GERMAN AMERICAN BANCORP, INC.
Form 10-K
March 09, 2015

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, 2014

Commission File Number 001-15877

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:	¨

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). £Yes þ No

The aggregate market value of the registrant's common shares held by non-affiliates as of June 30, 2014 was approximately $328,031,843. This calculation does not reflect a determination that persons are (or are not) affiliates for any other purpose.

As of March 1, 2015, there were outstanding 13,215,800 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 21, 2015, 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, 2014

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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. (the "Company"), is a NASDAQ-traded (symbol: GABC) bank holding company based in Jasper, Indiana. German American, through its banking subsidiary German American Bancorp, operates 37 retail and commercial banking offices in 13 southern Indiana counties. The Company also owns a trust, brokerage, and financial planning subsidiary (German American Financial Advisors & Trust Company) 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 Financial Advisors & Trust Company	Trust, Brokerage, Financial Planning	Jasper, IN

Business Development

During 2013, the Company opened its first full service retail and commercial branch location in Columbus, Indiana in furtherance of the Company's focus on growing its base of operations in such market.

During 2013, the Company also acquired by merger United Commerce Bancorp and its subsidiary, United Commerce Bank. United Commerce Bank provided a full range of commercial and consumer banking services in the Bloomington, Indiana market and complemented the Company's existing branch locations. At the time of acquisition,

United Commerce had consolidated assets and deposits (unaudited) that totaled $119.7 million and $106.6 million, respectively. The Company continues its focus on growing its base of operations in the Bloomington, Indiana market.

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 38 retail and commercial banking, insurance and investment offices as of March 1, 2015.

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., and the trust, brokerage and financial planning products and services offered by German American Financial Advisors & Trust Company. Many of these competitors have substantially greater resources than the Company.

Employees

At March 1, 2015 the Company and its subsidiaries employed approximately 484 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 Generally

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 four 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.

Prior Capital Requirements

Capital guidelines that applied to us throughout 2014 (prior to the phase-in of new rules effective January 1, 2015) required all bank holding companies and federally regulated banks to maintain a minimum risk-based total capital ratio equal to 8%, of which at least 4% of risk-weighted assets must have been Tier I Capital. Tier I Capital, which included common shareholders’ equity, noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock and certain trust preferred securities, less certain goodwill items and other intangible assets, was required to equal at least 4% of risk-weighted assets. The remainder (“Tier II Capital”) could have consisted of (i) an allowance for loan losses of up to 1.25% of risk-weighted assets, (ii) excess of qualifying perpetual preferred stock, (iii) hybrid capital instruments, (iv) perpetual debt, (v) mandatory convertible securities, and (vi) subordinated debt and intermediate-term preferred stock up to 50% of Tier I Capital. Total capital was defined as the sum of Tier I and Tier II Capital less reciprocal holdings of other banking organizations’ capital instruments, investments in unconsolidated subsidiaries and any other deductions as determined by the appropriate regulator (determined on a case by case basis or as a matter of policy after formal rule making).

To supplement the risk-based guidelines, the federal bank regulatory agencies adopted regulations that, as in effect throughout 2014, generally required banks and financial holding companies to maintain a minimum level of Tier I Capital to total assets less goodwill of either 3% or 4%, depending upon factors such as the regulatory ratings, earnings and financial condition of the institution (the “leverage ratio”). Banking organizations experiencing or anticipating significant growth were generally required to maintain higher minimum leverage ratios and could have been required to commit to achieve or maintain higher minimum ratios (including “tangible Tier I leverage ratios”) in order to secure regulatory approvals needed for such organizations to acquire other banks or other businesses or engage in new activities. As computed throughout 2014, the tangible Tier I leverage ratio was the ratio of a banking organization’s Tier I Capital, less deductions for intangibles otherwise includable in Tier I Capital, to total tangible assets.

New Capital Requirements

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 in the United States certain regulatory capital reforms based upon international 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 are excluded for the purposes of determining regulatory capital ratios; under the new rules, we and our bank subsidiary have a one-time election (the "Opt-out Election") to filter certain AOCI components, comparable to their treatment under the prior risk-based capital rule. The AOCI Opt-out Election must be made in connection with the regulatory financial reports that we and our bank subsidiary will file 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 2014 was well-capitalized, the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had $1.0 million of such brokered deposits at December 31, 2014. 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 prior Prompt Corrective Action requirements in effect throughout 2014 must have had a leverage ratio of no less than 5%, a Tier I Capital ratio of no less than 6%, 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, 2014, 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, 2014, see Note 8 to the Company's consolidated financial statements that are presented in Item 8 of this Report, which Note 8 is incorporated herein by reference.

The new Basel III capital rules revised the "Prompt Corrective Action" requirements applicable to our bank subsidiary effective January 1, 2015, by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 risk-based capital ratio for well-capitalized status being 8.0% (as compared to the prior 6.0%); (iii) creating a minimum leverage ratio requirement of 5% for well-capitalized status; and (iv) eliminating the prior provision that provided that a bank with a composite supervisory rating of 1 may have a 3.0% leverage ratio and still be well-capitalized. We believe we exceeded as of December 31, 2014, all regulatory requirements under these new rules for being classified as well-capitalized that are applicable to us during 2015.

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, 2014, 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 $23,000,000 of its undivided profits without approval by the DFI in accordance with such criteria. See Note 8 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 recently 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, Telephone Consumer Protection Act, CAN-SPAM Act, Children's Online Privacy Protection 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 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 exclusively located in 13 Southern Indiana counties, 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.

We may buy 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 40 other locations in Southern Indiana of which 31 are owned by the Company and nine 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.

	2014			2013		
	High	Low	Cash Dividend	High	Low	Cash Dividend
Fourth Quarter	$30.82	$25.73	$0.16	$30.15	$23.51	$0.15
Third Quarter	$27.74	$25.80	$0.16	$28.15	$22.86	$0.15
Second Quarter	$29.79	$25.07	$0.16	$22.69	$19.96	$0.15
First Quarter	$29.75	$25.54	$0.16	$23.63	$21.54	$0.15
			$0.64			$0.60

The Common Stock was held of record by approximately 3,397 shareholders at March 1, 2015.

