GERMAN AMERICAN BANCORP, INC.
Form 10-K
March 09, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

Commission File Number 001-15877

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| GERMAN AMERICAN BANCORP, INC. | |
| (Exact name of registrant as specified in its charter) | |
| INDIANA | 35-1547518 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 711 Main Street, Box 810, Jasper, Indiana | 47546 |
| (Address of Principal Executive Offices) | (Zip Code) |

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

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

| Title of Each Class | Name of each exchange on which registered |
|---|---|
| Common Shares, no par value | The NASDAQ Stock Market LLC |

Securities registered pursuant to Section 12(g) of the Act: None

| | |
|---|---|
| Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. | o Yes þ No |
| Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. | o Yes þ No |
| 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. | þ Yes o 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). | þ Yes o No |
| Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K: | þ |

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 o | Accelerated filer þ | Non-accelerated filer o | Smaller reporting company o |
| | | | o Yes þ No |

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

The aggregate market value of the registrant's common shares held by non-affiliates as of June 30, 2015 was approximately $356,839,806. This calculation does not reflect a determination that persons are (or are not) affiliates for any other purpose.

As of March 1, 2016, there were outstanding 15,221,253 common shares, no par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of German American Bancorp, Inc., for the Annual Meeting of its Shareholders to be held May 19, 2016, to the extent stated herein, are incorporated by reference into Part III (Items 10 through 14).

GERMAN AMERICAN BANCORP, INC.
ANNUAL REPORT ON FORM 10-K
For Fiscal Year Ended December 31, 2015

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PART IV

Information included in or incorporated by reference in this Annual Report on Form 10-K, our other filings with the Securities and Exchange Commission and our press releases or other public statements, contain or may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to a discussion of our forward- looking statements and associated risks in Item 1, “Business - Forward-Looking Statements and Associated Risks” and our discussion of risk factors in Item 1A, “Risk Factors” in this Annual Report on Form 10-K.

PART I

Item 1. Business.

General

German American Bancorp, Inc., is a NASDAQ-traded (symbol: GABC) bank holding company based in Jasper, Indiana. On March 1, 2016, the Company completed its acquisition of River Valley Bancorp ("River Valley"), and its subsidiaries, including River Valley Financial Bank. The acquisition is discussed in more detail in Note 20 (Subsequent Events) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report. After the acquisition of River Valley, German American, through its banking subsidiary German American Bancorp, operates 51 banking offices in 19 contiguous southern Indiana counties and one northern Kentucky county. The Company also owns an investment brokerage subsidiary (German American Investment Services, Inc.) and a full line property and casualty insurance agency (German American Insurance, Inc.).

Throughout this 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 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 the Company’s bank subsidiary.

The Company’s lines of business include retail and commercial banking, comprehensive financial planning, full service brokerage and trust administration, and a full range of personal and corporate insurance products. Financial and other information by segment is included in Note 15 (Segment Information) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report and is incorporated into this Item 1 by reference. Substantially all of the Company’s revenues are derived from customers located in, and substantially all of its assets are located in, the United States.

Subsidiaries

The Company’s principal operating subsidiaries are described in the following table:

| Name | Type of Business | Principal Office Location |
|---|---|---|
| German American Bancorp | Commercial Bank | Jasper, IN |
| German American Insurance, Inc. | Multi-Line Insurance Agency | Jasper, IN |
| German American Investment Services, Inc. | Retail Brokerage | Jasper, IN |

Business Developments

On March 1, 2016, the Company acquired by merger River Valley Bancorp and its subsidiary, River Valley Financial Bank. River Valley Financial Bank, headquartered in Madison, Indiana, provided a full range of commercial and consumer banking services from 14 banking offices predominantly located in southeast Indiana. At the time of acquisition, River Valley reported on its balance sheet consolidated assets and equity (unaudited) as of February 29, 2016 that totaled $516.3 million and $56.6 million, respectively. For further information regarding the River Valley merger transaction, see Note 20 (Subsequent Events) in the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which Note 20 is incorporated into this Item 1 by reference.

The Company expects to continue to evaluate opportunities to expand its business through opening of new banking, insurance or trust, brokerage and financial planning offices, and through acquisitions of other banks, bank branches, portfolios of loans or other assets, and other financial-service-related businesses and assets in the future.

Office Locations

The Indiana map below illustrates the locations of the Company's 51 retail and commercial banking, insurance and investment offices as of March 1, 2016.

Competition

The industries in which the Company operates are highly competitive. The Bank competes for commercial and retail banking business within its core banking segment not only with financial institutions that have offices in the same counties but also with financial institutions that compete from other locations in Southern Indiana and elsewhere. Further, the Bank competes for loans and deposits not only with commercial banks but also with savings and loan associations, savings banks, credit unions, production credit associations, federal land banks, finance companies, credit card companies, personal loan companies, investment brokerage firms, insurance agencies, insurance companies, lease finance companies, money market funds, mortgage companies, and other non-depository financial intermediaries. There are numerous alternative providers (including national providers that advertise extensively and provide their services via e-mail, direct mail, telephone and the Internet) for the insurance products and services offered by German American Insurance, Inc., trust and financial planning services offered by the Bank and the brokerage products and financial planning services offered by German American Investment Services, Inc. Many of these competitors have substantially greater resources than the Company.

Employees

At March 1, 2016 the Company and its subsidiaries employed approximately 596 full-time equivalent employees. There are no collective bargaining agreements, and employee relations are considered to be good.

Regulation and Supervision
Overview

The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System ("FRB") under the Bank Holding Company Act of 1956, as amended ("BHC Act"), and is required to file with the FRB annual reports and such additional information as the FRB may require. The FRB may also make examinations or inspections of the Company. The Bank is under the supervision of and subject to examination by the Indiana Department of Financial Institutions ("DFI"), and the Federal Deposit Insurance Corporation ("FDIC"). Regulation and examination by banking regulatory agencies are primarily for the benefit of depositors rather than shareholders.

Under FRB policy and the Dodd-Frank Wall Street Reform and Consumer Protection Act, a complex and wide-ranging statute that was enacted by Congress and signed into law during July 2010 (the "Dodd-Frank Act"), the Company is required to act as a source of financial and managerial strength to the Bank, and to commit resources to support the Bank, even in circumstances where the Company might not do so absent such a requirement. Under current federal law, the FRB may require a bank holding company to make capital injections into a troubled subsidiary bank. It may charge the bank holding company with engaging in unsafe and unsound practices if the bank holding company fails to commit resources to such a subsidiary bank or if it undertakes actions that the FRB believes might jeopardize the bank holding company's ability to commit resources to such subsidiary bank.

With certain exceptions, the BHC Act prohibits a bank holding company from engaging in (or acquiring direct or indirect control of more than 5 percent of the voting shares of any company engaged in) nonbanking activities. One of the principal exceptions to this prohibition is for activities deemed by the FRB to be "closely related to banking." Under current regulations, bank holding companies and their subsidiaries are permitted to engage in such banking-related business ventures as consumer finance; equipment leasing; credit life insurance; computer service bureau and software operations; mortgage banking; and securities brokerage.

Under the BHC Act, certain well-managed and well-capitalized bank holding companies may elect to be treated as a "financial holding company" and, as a result, be permitted to engage in a broader range of activities that are "financial in nature" and in activities that are determined to be incidental or complementary to activities that are financial in nature. These activities include underwriting and dealing in and making a market in securities (subject to certain limits and compliance procedures required by the so-called Volcker Rule provisions added by the Dodd-Frank Act, described below under "Other Aspects of the Dodd-Frank Act"); insurance underwriting, and merchant banking. Banks may also engage through financial subsidiaries in certain of the activities permitted for financial holding companies, subject to certain conditions. The Company has not elected to become a financial holding company and its subsidiary bank has not elected to form financial subsidiaries.

The Bank and the subsidiaries of the Bank may generally engage in activities that are permissible activities for state chartered banks under Indiana banking law, without regard to the limitations that might apply to such activities under the BHC Act if the Company were to engage directly in such activities at the parent company level or through parent company subsidiaries that were not also bank subsidiaries.

Indiana law and the BHC Act restrict certain types of expansion by the Company and its bank subsidiary. The Company and its subsidiaries may be required to apply for prior approval from (or give prior notice and an opportunity for review to) the FRB, the DFI, the FDIC, and/or other bank regulatory or other regulatory agencies, as a condition to the acquisition or establishment of new offices, or the acquisition (by merger or consolidation, purchase or otherwise) of the stock, business or properties of other banks or other companies.

The earnings of commercial banks and their holding companies are affected not only by general economic conditions but also by the policies of various governmental regulatory authorities. In particular, the FRB regulates money and credit conditions and interest rates in order to influence general economic conditions, primarily through open-market operations in U.S. Government securities, varying the discount rate on bank borrowings, and setting reserve requirements against bank deposits. These policies have a significant influence on overall growth and distribution of bank loans, investments and deposits, and affect interest rates charged on loans and earned on investments or paid for time and savings deposits. FRB monetary policies have had a significant effect on the operating results of commercial banks in the past and this is expected to continue in the future. The general effect, if any, of such policies upon the future business and earnings of the Company cannot accurately be predicted.

Capital Requirements

We are subject to various regulatory capital requirements both at the parent company and at the Bank level administered by the FRB and by the FDIC and DFI, respectively. Failure to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for "Prompt Corrective Action" (described below), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting policies. Our capital amounts and classification are also subject to judgments by the regulators regarding qualitative components, risk weightings, and other factors. We have consistently maintained regulatory capital ratios at or above the well-capitalized standards.

Generally, for purposes of satisfying these capital requirements, we must maintain capital sufficient to meet both risk-based asset ratio tests and a leverage ratio test on a consolidated basis. The risk-based ratios are determined by allocating assets and specified off-balance sheet commitments into various weighted categories, with higher weighting assigned to categories perceived as representing greater risk. A risk-based ratio represents the applicable measure of capital divided by total risk-weighted assets. The leverage ratio is a measure of our core capital divided by our total assets adjusted as specified in the guidelines.

