision for Loan Losses	250	350
Gain on Sale of Loans, net	(749)	(476)
Gain on Securities, net	(463)	(228)
Loss on Sales of Other Real Estate and Repossessed Assets	8	2
Loss on Disposition and Impairment of Premises and Equipment	—	1
Increase in Cash Surrender Value of Company Owned Life Insurance	(211)	(211)
Equity Based Compensation	234	158
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	2,245	606
Interest Payable and Other Liabilities	(967)	1,079
Net Cash from Operating Activities	9,959	9,122
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	18,811	18,315
Proceeds from Sales of Securities Available-for-Sale	9,808	254
Purchase of Securities Available-for-Sale	(11,899)	(25,776)
Proceeds from Maturities of Securities Held-to-Maturity	89	84
Purchase of Federal Home Loan Bank Stock	(160)	—
Loans Made to Customers, net of Payments Received	832	18,240
Proceeds from Sales of Other Real Estate	151	444
Property and Equipment Expenditures	(283)	(396)
Net Cash from Investing Activities	17,349	11,165
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	20,642	(44,369)
Change in Short-term Borrowings	(27,212)	19,240
Advances in Long-term Debt	—	1,500
Repayments of Long-term Debt	(64)	(1,557)
Issuance of Common Stock	(7)	25
Dividends Paid	(2,246)	(2,108)
Net Cash from Financing Activities	(8,887)	(27,269)
Net Change in Cash and Cash Equivalents	18,421	(6,982)
Cash and Cash Equivalents at Beginning of Year	42,446	60,132
Cash and Cash Equivalents at End of Year	\$60,867	\$53,150

Cash Paid During the Year for

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Interest	\$1,552	\$1,588
Income Taxes	—	—
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	\$127	\$187
Securities Transferred to Accounts Receivable	—	3,323

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

(unaudited, dollars in thousands except share and per share data)

NOTE 1 – Basis of Presentation

German American Bancorp, Inc. operates primarily in the banking industry. The accounting and reporting policies of German American Bancorp, Inc. and its subsidiaries (hereinafter collectively referred to as the "Company") conform to U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. It is suggested that these consolidated financial statements and notes be read in conjunction with the financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. 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 shareholder's equity based on these reclassifications.

NOTE 2 – Per Share Data

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

	Three Months Ended March 31,	
	2015	2014
Basic Earnings per Share:		
Net Income	\$7,306	\$6,305
Weighted Average Shares Outstanding	13,221,455	13,179,188
Basic Earnings per Share	\$0.55	\$0.48
Diluted Earnings per Share:		
Net Income	\$7,306	\$6,305
Weighted Average Shares Outstanding	13,221,455	13,179,188
Potentially Dilutive Shares, Net	16,038	24,513
Diluted Weighted Average Shares Outstanding	13,237,493	13,203,701
Diluted Earnings per Share	\$0.55	\$0.48

For the three months ended March 31, 2015 and 2014, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

(unaudited, dollars in thousands except share and per share data)

NOTE 3 – Securities

The amortized cost, unrealized gross gains and losses recognized in accumulated other comprehensive income (loss), and fair value of Securities Available-for-Sale at March 31, 2015 and December 31, 2014, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015				
U.S. Treasury and Agency Securities	\$20,000	\$—	\$(80)	) \$19,920
Obligations of State and Political Subdivisions	151,288	7,546	(34)	) 158,800
Mortgage-backed Securities - Residential	437,920	5,015	(2,430)	) 440,505
Equity Securities	353	—	—	353
Total	\$609,561	\$12,561	\$(2,544)	) \$619,578
December 31, 2014				
U.S. Treasury and Agency Securities	\$20,000	\$—	\$(439)	) \$19,561
Obligations of State and Political Subdivisions	147,321	6,515	(59)	) 153,777
Mortgage-backed Securities - Residential	458,709	3,615	(5,020)	) 457,304
Equity Securities	353	—	—	353
Total	\$626,383	\$10,130	\$(5,518)	) \$630,995

Equity securities that do not have readily determinable fair values are included in the above totals, are carried at historical cost and are evaluated for impairment on a periodic basis. All mortgage-backed securities in the above table are residential mortgage-backed securities and guaranteed by government sponsored entities.

The carrying amount, unrecognized gains and losses and fair value of Securities Held-to-Maturity at March 31, 2015 and December 31, 2014, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
March 31, 2015				
Obligations of State and Political Subdivisions	\$95	\$—	\$—	\$95
December 31, 2014				
Obligations of State and Political Subdivisions	\$184	\$2	\$—	\$186

The amortized cost and fair value of Securities at March 31, 2015 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations with or without call or prepayment penalties. Mortgage-backed and Equity Securities are not due at a single maturity date and are shown separately.

Securities Available-for-Sale:	Amortized Cost	Fair Value
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Due in one year or less	\$4,692	\$4,740
Due after one year through five years	16,972	17,096
Due after five years through ten years	74,720	78,267
Due after ten years	74,904	78,617
Mortgage-backed Securities - Residential	437,920	440,505
Equity Securities	353	353
Total	\$609,561	\$619,578

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2015
(unaudited, dollars in thousands except share and per share data)

NOTE 3 - Securities (continued)

Securities Held-to-Maturity:	Carrying Amount	Fair Value
Due in one year or less	\$—	\$—
Due after one year through five years	95	95
Due after five years through ten years	—	—
Due after ten years	—	—
Total	\$95	\$95

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Proceeds from Sales	\$9,808	\$254
Gross Gains on Sales	463	228
Income Taxes on Gross Gains	162	80

Below is a summary of securities with unrealized losses as of March 31, 2015 and December 31, 2014, presented by length of time the securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2015						
U.S. Treasury and Agency Securities	\$—	\$—	\$19,920	\$(80)	\$19,920	\$(80)
Obligations of State and Political Subdivisions	3,392	(31)	357	(3)	3,749	(34)
Mortgage-backed Securities - Residential	39,548	(98)	156,304	(2,332)	195,852	(2,430)
Equity Securities	—	—	—	—	—	—
Total	\$42,940	\$(129)	\$176,581	\$(2,415)	\$219,521	\$(2,544)
December 31, 2014						
U.S. Treasury and Agency Securities	\$—	\$—	\$19,561	\$(439)	\$19,561	\$(439)
Obligations of State and Political Subdivisions	3,765	(25)	4,298	(34)	8,063	(59)
Mortgage-backed Securities - Residential	26,606	(191)	209,679	(4,829)	236,285	(5,020)
Equity Securities	—	—	—	—	—	—
Total	\$30,371	\$(216)	\$233,538	\$(5,302)	\$263,909	\$(5,518)

Securities are written down to fair value when a decline in fair value is not considered temporary. In estimating other-than-temporary losses, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The Company doesn't intend to sell or expect to be required to sell these securities, and the decline in fair value is largely due to changes in market interest rates, therefore, the Company does not consider these securities to be other-than-temporarily impaired. All mortgage-backed securities in the Company's portfolio are guaranteed by government sponsored entities, are investment grade, and are performing as expected.

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2015

(unaudited, dollars in thousands except share and per share data)

NOTE 4 – Derivatives

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of these interest rate swaps and the offsetting counterparty derivative instruments were \$19.9 million at March 31, 2015 and \$23.1 million at December 31, 2014. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions with approved, reputable, independent counterparties with substantially matching terms. The agreements are considered stand alone derivatives and changes in the fair value of derivatives are reported in earnings as non-interest income.

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

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

March 31, 2015		December 31, 2014
Notional Amount	Fair Value	