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 Priority Processing 250 Royall St Canton, MA 02021 Contact: Shareholder Relations (800) 884-4225	Shareholder Information and Corporate Office:	Terri A. Eckerle German American Bancorp, Inc. P.O. Box 810 Jasper, Indiana 47547-081 (812) 482-1314 (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, 2014, 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 2014 comparison were: 1st Source Corp., Community Bank Shares of IN, 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, 2014.

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 2014	—	—	—	272,789
November 2014	882 [2]	$29.87	—	272,789
December 2014	—	—	—	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, 2014 (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, 2014.

[2] During November 2014, the 882 purchased shares were acquired by the Company from certain persons who held options ("optionees") to acquire the Company's common shares under its 1999 Long-Term Equity Incentive Plan ("Plan") in connection with the exercises by such optionees of their options during November 2014. Under the terms of the Plan, optionees are generally entitled to pay some or all of the exercise price of their options by delivering to the Company common shares that the optionee may already own, subject to certain conditions. The Company is generally obligated to purchase any such common shares delivered to it by such optionees for this purpose and to apply the market value of those tendered shares as of the date of exercise of the options toward the exercise prices due upon exercise of the options. Shares acquired by the Company pursuant to option exercises under the Plan are not made pursuant to the repurchase program described by Note 1 and do not reduce the number of shares available for purchase under that program.

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, 2014:

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	51,517	(a) $16.70	753,417	(b)
Equity compensation plans not approved by security holders	—	—	—	
Total	51,517	$16.70	753,417	

(a) Does not include any shares that employees may have the right to purchase under the Employee Stock Purchase Plan in August 2015 in respect of employee payroll deductions of participating employees that had accumulated as of December 31, 2014 during the plan year that commenced in August 2014. 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 2015, 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 414,901 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 338,516 shares that were available for grant or issuance at December 31, 2014 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 to the consolidated financial statements 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 acquisitions of two branches of another bank in May 2010, 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.

	2014	2013	2012	2011	2010
Summary of Operations:					
Interest Income	$80,386	$75,672	$77,160	$80,161	$64,193
Interest Expense	6,047	7,155	10,912	16,180	15,522
Net Interest Income	74,339	68,517	66,248	63,981	48,671
Provision for Loan Losses	150	350	2,412	6,800	5,225
Net Interest Income after Provision For Loan Losses	74,189	68,167	63,836	57,181	43,446
Non-interest Income	23,937	23,615	21,811	21,576	16,943
Non-interest Expense	57,713	54,905	50,923	50,782	41,361
Income before Income Taxes	40,413	36,877	34,724	27,975	19,028
Income Tax Expense	12,069	11,464	10,669	7,726	5,623
Net Income	$28,344	$25,413	$24,055	$20,249	$13,405
Year-end Balances:					
Total Assets	$2,237,099	$2,163,827	$2,006,300	$1,873,767	$1,375,888
Total Loans, Net of Unearned Income	1,447,982	1,382,382	1,204,866	1,120,993	917,236
Total Deposits	1,779,761	1,812,156	1,640,931	1,556,198	1,087,286
Total Long-term Debt	64,591	87,237	89,472	90,974	81,016
Total Shareholders' Equity	228,824	200,097	185,026	167,610	121,534
Average Balances:					
Total Assets	$2,170,761	$2,037,236	$1,934,123	$1,823,703	$1,330,540
Total Loans, Net of Unearned Income	1,406,000	1,272,055	1,147,891	1,114,181	906,127
Total Deposits	1,783,348	1,695,796	1,618,712	1,521,204	1,046,295
Total Shareholders' Equity	214,496	189,689	177,207	159,765	119,867
Per Share Data:					
Net Income (1)	$2.14	$1.98	$1.90	$1.61	$1.21
Cash Dividends	0.64	0.60	0.56	0.56	0.56
Book Value at Year-end	17.31	15.19	14.64	13.31	10.94
Other Data at Year-end:					
Number of Shareholders	3,398	3,444	3,105	3,221	3,194
Number of Employees	473	478	439	417	359
Weighted Average Number of Shares (1)	13,223,178	12,807,678	12,637,743	12,587,748	11,104,887
Selected Performance Ratios:					
Return on Assets	1.31 %	1.25 %	1.24 %	1.11 %	1.01 %

Return on Equity	13.21	%	13.40	%	13.57	%	12.67	%	11.18	%
Equity to Assets	10.23	%	9.25	%	9.22	%	8.95	%	8.83	%
Dividend Payout	29.81	%	30.18	%	29.38	%	34.80	%	46.36	%
Net Charge-offs (Recoveries) to Average Loans	(0.01	)%	0.10	%	0.19	%	0.43	%	0.32	%
Allowance for Loan Losses to Loans	1.03	%	1.05	%	1.29	%	1.37	%	1.45	%
Net Interest Margin	3.76	%	3.67	%	3.74	%	3.84	%	3.98	%

(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. (the "Company"), is a NASDAQ-traded (symbol: GABC) bank holding company based in Jasper, Indiana. The Company, through its banking subsidiary German American Bancorp, operates 37 commercial and retail banking offices in 13 southern Indiana counties. The Company also owns a trust, brokerage, and financial planning subsidiary (German American Financial Advisors & Trust Company) 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 2012 through 2014 and its financial condition as of December 31, 2014 and 2013. 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 to the Company’s 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.

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 2014 net income totaled $28,344,000, or $2.14 per diluted share, which was a record level of earnings for the Company and represented an 8% increase on a per share basis over the Company’s 2013 net income of

$25,413,000, or $1.98 per diluted share. The Company's return on average equity for 2014 was 13.2%, representing the tenth consecutive year the Company has achieved a double-digit return on equity.

The record earnings performance during 2014 was attributable to an increased level of net interest income, driven by a higher level of earning assets and an improved net interest margin, 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.