Effective January 1, 2015 (subject to certain phase-in provisions), we became subject to new rules adopted in 2013 by the federal banking agencies that implement certain regulatory capital reforms based upon banking supervision principles adopted by the Basel Committee on Banking Supervision (known as "Basel III") and certain changes required by the Dodd-Frank Act. Generally, under these new rules (and subject to certain phase-in provisions), (a) minimum requirements have increased for both the quality and quantity of capital held by banking organizations, (b) new and stricter criteria are applied for determining the eligibility for inclusion in regulatory capital of capital instruments (other than common equity), and (c) the methodology for calculating risk-weighted assets has changed. The rules include, among other requirements:

- a new minimum ratio of "Common Equity Tier 1 Capital" to risk-weighted assets of 4.5%
- a new conservation buffer of Common Equity Tier 1 Capital equal to (when fully phased in) an additional 2.5% of risk-weighted assets
- a minimum ratio of Tier 1 Capital to risk-weighted assets (raised from 4% under the prior guidelines to 6%) plus (when fully phased in) the conservation buffer of an additional 2.5%, resulting in a minimum required total Tier 1 Capital to risk-weighted assets ratio of 8.5%
- a minimum ratio of Total Capital (that is, Tier 1 Capital plus instruments includable in a tier called Tier 2 Capital) to risk-weighted assets of at least 8.0%, plus (when fully phased in) the capital conservation buffer (which is added to the 8.0% Total Capital ratio as that buffer is phased-in, effectively resulting in a minimum Total Capital ratio of 10.5% upon full implementation)
- a minimum leverage ratio of 4% (calculated as the ratio of Tier 1 Capital to adjusted average consolidated assets)

The new capital measure "Common Equity Tier 1" ("CET1") Capital consists of common stock instruments that meet the eligibility criteria in the new rules, retained earnings, accumulated other comprehensive income ("AOCI") and common equity Tier 1 minority interest.

Tier 1 Capital under the new rules consists of CET1 (subject to certain adjustments) and "additional Tier 1 capital" instruments meeting specified requirements, plus, in the case of smaller holding companies like ours, trust preferred securities in accordance with prior requirements for their inclusion in Tier I Capital.

Under prior capital standards in effect throughout 2014, the effects of AOCI items included in capital were excluded for the purposes of determining regulatory capital ratios; under the present rules, we and our bank subsidiary were given the opportunity to make a one-time election (the “Opt-out Election”) to filter certain AOCI components, comparable to their treatment under the prior risk-based capital rules. Our AOCI Opt-out Election was made in connection with the regulatory financial reports that we and our bank subsidiary filed with banking agencies for our fiscal quarter ended March 31, 2015.

Although banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will technically comply with minimum capital requirements under the new rules, such institutions will face limitations on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers based on the amount of the shortfall.

As applied to us, these rules generally became effective January 1, 2015; the new Common Equity Tier 1 Capital conservation buffer, however, will be phased in from 2016 through 2019.

Prompt Corrective Action Classifications

The Federal Deposit Insurance Corporation Improvements Act (enacted in 1991) (FDICIA) requires federal banking regulatory authorities to take regulatory enforcement actions known as Prompt Corrective Action with respect to depository institutions that do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized.

Under FDICIA, a depository institution that is not well-capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. Since the Bank throughout 2015 was well-capitalized, the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had $19.1 million of such brokered deposits at December 31, 2015. Further, a depository institution or its holding company that is not well-capitalized will generally not be successful in seeking regulatory approvals that may be necessary in connection with any plan or agreement to expand its business, such as through the acquisition (by merger or consolidation, purchase or otherwise) of the stock, business or properties of other banks or other companies.

Under the Prompt Corrective Action regulations, the applicable agency can treat an institution as if it were in the next lower category if the agency determines (after notice and an opportunity for hearing) that the institution is in an unsafe or unsound condition or is engaging in an unsafe or unsound practice. The degree of regulatory scrutiny of a financial institution will increase, and the permissible activities of the institution will decrease, as it moves downward through the capital categories. Institutions that fall into one of the three undercapitalized categories may be required to (i) submit a capital restoration plan; (ii) raise additional capital; (iii) restrict their growth, deposit interest rates, and other activities; (iv) improve their management; (v) eliminate management fees and dividends; or (vi) divest themselves of all or a part of their operations. Bank holding companies can be called upon to boost the capital of the financial institutions that they control, and to partially guarantee the institutions' performance under their capital restoration plans. Critically under-capitalized institutions are subject to appointment of a receiver or conservator within 90 days of becoming so classified.

The minimum ratios defined by the Prompt Corrective Action regulations from time to time are merely guidelines and the bank regulators possess the discretionary authority to require higher capital ratios. Further, the risk-based capital standards of the FRB and the FDIC specify that evaluations by the banking agencies of a bank's capital adequacy will include an assessment of the exposure to declines in the economic value of a bank's capital due to changes in interest rates. These banking agencies issued a joint policy statement on interest rate risk describing prudent methods for monitoring such risk that rely principally on internal measures of exposure and active oversight of risk management activities by senior management.

To qualify as a "well-capitalized" institution, a depository institution under the Prompt Corrective Action requirements must have a leverage ratio of no less than 5%, a Tier I Capital ratio of no less than 8%, a CET1 ratio of no less than 6.5%, and a total risk-based capital ratio of no less than 10%, and the bank must not have been under any order or directive from the appropriate regulatory agency to meet and maintain a specific capital level. As of December 31, 2015, the Bank exceeded the requirements contained in the applicable regulations, policies and directives pertaining to capital adequacy to be classified as "well-capitalized", and is unaware of any material violation or alleged violation of these regulations, policies or directives. For a tabular presentation of our regulatory capital ratios and those of the Bank as of December 31, 2015, see Note 8 (Shareholders' Equity) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which Note 8 is incorporated herein by reference.

Future rulemaking and regulatory changes on capital requirements may impact the Company as it continues to grow and evaluate potential mergers and acquisitions.

Restrictions on Bank Dividends or Loans to, or other Transactions with, the Parent Company, and on Parent Company Dividends

German American Bancorp, Inc., which is the publicly-held parent of the Bank (German American Bancorp), is a corporation that is separate and distinct from the Bank and its other subsidiaries. Most of the parent company’s revenues historically have been comprised of dividends, fees, and interest paid to it by the Bank, and this is expected to continue in the future. There are, however, statutory limits under Indiana law on the amount of dividends that the Bank can pay to its parent company without regulatory approval. The Bank may not, without the approval of the DFI, pay a dividend in an amount greater than its undivided profits. In addition, the prior approval of the DFI is required for the payment of a dividend by an Indiana state-chartered bank if the total of all dividends declared in a calendar year would exceed the total of its net income for the year combined with its retained net income for the two preceding years, unless such a payment qualifies under certain exemptive criteria that exempt certain dividend payments by certain qualified banks from the prior approval requirement. At December 31, 2015, the Bank was eligible for payment of dividends under the exemptive criteria established by DFI policy for this purpose, and could have declared and paid to the holding company $31,000,000 of its undivided profits without approval by the DFI in accordance with such criteria. See Note 8 (Shareholders' Equity) of the Notes to Consolidated Financial Statements included in Item 8 of this Report for further discussion.

In addition, the FRB and other bank regulatory agencies have issued policy statements or advisories that provide that insured banks and bank holding companies should generally only pay dividends out of current operating earnings.

In addition to these statutory restrictions, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice, such authority may require, after notice and hearing, that such bank cease and desist from such practice. Accordingly, if the Bank were to experience financial difficulties, it is possible that the applicable regulatory authority could determine that the Bank would be engaged in an unsafe or unsound practice if the Bank were to pay dividends and could prohibit the Bank from doing so, even if availability existed for dividends under the statutory formula.

Further, the Bank is subject to affiliate transaction restrictions under federal laws, which limit certain transactions generally involving the transfer of funds by a subsidiary bank or its subsidiaries to its parent corporation or any nonbank subsidiary of its parent corporation, whether in the form of loans, extensions of credit, investments, or asset purchases, or otherwise undertaking certain obligations on behalf of such affiliates. Furthermore, covered transactions that are loans and extensions of credit must be secured within specified amounts. In addition, all covered transactions and other affiliate transactions must be conducted on terms and under circumstances that are substantially the same as such transactions with unaffiliated entities.

Other Aspects of the Dodd-Frank Act

The Dodd-Frank Act (in addition to the regulatory changes discussed elsewhere in this “Regulation and Supervision” discussion and below under “Federal Deposit Insurance Premiums and Assessments”) made a variety of changes that affect the business and affairs of the Company and the Bank in other ways. For instance, the Dodd-Frank Act (or agency regulations adopted and implemented (or to be adopted and implemented) under the Dodd-Frank Act) altered the authority and duties of the federal banking and securities regulatory agencies, implemented certain corporate governance requirements for all public companies including financial institutions with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions; restricted certain proprietary trading and hedge fund and private equity activities of banks and their affiliates; eliminated the former statutory prohibition against the payment of interest on business checking accounts; limited interchange fees on debit card transactions by certain large processors; and established the Consumer Financial Protection Bureau (“CFPB”).

The CFPB was granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. The Dodd-Frank Act authorized the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower’s ability to repay. In addition, Dodd-Frank allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a “qualified mortgage” as defined by the CFPB. The Dodd-Frank Act permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

The CFPB issued a rule, effective as of January 14, 2014, designed to clarify for lenders how they can avoid monetary damages under the Dodd-Frank Act, which would hold lenders accountable for ensuring a borrower’s ability to repay a mortgage. Loans that satisfy this “qualified mortgage” safe-harbor will be presumed to have complied with the new ability-to-repay standard. Under the CFPB's rule, a "qualified mortgage" loan must not contain certain specified features, and the borrower's total monthly debt-to-income ratio may not exceed a specified percentage. Lenders must also verify and document the income and financial resources relied upon to qualify the borrower for the loan and underwrite the loan based on a fully amortizing payment schedule and maximum interest rate during the first five years, taking into account all applicable taxes, insurance and assessments.

On December 10, 2013, five financial regulatory agencies, including the FRB and FDIC, adopted final rules implementing the so-called Volcker Rule added to banking law by Section 619 of the Dodd-Frank Act. These final rules prohibit banking entities from, among other things, (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in and relationships with hedge funds or private equity funds ("covered funds"). Community banks like the Bank have been afforded some relief under these final rules from onerous compliance obligations created by the rules; if banks are engaged only in exempted proprietary trading, such as trading in U.S. government, agency, state and municipal obligations, they are exempt entirely from compliance program requirements. Moreover, even if a community bank engages in proprietary trading or covered fund activities under the rule, they need only incorporate references to the Volcker Rule into their existing policies and procedures. The Final Rules were effective April 1, 2014, but the conformance period was extended from its statutory end date of July 21, 2014 until July 21, 2015. In addition, the FRB granted an extension until July 21, 2016 of the conformance period for banking entities to conform investments in and relationships with covered funds that were in place prior to December 31, 2013, and announced its intention to further extend this aspect of the conformance period until July 21, 2017. We do not expect that the Volcker Rule will have any material financial implications on us or our investments or activities.

Certain Other Laws and Regulations

The Community Reinvestment Act of 1977 (the "CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution's records of meeting the credit needs of its community. During its last examination, a rating of "satisfactory" was received by the Bank.

In accordance with the Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "GLB Act"), federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

A major focus of governmental policy on financial institutions is combating money laundering and terrorist financing. The Bank Secrecy Act (the "BSA") requires financial institutions to develop policies, procedures, and practices to prevent and deter money laundering, and mandates that every bank have a written, board-approved program that is reasonably designed to assure and monitor compliance with the BSA. In addition, banks are required to adopt a customer identification program as part of its BSA compliance program, and are required to file Suspicious Activity Reports when they detect certain known or suspected violations of federal law or suspicious transactions related to a money laundering activity or a violation of the BSA. The USA PATRIOT Act of 2001, or the USA Patriot Act, substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the “OFAC” rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control (“OFAC”). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

The Bank is subject to a wide variety of other laws with respect to the operation of its businesses, and regulations adopted under those laws, including but not limited to the Truth in Lending Act, Truth in Savings Act, Equal Credit Opportunity Act, Electronic Funds Transfer Act, Fair Housing Act, Home Mortgage Disclosure Act, Fair Debt Collection Practices Act, Fair Credit Reporting Act, Expedited Funds Availability (Regulation CC), Reserve Requirements (Regulation D), Insider Transactions (Regulation O), Privacy of Consumer Information (Regulation P), Margin Stock Loans (Regulation U), Right To Financial Privacy Act, Flood Disaster Protection Act, Homeowners Protection Act, Servicemembers Civil Relief Act, Real Estate Settlement Procedures Act, TILA-RESPA Integrated Disclosure Rule, Telephone Consumer Protection Act, CAN-SPAM Act, Children’s Online Privacy Protection Act, the Secure and Fair Enforcement for Mortgage Licensing Act of 2008 (SAFE Act) and the John Warner National Defense Authorization Act. The laws and regulations to which we are subject are constantly under review by Congress, the federal regulatory agencies, and the state authorities.

Federal Deposit Insurance Premiums and Assessments

The Bank’s deposit accounts are currently insured by the Deposit Insurance Fund (the "DIF") of the FDIC. The insurance benefit generally covers up to a maximum of $250,000 per separately insured depositor. As an FDIC-insured bank, our bank subsidiary is subject to deposit insurance premiums and assessments to maintain the DIF. The Bank’s deposit insurance premium assessment rate depends on the capital category and supervisory category to which it is assigned. The FDIC has authority to raise or lower assessment rates on insured banks in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments.

Under the current assessment system, the FDIC assigns a banking institution to one of four risk categories designed to measure risk. Total base assessment rates currently range from 0.025% of deposits for an institution in the highest rated sub-category of the highest rated category to 0.45% of deposits for an institution in the lowest rated category. The FDIC may increase or decrease its rates by 2.0 basis points without further rulemaking. In an emergency, the FDIC may also impose a special assessment.

In addition, all FDIC insured institutions are required to pay assessments to the FDIC at an annual rate of approximately six tenths of a basis point of insured deposits to fund interest payments on bonds issued by the Financing Corporation, an agency of the federal government established to recapitalize the predecessor to the Savings Association Insurance Fund. These assessments will continue until the Financing Corporation bonds mature in 2017 through 2019.

Internet Address; Internet Availability of SEC Reports

The Company’s Internet address is www.germanamerican.com.

The Company makes available, free of charge through the Investor Relations - Financial Information section of its Internet website, the Company’s annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after those reports are filed with or furnished to the SEC.

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. Such forward-looking statements can include statements about the Company’s net interest income or net interest margin; adequacy of the Company's capital under regulatory requirements and of its allowance for loan losses, and the quality of the Company's loans, investment securities and other assets; simulations of changes in interest rates; litigation results; dividend policy; acquisitions or mergers; 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. All statements other than statements of historical fact included in this Report, including statements regarding our financial position, business strategy and the plans and objectives of our management for future operations, are forward-looking statements. When used in this Report, words such as "anticipate", "believe", "estimate", "expect", "intend", and similar expressions, as they relate to us or our management, identify forward-looking statements.

Such forward-looking statements are based on the beliefs of our management, as well as assumptions made by and information currently available to our management, 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 Item 1A, "Risk Factors," and in Item 7 of this Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 but not limited to:

- 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;
- potential deterioration in general economic conditions, either nationally or locally, resulting in, among other things, credit quality deterioration;
- capital management activities, including possible future sales of new securities, or possible repurchases or redemptions by the Company of outstanding debt or equity securities;
- risks of expansion through acquisitions and mergers, such as unexpected credit quality problems of the acquired loans or other assets, unexpected attrition of the customer base or employee 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 FRB;
- 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 Act and the Federal Deposit Insurance Act and other possible legislative and regulatory actions and reforms; and
- the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

Such statements reflect our views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements. It is intended that these forward-looking statements speak only as of the date they are made. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

## Item 1A. Risk Factors.

The following describes some of the principal risks and uncertainties to which our industry in general, and we and our assets and businesses specifically, are subject; other risks are briefly identified in our cautionary statement that is included under the heading "Forward-Looking Statements and Associated Risks" in Part I, Item 1, "Business." Although we seek ways to manage these risks and uncertainties and to develop programs to control those that we can, we ultimately cannot predict the future. Future results may differ materially from past results, and from our expectations and plans.

Risks Related to the Financial Services Industry

We operate in a highly regulated environment and changes in laws and regulations to which we are subject may adversely affect our results of operations.

The banking industry in which we operate is subject to extensive regulation and supervision under federal and state laws and regulations. The restrictions imposed by such laws and regulations limit the manner in which we conduct our business, undertake new investments and activities and obtain financing. These regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit our shareholders. Financial institution regulation has been the subject of significant legislation in recent years and may be the subject of further significant legislation, none of which is in our control. Significant new laws or changes in, or repeals of, existing laws (including changes in federal or state laws affecting corporate taxpayers generally or financial institutions specifically) could have a material adverse effect on our business, financial condition, results of operations or liquidity. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit conditions, and any unfavorable change in these conditions could have a material adverse effect on our business, financial condition, results of operations or liquidity.

The Dodd-Frank Act and regulations adopted under that law could materially and adversely affect us by increasing compliance costs and heightening our risk of noncompliance with applicable regulations.

The Dodd-Frank Act (discussed in Item 1 - Business - Regulation and Supervision) has resulted in sweeping changes in the regulation of financial institutions. The Dodd-Frank Act contains numerous provisions that affect all banks and bank holding companies. Many of these provisions remain subject to regulatory rule-making and implementation, the effects of which are not yet known. Accordingly, we cannot predict the specific impact and long-term effects that the Dodd-Frank Act and the regulations promulgated thereunder will have on us and our prospects, our target markets and the financial industry more generally. However, the Dodd-Frank Act and the regulations promulgated thereunder have imposed (and are likely to result in the imposition of) additional administrative and regulatory burdens that obligate us to incur additional expenses (which adversely affect our margins and profitability) and increase the risk that we might not comply in all respects with the new requirements. Further, the CFPB's rule on qualified mortgages could limit our ability or desire to make certain types of loans or loans to certain borrowers, or could make it more expensive and/or time consuming to make these loans, which could adversely impact our growth or profitability.

The new Basel III Capital Rules may have an adverse effect on us.

We are now subject to new capital rules, adopted by the federal banking agencies but based on the international Basel III guidelines, effective January 1, 2015. See Item 1- Business - Regulation and Supervision. Some of the requirements of these new rules will be phased in over the three year period between 2016 and 2019. The impact of the new capital rules may require us to maintain higher levels of capital in the future than we have maintained in recent years, which could lower our return on equity.

Our FDIC insurance premiums may increase, and special assessments could be made, which might negatively impact our results of operations.

High levels of insured institution failures, as a result of the recent recession, significantly increased losses to the Deposit Insurance Fund of the FDIC. Further, the Dodd-Frank Act mandated the FDIC to increase the level of its reserves for future losses in its Deposit Insurance Fund. Since the Deposit Insurance Fund is funded by premiums and assessments paid by insured banks, our FDIC insurance premium could increase in future years depending upon the

FDIC's actual loss experience, changes in our Bank's financial condition or capital strength, and future conditions in the banking industry.

Risks Related to Our Business and Financial Strategies

Economic weakness in our geographic markets could negatively affect us.

We conduct business from offices that are located in 19 contiguous southern Indiana counties and one northern Kentucky county, from which substantially all of our customer base is drawn. Because of the geographic concentration of our operations and customer base, our results depend largely upon economic conditions in this area. Our performance could be negatively affected to the extent that business and economic conditions in this area do not continue to recover from the recent recession. Any material deterioration in economic conditions in these markets could have direct or indirect material adverse impacts on us, or on our customers or on the financial institutions with whom we deal as counterparties to financial transactions. Such deterioration could negatively impact customers' ability to obtain new loans or to repay existing loans, diminish the values of any collateral securing such loans and could cause increases in the number of the Company's customers experiencing financial distress and in the levels of the Company's delinquencies, non-performing loans and other problem assets, charge-offs and provision for credit losses, all of which could materially adversely affect our financial condition and results of operations. The underwriting and credit monitoring policies and procedures that we have adopted cannot eliminate the risk that we might incur losses on account of factors relating to the economy like those identified above, and those losses could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If our actual loan losses exceed our estimates, our earnings and financial condition will be impacted.

A significant source of risk for any bank or other enterprise that lends money arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail (because of financial difficulties or other reasons) to perform in accordance with the terms of their loan agreements. In our case, we originate many loans that are secured, but some loans are unsecured depending on the nature of the loan. With respect to secured loans, the collateral securing the repayment of these loans includes a wide variety of real and personal property that may be insufficient to cover the obligations owed under such loans, due to adverse changes in collateral values caused by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate and other external events.

We could be adversely affected by changes in interest rates.

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, demand for loans, securities and deposits, and policies of various governmental and regulatory agencies and, in particular, the monetary policies of the FRB. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. We maintain an investment portfolio consisting of various high quality liquid fixed-income securities. The nature of fixed-income securities is such that increases in prevailing market interest rates negatively impact the value of these securities, while decreases in prevailing market interest rates positively impact the value of these securities. Any substantial, prolonged change in market interest rates could have a material adverse effect on our financial condition, results of operations, and cash flows.

The banking and financial services business in our markets is highly competitive.

We compete with much larger regional, national, and international competitors, including competitors that have no (or only a limited number of) offices physically located within our markets, many of which compete with us via Internet and other electronic product and service offerings. In addition, banking and other financial services competitors (including newly organized companies) that are not currently represented by physical locations within our geographic markets could establish office facilities within our markets, including through their acquisition of existing competitors. Developments increasing the nature or level of our competition, or decreasing the effectiveness by which we compete, could have a material adverse effect on our business, financial condition, results of operations or liquidity. See also Part I, Item 1, of this Report, “Business - Competition,” and “Business - Regulation and Supervision.”

The manner in which we report our financial condition and results of operations may be affected by accounting changes.