Net interest income improved by $5,822,000, or approximately 9%, during 2014 compared with 2013. The Company's 2014 earnings were positively impacted by a $322,000, or 1%, increase in the level of non-interest income. The key drivers in the increased level of non-interest income was higher trust and investment product fees and increased insurance revenues. Non-interest expenses increased $2,808,000, or 5%, during 2014 compared with 2013. The increase in non-interest expenses was largely impacted by the inclusion of the United Commerce Bancorp operations which was acquired by the Company effective October 1, 2013, a new financial center in Columbus, Indiana, and the implementation of new digital banking systems.

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 those graded substandard and 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.

During the third quarter of 2014, a modification was made to the Company's standard methodology for calculating the allowance for loan losses. This modification centered on commercial and agricultural loans that are graded as substandard and was undertaken as a part of the Company's annual update of its migration analysis utilized in the allowance for loan losses calculations. Prior to the third quarter of 2014, the allocation for substandard, non-impaired commercial and agricultural loans was based on evaluating the amount of potential loss of each individual credit

relationship internally graded substandard. Beginning in the third quarter of 2014, the Company adjusted its methodology to assign allocations for substandard commercial and agricultural credits utilizing migration analysis techniques. The modification to the methodology during the third quarter of 2014 resulted in a decrease of $63,000 to the overall required loan loss allowance.

General allocations are 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, 2014, gross unrealized losses on the securities available-for-sale portfolio totaled approximately $5,518,000 and gross unrealized gains totaled approximately $10,130,000. As of December 31, 2014, held-to-maturity securities had a gross unrecognized gain of approximately $2,000.

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 carryback and carryforward 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, 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 income for the year ended December 31, 2013 totaled $25,413,000 or $1.98 per diluted share, an increase of $1,358,000 or approximately 4% on a per share basis, from the year ended December 31, 2012 net income of $24,055,000 or $1.90 per diluted share. For 2013, the improvement in earnings was attributable to an increased level of net interest income, improved non-interest income, and a reduced level of provision for loan loss partially offset by a higher level of non-interest expense.

NET INTEREST INCOME

Net interest income is the Company's single largest source of earnings, and represents the difference between interest and fees realized on earning assets, less interest paid on deposits and borrowed funds. Several factors contribute to the determination of net interest income and net interest margin, including the volume and mix of earning assets, interest rates, and income taxes. Many factors affecting net interest income are subject to control by management policies and actions. Factors beyond the control of management include the general level of credit and deposit demand, Federal Reserve Board monetary policy, and changes in tax laws.

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 net interest margin represents tax-equivalent net interest income expressed as a percentage of average earning assets. The tax equivalent net interest margin was 3.76% 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.

Net interest income increased $2,269,000 or 3% (an increase of $2,500,000 or 4% on a tax-equivalent basis) during the year ended December 31, 2013 compared with 2012. The increased net interest income during 2013 compared with 2012 was largely driven by an increased level of earning assets primarily attributable to average loan growth and an overall decline in the Company's cost of funds partially mitigated by a decline in the accretion of loan discounts on acquired loans and a lower net interest margin (expressed as a percentage of average earning assets).

The tax equivalent net interest margin was 3.67% for 2013 compared to 3.74% during 2012. The yield on earning assets totaled 4.04% during 2013 compared to 4.34% in 2012 while the cost of funds (expressed as a percentage of average earning assets) totaled 0.37% during 2013 compared to 0.60% in 2012.

The decline in the net interest margin in 2013 compared with 2012 was largely attributable to the continued downward pressure on earning asset yields being driven by a historically low market interest rate environment and a competitive marketplace for lending opportunities. Also contributing to the lower net interest margin was a decline in the accretion of loan discounts on certain acquired loans. Accretion contributed approximately 8 basis points on an annualized basis to the net interest margin during 2013 compared to approximately 12 basis points during 2012. The decline in the Company's cost of funds by approximately 23 basis points during 2013 compared to 2012 was largely driven by a continued decline in deposit rates and also attributable to the repayment of $19.3 million of subordinated debentures with an interest rate of 8% that occurred in the second quarter of 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, 2014			Twelve Months Ended December 31, 2013			Twelve Months Ended December 31, 2012		
	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	$14,056	$12	0.09 %	$15,507	$30	0.19 %	$44,999	$91	0.20 %
Securities:									
Taxable	493,144	10,409	2.11 %	541,478	11,091	2.05 %	547,949	12,946	2.36 %
Non-taxable	131,962	6,721	5.09 %	87,471	4,491	5.13 %	71,961	3,743	5.20 %
Total Loans and Leases [2]	1,406,000	65,896	4.69 %	1,272,055	61,862	4.86 %	1,147,891	61,951	5.40 %
TOTAL INTEREST EARNING ASSETS	2,045,162	83,038	4.06 %	1,916,511	77,474	4.04 %	1,812,800	78,731	4.34 %
Other Assets	141,287			136,170			137,594		
Less: Allowance for Loan Losses	(15,688)			(15,445)			(16,271)		
TOTAL ASSETS	$2,170,761			$2,037,236			$1,934,123		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing Demand Deposits	$552,966	$724	0.13 %	$534,095	$856	0.16 %	$512,232	$972	0.19 %
Savings Deposits and Money Market Accounts	485,277	570	0.12 %	466,391	717	0.15 %	435,475	792	0.18 %
Time Deposits	336,269	2,834	0.84 %	339,469	3,124	0.92 %	357,193	5,194	1.45 %
FHLB Advances and Other Borrowings	160,101	1,919	1.20 %	136,569	2,458	1.80 %	118,201	3,954	3.35 %
TOTAL INTEREST-BEARING LIABILITIES	1,534,613	6,047	0.39 %	1,476,524	7,155	0.48 %	1,423,101	10,912	0.77 %
Demand Deposit Accounts	408,836			355,841			313,812		
Other Liabilities	12,816			15,182			20,003		

TOTAL LIABILITIES	1,956,265	1,847,547	1,756,916
Shareholders' Equity	214,496	189,689	177,207
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,170,761	$2,037,236	$1,934,123
COST OF FUNDS	0.30 %	0.37 %	0.60 %
NET INTEREST INCOME	$76,991	$70,319	$67,819
NET INTEREST MARGIN	3.76 %	3.67 %	3.74 %

(1) Yields 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 $2,036, $2,055 and $3,164 for 2014, 2013 and 2012, 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)