Our financial condition and results of operations that are presented in our consolidated financial statements, accompanying notes to the consolidated financial statements, and selected financial data appearing in this Report, are, to a large degree, dependent upon our accounting policies. The selection of and application of these policies involve estimates, judgments and uncertainties that are subject to change, and the effect of any change in estimates or judgments that might be caused by future developments or resolution of uncertainties could be materially adverse to our reported financial condition and results of operations. In addition, authorities that prescribe accounting principles and standards for public companies from time to time change those principles or standards or adopt formal or informal interpretations of existing principles or standards. Such changes or interpretations (to the extent applicable to us) could result in changes that would be materially adverse to our reported financial condition and results of operations.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of securities or loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Although we have historically been able to replace maturing deposits and borrowings as necessary, we might not be able to replace such funds in the future if, among other things, our results of operations or financial condition or the results of operations or financial condition of our lenders or market conditions were to change.

The value of securities in our investment securities portfolio may be negatively affected by disruptions in securities markets.

Prices and volumes of transactions in the nation’s securities markets can be affected suddenly by economic crises, or by other national or international crises, such as national disasters, acts of war or terrorism, changes in commodities markets, or instability in foreign governments. Disruptions in securities markets may detrimentally affect the value of securities that we hold in our investment portfolio, such as through reduced valuations due to the perception of heightened credit and liquidity risks. There can be no assurance that declines in market value associated with these disruptions will not result in other than temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount due us.

We are dependent on key personnel and the loss of one or more of those key personnel could harm our business.

Competition for qualified employees and personnel in the financial services industry (including banking personnel, trust and investments personnel, and insurance personnel) is intense and there are a limited number of qualified persons with knowledge of and experience in our local Southern Indiana markets. Our success depends to a significant degree upon our ability to attract and retain qualified loan origination executives, sales executives for our trust and investment products and services, and sales executives for our insurance products and services. We also depend upon the continued contributions of our management personnel, and in particular upon the abilities of our senior executive management, and the loss of the services of one or more of them could harm our business.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations, cash flows and financial condition.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties (including liabilities for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination), or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property.

Risks Related to Our Operations

We face significant operational risks due to the high volume and the high dollar value nature of transactions we process.

We operate in many different businesses in diverse markets and rely on the ability of our employees and systems to process transactions. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions, errors relating to transaction processing and technology, breaches of our internal control systems or failures of those of our suppliers or counterparties, compliance failures, cyber-attacks or unforeseen problems encountered while implementing new computer systems or upgrades to existing systems, business continuation and disaster recovery issues, and other external events. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of an operational deficiency or as a result of noncompliance with applicable regulatory standards, adverse business decisions or their implementation, and customer attrition due to potential negative publicity. The occurrence of any of these events could cause us to suffer financial loss, face regulatory action and suffer damage to our reputation.

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a cyber-attack, other breach of our computer systems or otherwise, could harm our business.

In the normal course of our business, we collect, process and retain sensitive and confidential client and customer information on our behalf and on behalf of other third parties. Despite the security measures we have in place, our facilities and systems may be vulnerable to cyber-attacks, security breaches, acts of vandalism, computer viruses, misplaced or lost data, programming and / or human errors, or other similar events.

Information security risks for financial institutions like us have increased recently in part because of new technologies, the use of the Internet and telecommunications technologies (including mobile devices) to conduct financial and other business transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions, particularly denial of service attacks, designed to disrupt key business services such as customer-facing web sites. We may not be able to anticipate or implement effective preventive measures against all security breaches of these types. Although we employ detection and response mechanisms designed to contain and mitigate security incidents, early detection may be thwarted by sophisticated attacks and malware designed to avoid detection.

We also face risks related to cyber-attacks and other security breaches in connection with credit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. We also rely on numerous other third party service providers to conduct other aspects of our business operations and face similar risks relating to them. We cannot be sure that their information security protocols are sufficient to withstand a cyber-attack or other security breach.

Any cyber-attack or other security breach involving the misappropriation, loss or other unauthorized disclosure of confidential customer information could severely damage our reputation, erode confidence in the security of our systems, products and services, expose us to the risk of litigation and liability, disrupt our operations and have a material adverse effect on our business.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of our information systems, we cannot completely ensure that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions, or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

We are dependent upon third parties for certain information system, data management and processing services and to provide key components of our business infrastructure.

We outsource certain information system and data management and processing functions to third party providers. These third party service providers are sources of operational and informational security risk to us, including risks associated with operational errors, information system interruptions or breaches, and unauthorized disclosures of sensitive or confidential client or customer information. If third party service providers encounter any of these issues, or if we have difficulty communicating with them, we could be exposed to disruption of operations, loss of service or connectivity to customers, reputational damage, and litigation risk that could have a material adverse effect on our results of operations or our business.

Third party vendors provide key components of our business infrastructure such as internet connections, network access and core application processing.

While we have selected these third party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of their not providing us their services for any reason or their performing their services poorly, could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business. Replacing these third party vendors could also entail significant delay and expense.

Risks Relating to Expansion of Our Businesses by Acquisition

Any acquisitions of banks, bank branches, or loans or other financial service assets pose risks to us.

As more fully described herein, we have recently acquired River Valley Bancorp and we may acquire other banks, bank branches and other financial-service-related businesses and assets in the future. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the acquired assets, operations or company;
- exposure to potential asset quality issues of the acquired assets, operations or company;
- environmental liability with acquired real estate collateral or other real estate;
- difficulty and expense of integrating the operations, systems and personnel of the acquired assets, operations or company;
- potential disruption to our ongoing business, including diversion of our management's time and attention;

- the possible loss of key employees and customers of the acquired operations or company;
- difficulty in estimating the value of the acquired assets, operations or company; and
- potential changes in banking or tax laws or regulations that may affect the acquired assets, operations or company.

We may not be successful in overcoming these risks or any other problems encountered in connection with mergers or acquisitions.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Company's tangible book value per common share or net income per common share (or both) may occur in connection with any future transaction.

We may incur substantial costs to expand by acquisition, and such acquisitions may not result in the levels of profits we seek.

Integration efforts for any future acquisitions may not be successful and following any future acquisition, after giving it effect, we may not achieve financial results comparable to or better than our historical experience.

We may participate in FDIC-assisted acquisitions, which could present additional risks to our financial condition.

We may make opportunistic whole or partial acquisitions of troubled financial institutions in transactions facilitated by the FDIC. In addition to the risks frequently associated with acquisitions, an acquisition of a troubled financial institution may involve a greater risk that the acquired assets underperform compared to our expectations. Because these acquisitions are structured in a manner that would not allow us the time normally associated with preparing for and evaluating an acquisition, including preparing for integration of an acquired institution, we may face additional risks including, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems. Additionally, while the FDIC may agree to assume certain losses in transactions that it facilitates, there can be no assurances that we would not be required to raise additional capital as a condition to, or as a result of, participation in an FDIC-assisted transaction. Any such transactions and related issuances of stock may have dilutive effect on earnings per share and share ownership.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's executive offices are located in the main office building of the Bank at 711 Main Street, Jasper, Indiana. The main office building, which is owned by the Bank and also serves as the main office of the Company's other subsidiaries, contains approximately 23,600 square feet of office space. The Bank and the Company's other subsidiaries also conduct their operations from 55 other locations in Southern Indiana of which 41 are owned by the Company and 14 are leased from third parties.

Item 3. Legal Proceedings.

There are no material 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 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market and Dividend Information

German American Bancorp, Inc.’s stock is traded on NASDAQ’s Global Select Market under the symbol GABC. The quarterly high and low closing prices for the Company’s common stock as reported by NASDAQ and quarterly cash dividends declared and paid are set forth in the table below.

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | High | Low | Cash Dividend | High | Low | Cash Dividend |
| Fourth Quarter | $34.61 | $28.78 | $0.17 | $30.82 | $25.73 | $0.16 |
| Third Quarter | $30.71 | $28.32 | $0.17 | $27.74 | $25.80 | $0.16 |
| Second Quarter | $30.38 | $28.18 | $0.17 | $29.79 | $25.07 | $0.16 |
| First Quarter | $29.78 | $27.84 | $0.17 | $29.75 | $25.54 | $0.16 |
| | | | $0.68 | | | $0.64 |

The Common Stock was held of record by approximately 3,594 shareholders at March 1, 2016.

Cash dividends paid to the Company’s shareholders are primarily funded from dividends received by the parent company from its bank subsidiary. The declaration and payment of future dividends will depend upon the earnings and financial condition of the Company and its subsidiaries, general economic conditions, compliance with regulatory requirements affecting the ability of the bank subsidiary and the Company to declare dividends, (for further discussion of such requirements, see Item 1, “Business - Regulation and Supervision - Restrictions on Bank Dividends or Loans to, or other Transactions with, the Parent Company and Parent Company Dividends”), and other factors.

| | | | |
|---|---|---|---|
| Transfer Agent: | Computershare<br>Priority Processing<br>250 Royall St<br>Canton, MA 02021<br>Contact: Shareholder Relations<br>(800) 884-4225 | Shareholder Information and Corporate Office: | Terri A. Eckerle<br>German American Bancorp, Inc.<br>P.O. Box 810<br>Jasper, Indiana 47547-0810<br>(812) 482-1314<br>(800) 482-1314 |

Stock Performance Graph

The following graph compares the Company’s five-year cumulative total returns with those of the Russell 2000 Stock Index, Russell Microcap Stock Index, and the Indiana Bank Peer Group. The Indiana Bank Peer Group (which is a custom peer group identified by Company management) includes all Indiana-based commercial bank holding companies (excluding companies owning thrift institutions that are not regulated as bank holding companies) that have been in existence as commercial bank holding companies throughout the five-year period ended December 31, 2015, the stocks of which have been traded on an established securities market (NYSE, AMEX, NASDAQ) throughout that five-year period. The companies comprising the Indiana Bank Peer Group for purposes of the December 2015 comparison were: 1st Source Corp., Your Community Bankshares, Inc., First Financial Corp., First Merchants Corp., Lakeland Financial Corp., MainSource Financial Group, Old National Bancorp, and Horizon Bancorp. The returns of each company in the Indiana Bank Peer Group have been weighted to reflect the company’s market capitalization. The Russell 2000 Stock Index, which is designed to measure the performance of the small-cap segment of the U.S. equity universe, is a subset of the Russell 3000 Index (which measures the performance of the largest 3,000 U.S. companies) that includes approximately 2,000 of the smallest securities in that index based on a combination of their market cap and current index membership, and is annually reconstituted at the end of each June. The Russell Microcap Stock Index is an index representing the smallest 1,000 securities in the small-cap Russell 2000 Index plus the next 1,000 securities, which is also annually reconstituted at the end of each June. The Company’s stock is currently included in the Russell 2000 Index and Russell Microcap Index.

Stock Repurchase Program Information

The following table sets forth information regarding the Company's purchases of its common shares during each of the three months ended December 31, 2015.

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid Per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs [1] |
|---|---|---|---|---|
| October 2015 | — | — | — | 272,789 |
| November 2015 | — | — | — | 272,789 |
| December 2015 | — | — | — | 272,789 |

[1] On April 26, 2001, the Company announced that its Board of Directors had approved a stock repurchase program for up to 607,754 of its outstanding common shares, of which the Company had purchased 334,965 common shares through December 31, 2015 (both such numbers adjusted for subsequent stock dividends). The Board of Directors established no expiration date for this program. The Company purchased no shares under this program during the quarter ended December 31, 2015.

Equity Compensation Plan Information

The Company maintains four plans under which it has authorized the issuance of its Common Shares to employees and non-employee directors as compensation: its 1992 Stock Option Plan (under which no new grants may be made), its 1999 Long-Term Equity Incentive Plan (under which no new grants may be made), its 2009 Long-Term Equity Incentive Plan, and its 2009 Employee Stock Purchase Plan. Each of these four plans was approved by the requisite vote of the Company's common shareholders in the year of adoption by the Board of Directors. The Company is not a party to any individual compensation arrangement involving the authorization for issuance of its equity securities to any single person, other than option agreements and restricted stock award agreements that have been granted under the terms of one of the four plans identified above. The following table sets forth information regarding these plans as of December 31, 2015:

| Plan Category | Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants or Rights | | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights | Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in First Column) | |
|---|---|---|---|---|---|
| Equity compensation plans approved by security holders | 7,017 | (a) | $13.25 | 707,064 | (b) |
| Equity compensation plans not approved by security holders | — | | — | — | |
| Total | 7,017 | | $13.25 | 707,064 | |

(a) Does not include any shares that employees may have the right to purchase under the Employee Stock Purchase Plan in August 2016 in respect of employee payroll deductions of participating employees that had accumulated as of December 31, 2015 during the plan year that commenced in August 2015. Although these employees have the right under this Plan to have their accumulated payroll deductions applied to the purchase of Common Shares at a discounted price in August 2016, the price at which such shares may be purchased and the number of shares that may be purchased under that Plan at that time is not presently determinable.

(b) Represents 399,688 shares that the Company may in the future issue to employees under the Employee Stock Purchase Plan (although the Company typically purchases the shares needed for sale to participating employees on the open market rather than issuing new issue shares to such employees) and 307,376 shares that were available for grant or issuance at December 31, 2015 under the 2009 Long-Term Equity Incentive Plan. Under the Long-Term Equity Incentive Plan, the aggregate number of Common Shares available for the grant of awards (subject to customary anti-dilution adjustment provisions) cumulatively following the adoption of the Plan in 2009 through the expiration of the Plan in 2019 may not exceed the sum of the following: (a) 500,000 shares, plus (b) any shares exchanged by a participant as full or partial payment to the Company of the exercise price of an option granted to the participant under the Plan; plus (c) at the beginning of each calendar year, an additional number of shares (if any) equal to the number of shares that would result in the number of shares available for awards as of such date being equal to one percent (1%) of the total number of the Company's shares outstanding as of the immediately preceding December 31, on a fully-diluted basis.

For additional information regarding the Company's equity incentive plans and employee stock purchase plan, see Note 8 (Shareholders' Equity) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report.

Item 6. Selected Financial Data.

The following selected data should be read in conjunction with the consolidated financial statements and related notes that are included in Item 8 of this Report, and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which is included in Item 7 of this Report (dollars in thousands, except per share data). Year-to-year financial information comparability is affected by the acquisition accounting treatment for mergers and acquisitions, including but not limited to the Company's acquisition of American Community Bancorp, Inc., effective January 1, 2011 and the Company's acquisition of United Commerce Bancorp, effective October 1, 2013.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Summary of Operations: | | | | | |
| Interest Income | $81,620 | $80,386 | $75,672 | $77,160 | $80,161 |
| Interest Expense | 6,068 | 6,047 | 7,155 | 10,912 | 16,180 |
| Net Interest Income | 75,552 | 74,339 | 68,517 | 66,248 | 63,981 |
| Provision for Loan Losses | — | 150 | 350 | 2,412 | 6,800 |
| Net Interest Income after Provision For Loan Losses | 75,552 | 74,189 | 68,167 | 63,836 | 57,181 |
| Non-interest Income | 27,444 | 23,937 | 23,615 | 21,811 | 21,576 |
| Non-interest Expense | 61,326 | 57,713 | 54,905 | 50,923 | 50,782 |
| Income before Income Taxes | 41,670 | 40,413 | 36,877 | 34,724 | 27,975 |
| Income Tax Expense | 11,606 | 12,069 | 11,464 | 10,669 | 7,726 |
| Net Income | $30,064 | $28,344 | $25,413 | $24,055 | $20,249 |
| | | | | | |
| Year-end Balances: | | | | | |
| Total Assets | $2,373,701 | $2,237,099 | $2,163,827 | $2,006,300 | $1,873,767 |
| Total Loans, Net of Unearned Income | 1,564,347 | 1,447,982 | 1,382,382 | 1,204,866 | 1,120,993 |
| Total Deposits | 1,826,376 | 1,779,761 | 1,812,156 | 1,640,931 | 1,556,198 |
| Total Long-term Debt | 95,606 | 64,591 | 87,237 | 89,472 | 90,974 |
| Total Shareholders' Equity | 252,348 | 228,824 | 200,097 | 185,026 | 167,610 |
| | | | | | |
| Average Balances: | | | | | |
| Total Assets | $2,267,555 | $2,170,761 | $2,037,236 | $1,934,123 | $1,823,703 |
| Total Loans, Net of Unearned Income | 1,483,752 | 1,406,000 | 1,272,055 | 1,147,891 | 1,114,181 |
| Total Deposits | 1,825,913 | 1,783,348 | 1,695,796 | 1,618,712 | 1,521,204 |
| Total Shareholders' Equity | 241,017 | 214,496 | 189,689 | 177,207 | 159,765 |
| | | | | | |
| Per Share Data: | | | | | |
| Net Income (1) | $2.27 | $2.14 | $1.98 | $1.90 | $1.61 |
| Cash Dividends | 0.68 | 0.64 | 0.60 | 0.56 | 0.56 |
| Book Value at Year-end | 19.00 | 17.31 | 15.19 | 14.64 | 13.31 |
| | | | | | |
| Other Data at Year-end: | | | | | |
| Number of Shareholders | 3,343 | 3,398 | 3,444 | 3,105 | 3,221 |
| Number of Employees | 479 | 473 | 478 | 439 | 417 |
| Weighted Average Number of Shares (1) | 13,258,916 | 13,223,178 | 12,807,678 | 12,637,743 | 12,587,748 |
| | | | | | |
| Selected Performance Ratios: | | | | | |
| Return on Assets | 1.33 % | 1.31 % | 1.25 % | 1.24 % | 1.11 % |
| Return on Equity | 12.47 % | 13.21 % | 13.40 % | 13.57 % | 12.67 % |

| | | | | | |
|---|---|---|---|---|---|
| Equity to Assets | 10.63 % | 10.23 % | 9.25 % | 9.22 % | 8.95 % |
| Dividend Payout | 29.97 % | 29.81 % | 30.18 % | 29.38 % | 34.80 % |
| Net Charge-offs (Recoveries) to Average Loans | 0.03 % | (0.01 )% | 0.10 % | 0.19 % | 0.43 % |
| Allowance for Loan Losses to Loans | 0.92 % | 1.03 % | 1.05 % | 1.29 % | 1.37 % |
| Net Interest Margin | 3.70 % | 3.76 % | 3.67 % | 3.74 % | 3.84 % |

(1) Share and Per Share Data includes the dilutive effect of stock options.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

## INTRODUCTION

German American Bancorp, Inc., is a NASDAQ-traded (symbol: GABC) bank holding company based in Jasper, Indiana. On March 1, 2016 (as discussed in Note 20, Subsequent Events, of the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which Note 20 is incorporated herein by reference), the Company completed its acquisition of River Valley Bancorp, and its subsidiaries, including River Valley Financial Bank. After the acquisition of River Valley, German American, through its banking subsidiary German American Bancorp, operates 51 banking offices in 19 contiguous southern Indiana counties and one northern Kentucky county. The Company also owns an investment brokerage subsidiary (German American Investment Services, Inc.) and a full line property and casualty insurance agency (German American Insurance, Inc.).

Throughout this Management’s Discussion and Analysis, as elsewhere in this Report, when we use the term “Company”, we will usually be referring to the business and affairs (financial and otherwise) of the Company 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., and the term “Bank” when we mean to refer to only the Company’s bank subsidiary.

This Management’s Discussion and Analysis includes an analysis of the major components of the Company’s operations for the years 2013 through 2015 and its financial condition as of December 31, 2015 and 2014. This information should be read in conjunction with the accompanying consolidated financial statements and footnotes contained elsewhere in this Report and with the description of business included in Item 1 of this Report (including the cautionary disclosure regarding “Forward Looking Statements and Associated Risks”). Financial and other information by segment is included in Note 15 (Segment Information) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report and is incorporated into this Item 7 by reference.

The statements of management’s expectations and goals concerning the Company’s future operations and performance that are set forth in the following Management Overview and in other sections of this Item 7 are forward-looking statements, and readers are cautioned that these forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from the expectations of the Company that is expressed or implied by any forward-looking statement. This Item 7, as well as the discussions in Item 1 (“Business”) entitled “Forward-Looking Statements and Associated Risks” and in Item 1A (“Risk Factors”) (which discussions are incorporated in this Item 7 by reference) list some of the factors that could cause the Company’s actual results to vary materially from those expressed or implied by any such forward-looking statements.

On March 1, 2016 (as discussed in Note 20 (Subsequent Events) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which Note 20 is incorporated herein by reference), the Company completed its acquisition of River Valley Bancorp, and its subsidiaries, including River Valley Financial Bank. This transaction has significantly increased the levels of the Company’s total assets, liabilities, shareholders equity. River Valley's consolidated assets and equity (unaudited) as of February 29, 2016 totaled $516.3 million and $56.6 million, respectively. This transaction will be accounted for in the Company’s future financial statements (for any period ended on or after January 1, 2016) under the acquisition method of accounting. Under the acquisition method, the purchase price will be allocated to identifiable assets and assumed liabilities based on their fair values. Any excess will be accounted for as goodwill. Intangible assets with definite lives will be amortized over their estimated useful lives. Goodwill and intangible assets determined to have indefinite lives will not be amortized, but will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that management of the Company determines that the value of goodwill or intangible assets has become impaired, an impairment charge will be recorded in the fiscal quarter in which such determination is made. Costs related to this acquisition that were incurred by the Company during 2015 were expensed by the Company during 2015, and costs related to the merger that were and will be incurred in 2016 will be recorded in 2016.