	2014 compared to 2013 Increase / (Decrease) Due to [1]			2013 compared to 2012 Increase / (Decrease) Due to [1]		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income:						
Federal Funds Sold and Other Short-term Investments	$(3)	$(15)	$(18)	$(57)	$(4)	$(61)
Taxable Securities	(1,013)	331	(682)	(151)	(1,704)	(1,855)
Non-taxable Securities	2,266	(36)	2,230	797	(49)	748
Loans and Leases	6,338	(2,304)	4,034	6,354	(6,443)	(89)
Total Interest Income	7,588	(2,024)	5,564	6,943	(8,200)	(1,257)
Interest Expense:						
Savings and Interest-bearing Demand	58	(337)	(279)	94	(285)	(191)
Time Deposits	(29)	(261)	(290)	(247)	(1,823)	(2,070)
FHLB Advances and Other Borrowings	375	(914)	(539)	543	(2,039)	(1,496)
Total Interest Expense	404	(1,512)	(1,108)	390	(4,147)	(3,757)
Net Interest Income	$7,184	$(512)	$6,672	$6,553	$(4,053)	$2,500

(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 $150,000, $350,000, and $2,412,000 in 2014, 2013, and 2012, respectively.

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. During 2013, the provision for loan loss represented approximately 3 basis points of average outstanding loans while net charge-offs represented 10 basis points of average loans outstanding loans.

The Company's allowance for loan losses represented 1.03% of total loans at year-end 2014 compared with 1.05% at year-end 2013. 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.

The provision for loan loss declined $2,062,000, or 85%, during 2013 compared to 2012. The decline in the provision for loan losses during 2013 compared with 2012 was attributable to a reduced level of net charge-offs, lower levels of non-performing loans, and a lower level of adversely classified loans.

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 2014, non-interest income increased $322,000 or 1% compared with 2013 and during 2013 increased $1,804,000 or 8% compared with 2012.

Non-interest Income (dollars in thousands)	Years Ended December 31,			% Change From Prior Year	
	2014	2013	2012	2014	2013
Trust and Investment Product Fees	$3,675	$3,358	$2,657	9 %	26 %
Service Charges on Deposit Accounts	4,829	4,144	4,076	17	2
Insurance Revenues	7,255	6,217	5,524	17	13
Company Owned Life Insurance	826	965	974	(14)	(1)
Interchange Fee Income	1,961	1,854	1,724	6	8
Other Operating Income	2,018	2,003	1,955	1	2
Subtotal	20,564	18,541	16,910	11	10
Net Gains on Sales of Loans	1,892	2,645	3,234	(28)	(18)
Net Gain on Securities	1,481	2,429	1,667	(39)	46
TOTAL NON-INTEREST INCOME	$23,937	$23,615	$21,811	1	8

Trust and investment product fees increased $317,000, or 9%, during 2014 compared with 2013 following an increase of $701,000, or 26%, during 2013 compared with 2012. The increase during 2014 compared to 2013 was attributable to a 19% increase in retail brokerage revenues. The increase during 2013 compared to 2012 was attributable to a 35% increase in trust revenues and a 19% increase in brokerage revenues. Service charges on deposit accounts increased $685,000 or 17%, during 2014 compared with 2013.

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 $1,049,000 in 2014 compared with $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. Insurance revenues increased $693,000, or 13%, during 2013 as compared to 2012 primarily as a result of increased commercial insurance revenue and to a lesser extent increased contingency revenue. Contingency revenue totaled $246,000 during 2013 compared to $88,000 in 2012.

Net gains on sales of loans decreased $753,000, or 28%, during 2014 compared with 2013. Net gain on sales of residential loans decreased $589,000, or 18%, during 2013 compared with 2012. Loan sales for 2014, 2013, and 2012 totaled $99.4 million, $166.6 million, and $186.8 million, respectively.

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. During 2012, the Company realized net gains on the sale of securities of $1,667,000 related to the sale of approximately $94.3 million of securities.

NON-INTEREST EXPENSE

During 2014, non-interest expense increased $2,808,000, or 5%, compared with 2013. During 2013, non-interest expense increased $3,982,000, or 8% compared with 2012.

Non-interest Expense (dollars in thousands)	Years Ended December 31,			% Change From Prior Year	
	2014	2013	2012	2014	2013
Salaries and Employee Benefits	$32,710	$31,482	$29,086	4 %	8 %
Occupancy, Furniture and Equipment Expense	7,047	6,443	6,256	9	3
FDIC Premiums	1,113	1,050	1,116	6	(6)
Data Processing Fees	3,675	3,133	1,879	17	67
Professional Fees	2,294	2,577	2,247	(11)	15
Advertising and Promotion	1,977	1,863	1,714	6	9
Intangible Amortization	1,254	1,416	1,655	(11)	(14)
Other Operating Expenses	7,643	6,941	6,970	10	n/m [1]
TOTAL NON-INTEREST EXPENSE	$57,713	$54,905	$50,923	5	8

[1] n/m = not meaningful

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. Salaries and employee benefits increased $2,396,000, or 8%, during 2013 compared with 2012. The increase was primarily the result of an increased number of full-time equivalent employees due in part to an increased number of banking locations including the acquisition of United Commerce, increased costs related to the Company’s health insurance plan, and the termination of a frozen defined benefit pension plan.

Occupancy, furniture and equipment expense increased $604,000, or 9%, in 2014 compared with 2013. The increase was related to a larger number of banking offices driven by the acquisition of United Commerce Bancorp and a new banking location in Columbus. Occupancy, furniture and equipment expense increased $187,000, or approximately 3%, during 2013 compared with 2012.

Data processing fees increased $542,000, or 17%, during 2014 compared with 2013. The increase was primarily attributable to costs associated with the implementation of new commercial and retail digital banking platforms late in the fourth quarter of 2013 and in the first quarter of 2014. Data processing fees increased $1,254,000, or 67%, during 2013 compared with 2012. The increase was primarily attributable to the additional data processing fees incurred by the acquisition of United Commerce as well as the resolution of a data processing contractual dispute that reversed during 2012 which was related to the acquisition of American Community Bancorp.

Professional fees decreased $283,000, or 11%, during 2014 compared with 2013 following an increase of $330,000, or 15%, during 2013 compared with 2012. 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. These fees in 2013 resulted in the decline in overall professional fees when compared to 2014 and the increase when compared to 2012.

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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 29.9%, 31.1%, and 30.7%, respectively, in 2014, 2013, and 2012. 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

The Company and its affiliate bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. The prompt corrective action regulations provide five classifications, including well-capitalized, adequately capitalized, under-capitalized, significantly under-capitalized and critically under-capitalized, although these terms are not used to represent overall financial condition. The Company and its affiliate bank at year-end 2014 were categorized as well-capitalized as that term is defined by applicable regulations. See Note 8 to the Company's consolidated financial statements included in Item 8 of this Report for actual and required capital ratios and for additional information regarding capital adequacy.

In July 2013, the two federal banking regulatory agencies that have authority to regulate the Company's capital resources and capital structure (the Board of Governors of the Federal Reserve System ("FRB") and Federal Deposit Insurance Corporation ("FDIC")) took action to finalize the application to the United States banking industry of new regulatory capital requirements that are established by the international banking framework commonly referred to as "Basel III" and to implement certain other changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act. These rules make significant changes to the U.S. bank regulatory capital framework, and generally increase capital requirements for banking organizations. Although the Company believes that these new rules, as they are phased in over a multi-year period commencing January 1, 2015, will in general increase the amount of capital that the Company and the Bank may be required to maintain, the Company does not presently expect (subject to cautionary factors set forth in this Report under Item 1 ("Business") entitled "Forward-Looking Statements and Associated Risks" and in Item 1A ("Risk Factors")) that any materially burdensome compliance efforts with these final capital rules will be required of the Company. For additional information, also see the discussion in this Report under Item 1 - Business - Regulation and Supervision.

As of December 31, 2014, shareholders' equity increased by $28.7 million to $228.8 million compared with $200.1 million at year-end 2013. The increase in shareholders' equity was primarily attributable to an increase of $19.9 million in retained earnings and an increase of $8.2 million in accumulated other comprehensive income primarily related to an increase in the fair value of the Company's available-for-sale securities portfolio. Shareholders' equity represented 10.2% of total assets at December 31, 2014 and 9.3% of total assets at December 31, 2013. Shareholders' equity included $22.6 million of goodwill and other intangible assets at year-end 2014 compared to $23.9 million of goodwill and other intangible assets at December 31, 2013.

USES OF FUNDS

LOANS

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%.

December 31, 2013 loans outstanding increased approximately $177.3 million, or 15% from year-end 2012. The loans acquired from United Commerce Bancorp totaled approximately $76.9 million at year-end 2013. Commercial and industrial loans increased $15.6 million or 5%, commercial real estate loans increased $93.6 million or 19%, agricultural loans increased $13.0 million or 7%, consumer loans increased $15.1 million or 13%, and residential mortgage loans increased $40.1 million or 45% during 2013.

The composition of the loan portfolio has remained relatively stable and diversified over the past several years including 2014. The portfolio is most heavily concentrated in commercial real estate loans at 40% of the portfolio. The Company's exposure to non-owner occupied commercial real estate was limited to 20% of the total loan portfolio at year-end 2014. 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 2% of the total loan portfolio.

Loan Portfolio (dollars in thousands)	December 31, 2014	2013	2012	2011	2010
Commercial and Industrial Loans and Leases	$380,079	$350,955	$335,373	$293,172	$218,443
Commercial Real Estate Loans	583,086	582,066	488,496	452,071	339,555
Agricultural Loans	216,774	192,880	179,906	167,693	165,166
Home Equity and Consumer Loans	134,847	130,628	115,540	124,479	118,244
Residential Mortgage Loans	137,204	128,683	88,586	86,134	77,310
Total Loans	1,451,990	1,385,212	1,207,901	1,123,549	918,718
Less: Unearned Income	(4,008)	(2,830)	(3,035)	(2,556)	(1,482)
Subtotal	1,447,982	1,382,382	1,204,866	1,120,993	917,236
Less: Allowance for Loan Losses	(14,929)	(14,584)	(15,520)	(15,312)	(13,317)
Loans, Net	$1,433,053	$1,367,798	$1,189,346	$1,105,681	$903,919
Ratio of Loans to Total Loans					
Commercial and Industrial Loans and Leases	26 %	25 %	28 %	26 %	24 %
Commercial Real Estate Loans	40 %	42 %	40 %	40 %	37 %
Agricultural Loans	15 %	14 %	15 %	15 %	18 %
Home Equity and Consumer Loans	9 %	10 %	10 %	11 %	13 %
Residential Mortgage Loans	10 %	9 %	7 %	8 %	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. These out-of-market credits include participations that the Company may purchase from time to time in loans that are primarily originated by banks in which the Company owns (or previously owned) non-controlling common stock investments.

The following table indicates the amounts of loans (excluding residential mortgages on 1-4 family residences and consumer loans) outstanding as of December 31, 2014, which, based on remaining scheduled repayments of principal, are due in the periods indicated (dollars in thousands).

	Within	One to Five	After	Total

	One Year	Years	Five Years	
Commercial and Agricultural	$505,453	$582,614	$91,872	$1,179,939

	Interest Sensitivity	
	Fixed Rate	Variable Rate
Loans Maturing After One Year	$165,346	$509,140

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 to the Company's 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, 2014	%	2013	%	2012	%
Federal Funds Sold and Other Short-term Investments	$8,965	2 %	$22,762	3 %	$7,463	1 %
U.S. Treasury and Agency Securities	20,000	3	20,000	3	23,570	4
Obligations of State and Political Subdivisions	147,505	23	112,276	18	71,698	13
Mortgage-backed Securities - Residential	458,709	72	481,724	76	475,452	82
Equity Securities	353	n/m [1]	353	n/m [1]	684	n/m [1]
Total Securities Portfolio	$635,532	100 %	$637,115	100 %	$578,867	100 %

[1] n/m = not meaningful

The amortized cost of investment securities, including federal funds sold and short-term investments, decreased $1.6 million at year-end 2014 compared with year-end 2013 and increased $58.2 million at year-end 2013 compared with year-end 2012. The largest concentration in the investment portfolio continues to be in mortgage related securities representing 72% of the total securities portfolio at December 31, 2014. The Company's level of obligations of state and political subdivisions increased to $147.5 million or 23% of the portfolio at December 31, 2014.