Any statements of management’s expectations and goals concerning the Company’s future operations and performance, and future financial condition, liquidity and capital resources that are set forth in the following Management Overview and in other sections of this Item 7 are forward-looking statements, and readers are cautioned that these forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from the expectations of the Company that is expressed or implied by any forward-looking statement. This Item 7, as well as the discussions in Item 1 (“Business”) entitled “Forward-Looking Statements and Associated Risks” and in Item 1A (“Risk Factors”) (which discussions are incorporated in this Item 7 by reference) list some of the factors that could cause the Company’s actual results to vary materially from those expressed or implied by any such forward-looking statements.

## MANAGEMENT OVERVIEW

The Company's 2015 net income totaled $30,064,000, or $2.27 per diluted share, which was a record level of earnings for the Company and represented a 6% increase on a per share basis over the Company's 2014 net income of $28,344,000, or $2.14 per diluted share. The Company's return on average equity for 2015 was 12.5%, representing the eleventh consecutive year the Company has achieved a double-digit return on equity.

The record earnings performance during 2015 was attributable to an increased level of net interest income, driven by a higher level of earning assets, increased levels of non-interest income, and solid and improved asset quality. These positive impacts were partially mitigated by an increased level of non-interest expenses.

On March 1, 2016 the Company completed its acquisition of River Valley Bancorp, and its subsidiaries, including River Valley Financial Bank. Immediately following this transaction, River Valley Bancorp's subsidiary bank, River Valley Financial Bank, was merged into German American's similarly-named subsidiary bank, German American Bancorp. This transaction provides a strategic opportunity for German American to enhance its presence in the Southeast Indiana market area.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

### Allowance for Loan Losses

The Company maintains an allowance for loan losses to cover probable incurred credit losses at the balance sheet date. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. A provision for loan losses is charged to operations based on management's periodic evaluation of the necessary allowance balance. Evaluations are conducted at least quarterly and more often if deemed necessary. The ultimate recovery of all loans is susceptible to future market factors beyond the Company's control.

The Company has an established process to determine the adequacy of the allowance for loan losses. The determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on other classified loans and pools of homogeneous loans, and consideration of past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors, all of which may be susceptible to significant change. The allowance consists of two components of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover losses inherent in the loan portfolio.

Commercial and agricultural loans are subject to a standardized grading process administered by an internal loan review function. The need for specific reserves is considered for credits when graded impaired or when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or, (d) other reasons where the ultimate collectability of the loan is in question, or the loan characteristics require special monitoring. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired.

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

General allocations are made for commercial and agricultural loans that are graded as substandard based on migration analysis techniques to determine historical average losses for similar types of loans. General allocations are also made for other pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on historical average for loan losses for these portfolios, judgmentally adjusted for economic, external and internal factors and portfolio trends. Economic factors include evaluating changes in international, national, regional and local economic and business conditions that affect the collectability of the loan portfolio. Internal factors include evaluating changes in lending policies and procedures; changes in the nature and volume of the loan portfolio; and changes in experience, ability and depth of lending management and staff. In setting our external and internal factors we also consider the overall level of the allowance for loan losses to total loans; our allowance coverage as compared to similar size bank holding companies; and regulatory requirements.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses includes a minor unallocated component. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as economic uncertainties, lending staff quality, industry trends impacting specific portfolio segments, and broad portfolio quality trends. Therefore, the ratio of allocated to unallocated components within the total allowance may fluctuate from period to period.

Securities Valuation

Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported separately in accumulated other comprehensive income (loss), net of tax. The Company obtains market values from a third party on a monthly basis in order to adjust the securities to fair value. Equity securities that do not have readily determinable fair values are carried at cost. Additionally, when securities are deemed to be other than temporarily impaired, a charge will be recorded through earnings; therefore, future changes in the fair value of securities could have a significant impact on the Company's operating results. In determining whether a market value decline is other than temporary, management considers the reason for the decline, the extent of the decline, the duration of the decline and whether the Company intends to sell or believes it will be required to sell the securities prior to recovery. As of December 31, 2015, gross unrealized losses on the securities available-for-sale portfolio totaled approximately $4,360,000 and gross unrealized gains totaled approximately $10,400,000.

Income Tax Expense

Income tax expense involves estimates related to the valuation allowance on deferred tax assets and loss contingencies related to exposure from tax examinations.

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.

## RESULTS OF OPERATIONS

### NET INCOME

Net income for the year ended December 31, 2015 totaled $30,064,000 or $2.27 per diluted share, an increase of $1,720,000 or approximately 6% on a per share basis, from the year ended December 31, 2014 net income of $28,344,000 or $2.14 per diluted share. For 2015, the improvement in earnings was attributable to an increased level of net interest income, improved non-interest income, and a modestly reduced level of provision for loan loss partially offset by a higher level of non-interest expense.

Net income for the year ended December 31, 2014 totaled $28,344,000 or $2.14 per diluted share, an increase of $2,931,000 or approximately 8% on a per share basis, from the year ended December 31, 2013 net income of $25,413,000 or $1.98 per diluted share. For 2014, the improvement in earnings was primarily attributable to an increased level of net interest income, driven by a higher level of earning assets and improved net interest margin.

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.

Net interest income increased $1,213,000 or 2% (an increase of $2,081,000 or 3% on a tax-equivalent basis) during year ended December 31, 2015 compared with 2014. The increased level of net interest income during 2015 compared with 2014 was driven by a higher level of earning assets and in particular growth of the loan portfolio. In addition, the increased level of net interest income was attributable to a shift from the taxable securities portfolio to the non-taxable securities portfolio.

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 3.70% in 2015 compared to 3.76% during 2014. The yield on earning assets totaled 3.98% during 2015 compared to 4.06% in 2014 while the cost of funds (expressed as a percentage of average earning assets) totaled 0.28% during 2015 compared to 0.30% in 2014.

The decline in the net interest margin during 2015 compared with 2014 was largely attributable to the continued downward pressure on earning asset yields being driven by the low market interest rate environment and a competitive marketplace for lending opportunities. Partially mitigating the decline in earning asset yields was the continued decline in the Company's cost of funds. Accretion of loan discounts on acquired loans contributed approximately 4 basis points to the net interest margin during 2015 compared with 6 basis points during 2014.

Net interest income increased $5,822,000 or 9% (an increase of $6,672,000 or 9% on a tax-equivalent basis) during the year ended December 31, 2014 compared with 2013. The increased level of net interest income during 2014 compared with 2013 was driven by a higher level of earning assets and a higher net interest margin (expressed as a percentage of average earning assets).

The tax equivalent net interest margin was 3.76% during 2014 compared to 3.67% during 2013. The yield on earning assets totaled 4.06% during 2014 compared to 4.04% in 2013 while the cost of funds (expressed as a percentage of average earning assets) totaled 0.30% during 2014 compared to 0.37% in 2013.

The improvement of the net interest margin and net interest income in 2014 compared with 2013 was attributable to an increased level of average loans outstanding, improved securities yields and a decline in the Company’s cost of funds. Accretion of loan discounts on acquired loans contributed approximately 6 basis points to the net interest margin in 2014 and approximately 8 basis points in 2013.

The following table summarizes net interest income (on a tax-equivalent basis) for each of the past three years. For tax-equivalent adjustments, an effective tax rate of 35% was used for all years presented [(1)].

Average Balance Sheet
(Tax-equivalent basis, dollars in thousands)

| | Twelve Months Ended December 31, 2015 | | | Twelve Months Ended December 31, 2014 | | | Twelve Months Ended December 31, 2013 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Principal Balance | Income / Expense | Yield / Rate | Principal Balance | Income / Expense | Yield / Rate | Principal Balance | Income / Expense | Yield / Rate |
| ASSETS | | | | | | | | | |
| Federal Funds Sold and Other Short-term Investments | $19,187 | $13 | 0.07 % | $14,056 | $12 | 0.09 % | $15,507 | $30 | 0.19 % |
| Securities: | | | | | | | | | |
| Taxable | 455,303 | 9,017 | 1.98 % | 493,144 | 10,409 | 2.11 % | 541,478 | 11,091 | 2.05 % |
| Non-taxable | 178,929 | 9,001 | 5.03 % | 131,962 | 6,721 | 5.09 % | 87,471 | 4,491 | 5.13 % |
| Total Loans and Leases [(2)] | 1,483,752 | 67,109 | 4.52 % | 1,406,000 | 65,896 | 4.69 % | 1,272,055 | 61,862 | 4.86 % |
| TOTAL INTEREST EARNING ASSETS | 2,137,171 | 85,140 | 3.98 % | 2,045,162 | 83,038 | 4.06 % | 1,916,511 | 77,474 | 4.04 % |
| Other Assets | 145,517 | | | 141,287 | | | 136,170 | | |
| Less: Allowance for Loan Losses | (15,133 ) | | | (15,688 ) | | | (15,445 ) | | |
| TOTAL ASSETS | $2,267,555 | | | $2,170,761 | | | $2,037,236 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | | |
| Interest-bearing Demand Deposits | $574,021 | $796 | 0.14 % | $552,966 | $724 | 0.13 % | $534,095 | $856 | 0.16 % |
| Savings Deposits and Money Market Accounts | 471,058 | 547 | 0.12 % | 485,277 | 570 | 0.12 % | 466,391 | 717 | 0.15 % |
| Time Deposits | 350,522 | 2,633 | 0.75 % | 336,269 | 2,834 | 0.84 % | 339,469 | 3,124 | 0.92 % |
| FHLB Advances and Other Borrowings | 178,767 | 2,092 | 1.17 % | 160,101 | 1,919 | 1.20 % | 136,569 | 2,458 | 1.80 % |
| TOTAL INTEREST-BEARING LIABILITIES | 1,574,368 | 6,068 | 0.39 % | 1,534,613 | 6,047 | 0.39 % | 1,476,524 | 7,155 | 0.48 % |
| Demand Deposit Accounts | 430,312 | | | 408,836 | | | 355,841 | | |
| Other Liabilities | 21,857 | | | 12,816 | | | 15,182 | | |

| | | | |
|---|---|---|---|
| TOTAL LIABILITIES | 2,026,537 | 1,956,265 | 1,847,547 |
| Shareholders’ Equity | 241,018 | 214,496 | 189,689 |
| TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY | $2,267,555 | $2,170,761 | $2,037,236 |
| COST OF FUNDS | 0.28 % | 0.30 % | 0.37 % |
| NET INTEREST INCOME | $79,072 | $76,991 | $70,319 |
| NET INTEREST MARGIN | 3.70 % | 3.76 % | 3.67 % |

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

(2) Loans held-for-sale and non-accruing loans have been included in average loans. Interest income on loans includes loan fees of $2,102, $2,036 and $2,055 for 2015, 2014 and 2013, respectively.