Investment Securities, at Carrying Value
(dollars in thousands)

	December 31,		
Securities Held-to-Maturity	2014	2013	2012
Obligations of State and Political Subdivisions	$184	$268	$346
Securities Available-for-Sale			
U.S. Treasury and Agency Securities	$19,561	$18,952	$23,472
Obligations of State and Political Subdivisions	153,777	113,497	76,485
Mortgage-backed Securities - Residential	457,304	473,230	486,912
Equity Securities	353	353	733
Subtotal of Securities Available-for-Sale	630,995	606,032	587,602
Total Securities	$631,179	$606,300	$587,948

The Company's $631.0 million available-for-sale portion of the investment portfolio provides an additional funding source for the liquidity needs of the Company's subsidiaries and for asset/liability management requirements. Although management has the ability to sell these securities if the need arises, their designation as available-for-sale should not necessarily be interpreted as an indication that management anticipates such sales.

The amortized cost of both available for sale and held to maturity debt securities at December 31, 2014 are shown in the following table by expected maturity. Mortgage-backed securities are based on estimated average lives. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations. Equity securities do not have contractual maturities, and are excluded from the table below.

Maturities and Average Yields of Securities at December 31, 2014
(dollars in thousands)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and Agency Securities	$—	N/A	$10,000	1.20 %	$10,000	1.40 %	$—	N/A
Obligations of State and Political Subdivisions	3,768	3.25 %	8,145	4.01 %	62,853	5.10 %	72,739	5.26 %
Mortgage-backed Securities - Residential	8,324	3.22 %	404,080	2.13 %	46,305	2.54 %	—	N/A
Total Securities	$12,092	3.23 %	$422,225	2.14 %	$119,158	3.79 %	$72,739	5.26 %

A tax-equivalent adjustment using a tax rate of 35 percent was used in the above table.

In addition to the other uses of funds discussed previously, the Company had certain long-term contractual obligations as of December 31, 2014. These contractual obligations primarily consisted of long-term borrowings with the Federal Home Loan Bank (“FHLB”), parent company term debt, and junior subordinated debentures assumed as a part of the American Community Bancorp, Inc. acquisition which was completed in 2011, time deposits, and lease commitments for certain office facilities. Scheduled principal payments on long-term borrowings, time deposits, and future minimum lease payments are outlined in the table below.

Contractual Obligations	Payments Due By Period				
(dollars in thousands)	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term Borrowings	$60,618	$44,042	$794	$10,057	$5,725
Time Deposits	333,425	202,747	110,004	20,674	—
Capital Lease Obligation	8,746	524	1,048	1,048	6,126
Operating Lease Commitments	3,202	612	875	344	1,371
Total Contractual Obligations	$405,991	$247,925	$112,721	$32,123	$13,222

SOURCES OF FUNDS

The Company’s primary source of funding is its base of core customer deposits. Core deposits consist of demand deposits, savings, interest-bearing checking, money market accounts, and certificates of deposit of less than $100,000. Other sources of funds are certificates of deposit of $100,000 or more, brokered deposits, overnight borrowings from other financial institutions and securities sold under agreement to repurchase. The membership of the Company’s affiliate bank in the Federal Home Loan Bank System provides a significant additional source for both long and short-term collateralized borrowings. In addition, the Company, as a separate and distinct corporation from its bank and other subsidiaries, also has the ability to borrow funds from other financial institutions and to raise debt or equity capital from the capital markets and other sources. The following pages contain a discussion of changes in these areas.

The table below illustrates changes between years in the average balances of all funding sources:

Funding Sources - Average Balances (dollars in thousands)	December 31,			% Change From Prior Year	
	2014	2013	2012	2014	2013
Demand Deposits					
Non-interest-bearing	$408,836	$355,841	$313,812	15 %	13 %
Interest-bearing	552,966	534,095	512,232	4	4
Savings Deposits	150,773	134,283	116,515	12	15
Money Market Accounts	334,504	332,108	318,960	1	4
Other Time Deposits	210,294	223,239	255,722	(6)	(13)
Total Core Deposits	1,657,373	1,579,566	1,517,241	5	4
Certificates of Deposits of $100,000 or more and Brokered Deposits	125,975	116,230	101,471	8	15
FHLB Advances and Other Borrowings	160,101	136,569	118,201	17	16
Total Funding Sources	$1,943,449	$1,832,365	$1,736,913	6	5

Maturities of certificates of deposit of $100,000 or more and brokered deposits are summarized as follows:
(dollars in thousands)

	3 Months Or Less	3 Thru 6 Months	6 Thru 12 Months	Over 12 Months	Total
December 31, 2014	$45,042	$33,957	$27,604	$27,906	$134,509

CORE DEPOSITS

The Company’s overall level of average core deposits increased approximately $77.8 million, or 5%, during 2014 following a $62.3 million, or 4%, increase during 2013. During 2014, the most significant contributor to the increase level of core deposits was the acquisition of United Community Bancorp, which occurred in the fourth quarter of 2013. During 2013 compared to 2012, the increase in average core deposits came from across the Company’s branch network and market areas.

The Company’s ability to attract core deposits continues to be influenced by competition and the interest rate environment, as well as the availability of alternative investment products. Core deposits continue to represent a significant funding source for the Company’s operations and represented 85% of average total funding sources during 2014 compared with 86% during 2013 and 87% during 2012.

Demand, savings, and money market deposits have provided a growing source of funding for the Company in each of the periods reported. Average demand, savings, and money market deposits increased 7% during 2014 following 8% growth during 2013. Average demand, savings, and money market deposits totaled $1.447 billion or 87% of core deposits (74% of total funding sources) in 2014 compared with $1.356 billion or 86% of core deposits (74% of total funding sources) in 2013 and $1.262 billion or 83% of core deposits (73% of total funding sources) in 2012.