The following table sets forth for the periods indicated a summary of the changes in interest income and interest expense resulting from changes in volume and changes in rates:

Net Interest Income – Rate / Volume Analysis
(Tax-Equivalent basis, dollars in thousands)

| | 2015 compared to 2014 Increase / (Decrease) Due to (1) | | | 2014 compared to 2013 Increase / (Decrease) Due to (1) | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Net | Volume | Rate | Net |
| Interest Income: | | | | | | |
| Federal Funds Sold and Other Short-term Investments | $4 | $(3) | $1 | $(3) | $(15) | $(18) |
| Taxable Securities | (771) | (621) | (1,392) | (1,013) | 331 | (682) |
| Non-taxable Securities | 2,363 | (83) | 2,280 | 2,266 | (36) | 2,230 |
| Loans and Leases | 3,566 | (2,353) | 1,213 | 6,338 | (2,304) | 4,034 |
| Total Interest Income | 5,162 | (3,060) | 2,102 | 7,588 | (2,024) | 5,564 |
| Interest Expense: | | | | | | |
| Savings and Interest-bearing Demand | 9 | 40 | 49 | 58 | (337) | (279) |
| Time Deposits | 116 | (317) | (201) | (29) | (261) | (290) |
| FHLB Advances and Other Borrowings | 219 | (46) | 173 | 375 | (914) | (539) |
| Total Interest Expense | 344 | (323) | 21 | 404 | (1,512) | (1,108) |
| Net Interest Income | $4,818 | $(2,737) | $2,081 | $7,184 | $(512) | $6,672 |

(1) The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

See the Company's Average Balance Sheet and the discussions headed USES OF FUNDS, SOURCES OF FUNDS, and "RISK MANAGEMENT – Liquidity and Interest Rate Risk Management" for further information on the Company's net interest income, net interest margin, and interest rate sensitivity position.

PROVISION FOR LOAN LOSSES

The Company provides for loan losses through regular provisions to the allowance for loan losses. The provision is affected by net charge-offs on loans and changes in specific and general allocations required on the allowance for loan losses. Provisions for loan losses totaled $0, $150,000, and $350,000 in 2015, 2014, and 2013, respectively.

The lack of provision for loan loss expense in 2015 was attributable to continued improvement in the key asset quality metrics of the Company as well as a reduction in the historical loss allocation as a result of years of higher losses migrating out of the look-back period that is used in the Company's standard methodology for determining the adequacy of its allowance for loan and lease losses. During 2015, as previously stated, there was no provision for loan losses while net charge-offs represented approximately 3 basis points of average loans. During 2014, the provision for loan loss represented approximately 1 basis point of average outstanding loans while the Company realized net recoveries of approximately 1 basis point of average outstanding loans.

The Company's allowance for loan losses represented 0.92% of total loans at year-end 2015 compared with 1.03% at year-end 2014. Under acquisition accounting, loans are recorded at fair value which includes a credit risk component, and therefore the allowance on loans acquired is not carried over from the seller.

Provisions for loan losses in all periods were made at a level deemed necessary by management to absorb estimated, probable incurred losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for loan losses is completed quarterly by management, the results of which are used to determine provisions for loan losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other qualitative factors. Refer also to the sections entitled CRITICAL ACCOUNTING POLICIES AND ESTIMATES and "RISK MANAGEMENT - Lending and Loan Administration" for further discussion of the provision and allowance for loan losses.

NON-INTEREST INCOME

During 2015, non-interest income increased $3,507,000 or 15% compared with 2014. During 2014, non-interest income increased $322,000 or 1% compared with 2013.

| Non-interest Income (dollars in thousands) | Years Ended December 31, | | | % Change From Prior Year | |
|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | 2014 |
| Trust and Investment Product Fees | $3,957 | $3,675 | $3,358 | 8 % | 9 % |
| Service Charges on Deposit Accounts | 4,826 | 4,829 | 4,144 | n/m [(1)] | 17 |
| Insurance Revenues | 7,489 | 7,255 | 6,217 | 3 | 17 |
| Company Owned Life Insurance | 846 | 826 | 965 | 2 | (14) |
| Interchange Fee Income | 2,127 | 1,961 | 1,854 | 8 | 6 |
| Other Operating Income | 4,515 | 2,018 | 2,003 | 124 | 1 |
| Subtotal | 23,760 | 20,564 | 18,541 | 16 | 11 |
| Net Gains on Sales of Loans | 2,959 | 1,892 | 2,645 | 56 | (28) |
| Net Gain on Securities | 725 | 1,481 | 2,429 | (51) | (39) |
| TOTAL NON-INTEREST INCOME | $27,444 | $23,937 | $23,615 | 15 | 1 |

(1) n/m = not meaningful

Trust and investment product fees increased $282,000, or 8%, during 2015 compared with 2014 primarily due to growth in assets under management within the Company's trust advisory group. Trust and investment product fees increased $317,000, or 9%, during 2014 compared with 2013 due principally to a 19% increase in retail brokerage revenues.

Insurance revenues increased $234,000, or 3%, during 2015 as compared to 2014 as a result of increased commercial insurance revenue partially offset by a decline in contingency revenue. Insurance revenues increased approximately $1,038,000, or 17%, during 2014 as compared to 2013 as a result of increased contingency revenue and increased commercial insurance revenue. Contingency revenue totaled $949,000 in 2015 compared with $1,049,000 in 2014 and $246,000 during 2013. Contingency revenue is reflective of claims and loss experience with insurance carriers that the Company represents through its property and casualty insurance agency.

Other operating income increased $2,497,000 during 2015 compared with 2014. The donation of a building and accompanying real estate to an economic development foundation in one of the Company's market areas that had a net book value of approximately $360,000 and an estimated fair value of approximately $1.75 million resulted in a net gain on the disposition of fixed assets of approximately $1.4 million. This disposition gain combined with increased fees associated with swap transactions with loan customers were the primary drivers of the increased other operating income in 2015 compared with 2014. Other operating income remained virtually unchanged in 2014 compared with 2013.

Net gains on sales of loans increased $1,067,000, or 56%, during 2015 compared with 2014. Net gains on sales of loans decreased $753,000, or 28%, during 2014 compared with 2013. Loan sales for 2015, 2014, and 2013 totaled $132.6 million, $99.4 million, and $166.6 million, respectively.

During 2015, the Company realized net gains on the sale of securities of $725,000 related to the sale of approximately $18.3 million of securities. During 2014, the Company realized net gains on the sale of securities of $1,481,000 related to the sale of approximately $58.7 million of securities. During 2013, the Company realized net gains on the sale of securities of $2,429,000 related to the sale of $90.5 million of securities. Included in the gain during 2013 was a $343,000 gain the Company realized related to the acquisition accounting treatment of the existing equity ownership position the Company held in United Commerce at the time of acquisition.

NON-INTEREST EXPENSE

During 2015, non-interest expense increased $3,613,000, or 6%, compared with 2014. During 2014, non-interest expense increased $2,808,000, or 5% compared with 2013.

| Non-interest Expense (dollars in thousands) | Years Ended December 31, | | | % Change From Prior Year | | | |
|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2013 | 2015 | | 2014 | |
| Salaries and Employee Benefits | $35,042 | $32,710 | $31,482 | 7 | % | 4 | % |
| Occupancy, Furniture and Equipment Expense | 6,812 | 7,047 | 6,443 | (3 | ) | 9 | |
| FDIC Premiums | 1,144 | 1,113 | 1,050 | 3 | | 6 | |
| Data Processing Fees | 3,541 | 3,675 | 3,133 | (4 | ) | 17 | |
| Professional Fees | 2,661 | 2,294 | 2,577 | 16 | | (11 | ) |
| Advertising and Promotion | 3,669 | 1,977 | 1,863 | 86 | | 6 | |
| Intangible Amortization | 790 | 1,254 | 1,416 | (37 | ) | (11 | ) |
| Other Operating Expenses | 7,667 | 7,643 | 6,941 | n/m [(1)] | | 10 | |
| TOTAL NON-INTEREST EXPENSE | $61,326 | $57,713 | $54,905 | 6 | | 5 | |

[(1)] n/m = not meaningful

Salaries and benefits increased $2,332,000, or 7%, during 2015 compared with 2014. The increase in salaries and benefits during 2015 compared with 2014 was attributable to increased costs associated with the Company's partially self insured health insurance plan, costs related to the Company's long-term equity and short-term cash incentive compensation plans and variable compensation related to an increased level of secondary market mortgage loan production and insurance revenues. Salaries and benefits increased $1,228,000, or 4%, during 2014 compared with 2013. The increase in salaries and benefits during 2014 compared with 2013 was primarily the result of an increased number of full-time equivalent employees due in part to the acquisition of United Commerce Bancorp which occurred on October 1, 2013.

Professional fees increased $367,000, or 16%, during 2015 compared with 2014. The increase was largely attributable to professional fees associated with the acquisition of River Valley Bancorp by the Company. Professional fees decreased $283,000, or 11%, during 2014 compared with 2013. Professional fees in 2013 were elevated related to professional fees associated with the acquisition of United Commerce Bancorp and fees associated with the Company’s review of its overall operating effectiveness and efficiency.

Advertising and promotion expense increased $1,692,000 during 2015 compared with 2014 following an increase of $114,000, or 6%, in 2014 compared with 2013. The increase during 2015 compared with 2014 was primarily due to the aforementioned donation of a building and accompanying real estate to an economic development foundation in one of the Company's market areas.

Intangible amortization declined $464,000, or 37%, during 2015 compared with 2014 following a decline of $162,000, or 11%, in 2014 compared with 2013. The decline in 2015 compared with 2014 was primarily attributable to lower levels of amortization of core deposit intangible from previous bank acquisition transactions. The decline in 2014 compared with 2013 was primarily attributable to lower levels of amortization of customer list intangible from previous insurance agency acquisitions.

PROVISION FOR INCOME TAXES

The Company records a provision for current income taxes payable, along with a provision for deferred taxes payable in the future. Deferred taxes arise from temporary differences, which are items recorded for financial statement purposes in a different period than for income tax returns. The Company's effective tax rate was 27.9%, 29.9%, and 31.1%, respectively, in 2015, 2014, and 2013. The effective tax rate in all periods is lower than the blended statutory rate. The lower effective rate in all periods primarily resulted from the Company's tax-exempt investment income on securities, loans, and company owned life insurance, income tax credits generated by investments in affordable housing projects and investments in new market tax credit projects, and income generated by subsidiaries domiciled in a state with no state or local income tax. See Note 10 to the Company's consolidated financial statements included in Item 8 of this Report for additional details relative to the Company's income tax provision.

## CAPITAL RESOURCES

As of December 31, 2015, shareholders' equity increased by $23.5 million to $252.3 million compared with $228.8 million at year-end 2014. The increase in shareholders' equity was primarily attributable to an increase of $21.1 million in retained earnings. Shareholders' equity represented 10.6% of total assets at December 31, 2015 and 10.2% of total assets at December 31, 2014. Shareholders' equity included $21.8 million of goodwill and other intangible assets at year-end 2015 compared to $22.6 million of goodwill and other intangible assets at December 31, 2014.

Federal banking regulations provide guidelines for determining the capital adequacy of bank holding companies and banks. These guidelines provide for a more narrow definition of core capital and assign a measure of risk to the various categories of assets. The Company is required to maintain minimum levels of capital in proportion to total risk-weighted assets and off-balance sheet exposures.

As of January 1, 2015, the Company and its subsidiary bank adopted the new Basel III regulatory capital framework. The adoption of this new framework modified the regulatory capital calculations, minimum capital levels and well-capitalized thresholds and added the new Common Equity Tier 1 capital ratio. Additionally, under the new rules, in order to avoid limitations on capital distributions, including dividend payments, the Company will be required to maintain a capital conservation buffer above the adequately capitalized Common Equity Tier 1 capital ratio. The capital conservation buffer is being phased in from 0.00% in 2015 to 2.50% in 2019. At December 31, 2015, the capital levels for the Company and its subsidiary bank remained well in excess of 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 tables below present the Company's consolidated and the subsidiary bank's capital ratios under regulatory guidelines:

| | 12/31/2015 Ratio [1] | | 12/31/2014 Ratio | | Minimum for Capital Adequacy Purposes [2] | | Well-Capitalized Guidelines [2] | |
|---|---|---|---|---|---|---|---|---|
| Total Capital (to Risk Weighted Assets) | | | | | | | | |
| Consolidated | 13.71 | % | 13.88 | % | 8.00 | % | N/A | |
| Bank | 12.08 | % | 12.57 | % | 8.00 | % | 10.00 | % |
| Tier 1 (Core) Capital (to Risk Weighted Assets) | | | | | | | | |
| Consolidated | 12.92 | % | 12.95 | % | 6.00 | % | N/A | |
| Bank | 11.28 | % | 11.64 | % | 6.00 | % | 8.00 | % |
| Common Tier 1, (CET 1) Capital Ratio (to Risk Weighted Assets) | | | | | | | | |
| Consolidated | 12.63 | % | N/A | | 4.50 | % | N/A | |
| Bank | 11.28 | % | N/A | | 4.50 | % | 6.50 | % |
| Tier 1 Capital (to Average Assets) | | | | | | | | |
| Consolidated | 10.15 | % | 9.57 | % | 4.00 | % | N/A | |
| Bank | 8.87 | % | 8.59 | % | 4.00 | % | 5.00 | % |

[1]The 12/31/2015 capital ratios are calculated based on the new Basel III regulatory capital framework.
[2]The Minimum for Capital Adequacy Purposes and Well-Capitalized Guidelines are based on the new Basel III regulatory capital framework.

Under the the final rules provided for by Basel III, accumulated other comprehensive income ("AOCI") was to be included in a banking organization's Common Tier 1 capital. The final rules allowed community banks to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election was to be made in the first regulatory filings (call report and FRY-9) that were made after the banking organizations became subject to the final rules. The Company elected to opt-out and continue the existing treatment of AOCI for regulatory capital purposes.

USES OF FUNDS

LOANS

December 31, 2015 loans outstanding increased $116.1 million, or 8% from year-end 2014. The increase in loans during 2015 was from virtually all categories with the exception of residential mortgage loans which experienced a modest decline. This growth came from across the Company's entire Southern Indiana market area. Commercial and industrial loans increased $38.1 million, or 10%, commercial real estate loans increased $35.7 million, or 6%, agricultural loans increased $30.1 million, or 14%, consumer loans increased $13.1 million, or 10%, and residential mortgage loans decreased $888,000 or less than 1%.

December 31, 2014 loans outstanding increased $66.8 million, or 5% from year-end 2013. The increase in loans during 2014 was broad based but was primarily attributable to commercial and industrial loans and agricultural loans and with growth occurring across virtually the entire market area of the Company. Commercial and industrial loans increased $29.1 million, or 8%, commercial real estate loans increased $1.0 million, or less than 1%, agricultural loans increased $23.9 million, or 12%, consumer loans increased $4.2 million, or 3%, and residential mortgage loans increased $8.5 million or 7%.

The composition of the loan portfolio has remained relatively stable and diversified over the past several years, including 2015. The portfolio is most heavily concentrated in commercial real estate loans at 39% of the portfolio. The Company’s exposure to non-owner occupied commercial real estate was limited to 22% of the total loan portfolio at year-end 2015. The Company’s commercial lending is extended to various industries, including hotel, agribusiness and manufacturing, as well as health care, wholesale, and retail services. The Company has only limited exposure in construction and development lending with this segment representing approximately 3% of the total loan portfolio.

| Loan Portfolio | December 31, | | | | |
|---|---|---|---|---|---|
| (dollars in thousands) | 2015 | 2014 | 2013 | 2012 | 2011 |
| Commercial and Industrial Loans and Leases | $418,154 | $380,079 | $350,955 | $335,373 | $293,172 |
| Commercial Real Estate Loans | 618,788 | 583,086 | 582,066 | 488,496 | 452,071 |
| Agricultural Loans | 246,886 | 216,774 | 192,880 | 179,906 | 167,693 |
| Home Equity and Consumer Loans | 147,931 | 134,847 | 130,628 | 115,540 | 124,479 |
| Residential Mortgage Loans | 136,316 | 137,204 | 128,683 | 88,586 | 86,134 |
| Total Loans | 1,568,075 | 1,451,990 | 1,385,212 | 1,207,901 | 1,123,549 |
| Less: Unearned Income | (3,728) | (4,008) | (2,830) | (3,035) | (2,556) |
| Subtotal | 1,564,347 | 1,447,982 | 1,382,382 | 1,204,866 | 1,120,993 |
| Less: Allowance for Loan Losses | (14,438) | (14,929) | (14,584) | (15,520) | (15,312) |
| Loans, Net | $1,549,909 | $1,433,053 | $1,367,798 | $1,189,346 | $1,105,681 |
| | | | | | |
| Ratio of Loans to Total Loans | | | | | |
| Commercial and Industrial Loans and Leases | 27% | 26% | 25% | 28% | 26% |
| Commercial Real Estate Loans | 39% | 40% | 42% | 40% | 40% |
| Agricultural Loans | 16% | 15% | 14% | 15% | 15% |
| Home Equity and Consumer Loans | 9% | 9% | 10% | 10% | 11% |

| | | | | | |
|---|---|---|---|---|---|
| Residential Mortgage Loans | 9 % | 10 % | 9 % | 7 % | 8 % |
| Total Loans | 100 % | 100 % | 100 % | 100 % | 100 % |

The Company’s policy is generally to extend credit to consumer and commercial borrowers in its primary geographic market area in Southern Indiana. Commercial extensions of credit outside this market area are generally concentrated in real estate loans within a 120 mile radius of the Company’s primary market and are granted on a selective basis.

The following table indicates the amounts of loans (excluding residential mortgages on 1-4 family residences and consumer loans) outstanding as of December 31, 2015, which, based on remaining scheduled repayments of principal, are due in the periods indicated (dollars in thousands). $571.8 million included in the table below are variable loans that are currently at their floors.

| | Within One Year | One to Five Years | After Five Years | Total |
|---|---|---|---|---|
| Commercial and Agricultural | $523,434 | $645,278 | $115,116 | $1,283,828 |
| | | | Interest Sensitivity | |
| | | | Fixed Rate | Variable Rate |
| Loans Maturing After One Year | | | $172,473 | $587,921 |

INVESTMENTS

The investment portfolio is a principal source for funding the Company's loan growth and other liquidity needs of its subsidiaries. The Company's securities portfolio primarily consists of money market securities, uncollateralized federal agency securities, municipal obligations of state and political subdivisions, and mortgage-backed securities issued by U.S. government agencies. Money market securities include federal funds sold, interest-bearing balances with banks, and other short-term investments. The composition of the year-end balances in the investment portfolio is presented in Note 2 (Securities) of the Notes to the Consolidated Financial Statements included in Item 8 of this Report and in the table below:

| Investment Portfolio, at Amortized Cost (dollars in thousands) | December 31, 2015 | % | | 2014 | % | | 2013 | % | |
|---|---|---|---|---|---|---|---|---|---|
| Federal Funds Sold and Other Short-term Investments | $15,947 | 2 | % | $8,965 | 2 | % | $22,762 | 3 | % |
| U.S. Treasury and Agency Securities | 10,000 | 2 | | 20,000 | 3 | | 20,000 | 3 | |
| Obligations of State and Political Subdivisions | 195,360 | 30 | | 147,505 | 23 | | 112,276 | 18 | |
| Mortgage-backed Securities - Residential | 426,088 | 66 | | 458,709 | 72 | | 481,724 | 76 | |
| Equity Securities | 353 | n/m [1] | | 353 | n/m [1] | | 353 | n/m [1] | |
| Total Securities Portfolio | $647,748 | 100 | % | $635,532 | 100 | % | $637,115 | 100 | % |

[1] n/m = not meaningful

The amortized cost of investment securities, including federal funds sold and short-term investments, increased $12.2 million at year-end 2015 compared with year-end 2014 and decreased $1.6 million at year-end 2014 compared with year-end 2013. The largest concentration in the investment portfolio continues to be in mortgage related securities representing 66% of the total securities portfolio at December 31, 2015. The Company's level of obligations of state and political subdivisions increased to $195.4 million or 30% of the portfolio at December 31, 2015.

Investment Securities, at Carrying Value
(dollars in thousands)

| | December 31, 2015 | 2014 | 2013 |
|---|---|---|---|
| Securities Held-to-Maturity | | | |
| Obligations of State and Political Subdivisions | $95 | $184 | $268 |
| | | | |
| Securities Available-for-Sale | | | |
| U.S. Treasury and Agency Securities | $9,898 | $19,561 | $18,952 |

| | | | |
|---|---|---|---|
| Obligations of State and Political Subdivisions | 203,628 | 153,777 | 113,497 |
| Mortgage-backed Securities - Residential | 423,961 | 457,304 | 473,230 |
| Equity Securities | 353 | 353 | 353 |
| Subtotal of Securities Available-for-Sale | 637,840 | 630,995 | 606,032 |
| Total Securities | | | |