Other time deposits consist of certificates of deposits in denominations of less than $100,000. These average deposits decreased by 6% during 2014 following a decline of 13% during 2013. Other time deposits comprised 13% of core deposits in 2014, 14% in 2013 and 17% in 2012.

OTHER FUNDING SOURCES

Federal Home Loan Bank advances and other borrowings represent the Company's most significant source of other funding. Average borrowed funds increased $23.5 million, or 17%, during 2014 following an increase of $18.4 million, or 16%, during 2013. Borrowings comprised approximately 8% of average total funding sources during 2014 compared with 7% of average total funding sources in 2013 and 2012.

Certificates of deposits in denominations of $100,000 or more and brokered deposits are an additional source of other funding for the Company's bank subsidiary. Large denomination certificates and brokered deposits increased $9.7 million, or 8% during 2014 following an increase of $14.8 million, or 15% during 2013. Large certificates and brokered deposits comprised approximately 7% of average total funding sources in 2014 compared with 6% in 2013 and 2012. This type of funding is used as both long-term and short-term funding sources.

The bank subsidiary of the Company also utilizes short-term funding sources from time to time. These sources consist of overnight federal funds purchased from other financial institutions, secured repurchase agreements that generally mature within one day of the transaction date, and secured overnight variable rate borrowings from the FHLB. These borrowings represent an important source of short-term liquidity for the Company's bank subsidiary. Long-term debt at the Company's bank subsidiary is in the form of FHLB advances, which are secured by the pledge of certain investment securities, residential and housing-related mortgage loans, and certain other commercial real estate loans. See Note 7 to the Company's consolidated financial statements included in Item 8 of this Report for further information regarding borrowed funds.

PARENT COMPANY FUNDING SOURCES

The parent company is a corporation separate and distinct from its bank and other subsidiaries. For information regarding the financial condition, result of operations, and cash flows of the Company, presented on a parent-company-only basis, see Note 16 to the Company's consolidated financial statements included in Item 8 of this Report.

The Company uses funds at the parent company level to pay dividends to its shareholders, to acquire or make other investments in other businesses or their securities or assets, to repurchase its stock from time to time, and for other general corporate purposes. The parent company does not have access at the parent-company level to the deposits and certain other sources of funds that are available to its bank subsidiary to support its operations. Instead, the parent company has historically derived most of its revenues from dividends paid to the parent company by its bank subsidiary. The Company's banking subsidiary is subject to statutory restrictions on its ability to pay dividends to the parent company. See Note 8, Shareholders' Equity, of the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which is incorporated herein by reference. The parent company has in recent years supplemented the dividends received from its subsidiaries with borrowings, which are discussed in detail below.

At year-end 2014, the Company had an outstanding credit facility pursuant to which the parent company was obligated for a term loan made to the parent company in January 2013 in the original principal amount of $10 million, of which $4 million was outstanding as of year-end 2014. The remaining $4 million principal amount of the term loan (which may be prepaid at any time without premium or penalty), is due on or before the maturity of the Term Note on December 31, 2015. Interest is payable quarterly at a floating rate based upon 90-day LIBOR plus a margin.

The Company also has a $10 million revolving line of credit with the same lender that will mature on December 29, 2015. Borrowings are available for general working capital purposes from time to time; no borrowings have yet been made under the revolving line of credit. Quarterly interest payments calculated at the same floating rate as then in effect for the Term Note will be payable in respect of any principal amounts advanced under the revolving line of credit. There was no outstanding balance as of December 31, 2014.

Effective January 1, 2011, and as a result of the acquisition of American Community Bancorp, Inc., the Company assumed long-term debt obligations of American Community in the form of two junior subordinated debentures issued by American Community in the aggregate unpaid principal amount of approximately $8.3 million. The junior subordinated debentures were issued to certain statutory trusts established by American Community (in support of related issuances of trust preferred securities issued by those trusts) and both mature in single installments of principal

payable in 2035, and bear interest payable on a quarterly basis at a floating rate, adjustable quarterly based on the 90-day LIBOR plus a specified percentage. These debentures are of a type that are eligible (under current regulatory capital requirements) to qualify as Tier 1 capital (with certain limitations) for regulatory purposes and as of December 31, 2014 approximately $5.0 million of the junior subordinated debentures were treated as Tier 1 capital for regulatory capital purposes.

See Note 7 to the Company's consolidated financial statements included in Item 8 of this Report for further information regarding the parent company borrowed funds and other indebtedness.

RISK MANAGEMENT

The Company is exposed to various types of business risk on an on-going basis. These risks include credit risk, liquidity risk and interest rate risk. Various procedures are employed at the Company's subsidiary bank to monitor and mitigate risk in the loan and investment portfolios, as well as risks associated with changes in interest rates. Following is a discussion of the Company's philosophies and procedures to address these risks.

LENDING AND LOAN ADMINISTRATION

Primary responsibility and accountability for day-to-day lending activities rests with the Company's subsidiary bank. Loan personnel at the subsidiary bank have the authority to extend credit under guidelines approved by the bank's board of directors. The executive loan committee serves as a vehicle for communication and for the pooling of knowledge, judgment and experience of its members. The committee provides valuable input to lending personnel, acts as an approval body, and monitors the overall quality of the bank's loan portfolio. The Corporate Credit Risk Management Committee comprised of members of the Company's and its subsidiary bank's executive officers and board of directors, strives to ensure a consistent application of the Company's lending policies. The Company also maintains a comprehensive risk-grading and loan review program, which includes quarterly reviews of problem loans, delinquencies and charge-offs. The purpose of this program is to evaluate loan administration, credit quality, loan documentation and the adequacy of the allowance for loan losses.

The Company maintains an allowance for loan losses to cover probable, incurred credit losses identified during its loan review process. Management estimates the required level of allowance for loan losses using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. 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. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses is comprised of: (a) specific reserves on individual credits; (b) general reserves for certain loan categories and industries, and overall historical loss experience; and (c) unallocated reserves based on performance trends in the loan portfolios, current economic conditions, and other factors that influence the level of estimated probable losses. The need for specific reserves are considered for credits when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or, (d) other reasons where the ultimate collectability of the loan is in question, or the loan characteristics require special monitoring.

Allowance for Loan Losses (dollars in thousands)	Years Ended December 31,				
	2014	2013	2012	2011	2010
Balance of Allowance for Possible Losses at Beginning of Period	$14,584	$15,520	$15,312	$13,317	$11,016
Loans Charged-off:					
Commercial and Industrial Loans	199	503	162	1,513	345
Commercial Real Estate Loans	329	538	1,789	2,604	2,842
Agricultural Loans	—	—	—	—	44
Home Equity and Consumer Loans	370	607	380	575	465
Residential Mortgage Loans	117	24	199	497	518
Total Loans Charged-off	1,015	1,672	2,530	5,189	4,214
Recoveries of Previously Charged-off Loans:					
Commercial and Industrial Loans	111	128	74	98	24
Commercial Real Estate Loans	863	102	97	139	1,089
Agricultural Loans	—	—	—	—	—
Home Equity and Consumer Loans	215	148	125	131	171
Residential Mortgage Loans	21	8	30	16	6
Total Recoveries	1,210	386	326	384	1,290
Net Loans Recovered (Charged-off)	195	(1,286)	(2,204)	(4,805)	(2,924)
Additions to Allowance Charged to Expense	150	350	2,412	6,800	5,225
Balance at End of Period	$14,929	$14,584	$15,520	$15,312	$13,317
Net Charge-offs (Recoveries) to Average Loans Outstanding	(0.01)%	0.10 %	0.19 %	0.43 %	0.32 %
Provision for Loan Losses to Average Loans Outstanding	0.01 %	0.03 %	0.21 %	0.61 %	0.58 %
Allowance for Loan Losses to Total Loans at Year-end	1.03 %	1.05 %	1.29 %	1.37 %	1.45 %

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

Commercial and Industrial Loans	$4,627	$3,983	$4,555	$3,493	$3,713
Commercial Real Estate Loans	7,273	8,335	8,931	9,297	7,497
Agricultural Loans	1,123	946	989	926	750
Home Equity and Consumer Loans	600	427	355	448	582
Residential Mortgage Loans	622	281	186	402	543
Unallocated	684	612	504	746	232
Total Allowance for Loan Losses	$14,929	$14,584	$15,520	$15,312	$13,317

The Company's allowance for loan losses totaled $14.9 million at December 31, 2014 representing an increase of $345,000 or 2% compared with year-end 2013. The significant contributing factors that led to the increase of the allowance for loan losses included a net recovery of previously charged off loans during 2014.

The allowance for loan losses represented 1.03% of period end loans at December 31, 2014 compared with 1.05% at December 31, 2013. Under acquisition accounting treatment, loans acquired are recorded at fair value which includes a credit risk component, and therefore the allowance on loans acquired is not carried over from the seller. The Company held a discount on acquired loans of $4.1 million as of December 31, 2014 and $5.9 million at year-end 2013.

The allowance for loan loss at year-end 2014 represented 244% of non-performing loans compared to 174% at year-end 2013. Net recoveries totaled $195,000 or 0.01% of average loans during 2014 compared with net charge-offs of $1.3 million or 0.10% of average loans outstanding during 2013.

Please see "RESULTS OF OPERATIONS - Provision for Loan Losses" and "CRITICAL ACCOUNTING POLICIES AND ESTIMATES - Allowance for Loan Losses" for additional information regarding the allowance.

NON-PERFORMING ASSETS

Non-performing assets consist of: (a) non-accrual loans; (b) loans which have been renegotiated to provide for a reduction or deferral of interest or principal because of deterioration in the financial condition of the borrower; (c) loans past due 90 days or more as to principal or interest; and, (d) other real estate owned. Loans are placed on non-accrual status when scheduled principal or interest payments are past due for 90 days or more or when the borrower's ability to repay becomes doubtful. Uncollected accrued interest is reversed against income at the time a loan is placed on non-accrual. Loans are typically charged-off at 180 days past due, or earlier if deemed uncollectible. Exceptions to the non-accrual and charge-off policies are made when the loan is well secured and in the process of collection. The following table presents an analysis of the Company's non-performing assets.

Non-performing Assets (dollars in thousands)	December 31, 2014	2013	2012	2011	2010
Non-accrual Loans	$5,970	$8,378	$10,357	$17,857	$10,150
Past Due Loans (90 days or more)	140	8	—	—	671
Total Non-performing Loans	6,110	8,386	10,357	17,857	10,821
Other Real Estate	356	1,029	1,645	2,343	2,095
Total Non-performing Assets	$6,466	$9,415	$12,002	$20,200	$12,916
Restructured Loans	$2,726	$2,418	$362	$409	$396
Non-performing Loans to Total Loans	0.42 %	0.61 %	0.86 %	1.59 %	1.18 %
Allowance for Loan Losses to Non-performing Loans	244.34 %	173.91 %	149.85 %	85.75 %	123.07 %

Non-performing assets totaled $6.5 million or 0.29% of total assets at December 31, 2014 compared to $9.4 million or 0.44% of total assets at December 31, 2013. Non-performing loans totaled $6.1 million or 0.42% of total loans at December 31, 2014 representing a $2.3 million, or 27%, decline in non-performing loans compared to the $8.4 million of non-performing loans at December 31, 2013.

Non-accrual commercial real estate loans totaled $3.5 million at December 31, 2014 representing a decline of $3.2 million, or 48%, from the $6.7 million of non-accrual commercial real estate loans at year-end 2013. Non-accrual commercial real estate loans represented 58% of the total non-performing loans at December 31, 2014 compared to 79% of total non-performing loans at year-end 2013. There were no non-accrual agricultural loans at December 31, 2014 or December 31, 2013. Non-accrual commercial and industrial loans, non-accrual home equity loans and non-accrual consumer loans each represented less than 4% of the total non-performing loans at December 31, 2014 and December 31, 2013. Non-accrual residential mortgage loans totaled $1.9 million at December 31, 2014 representing an increase of $.6 million from the $1.3 million at year-end 2013. Non-accrual residential mortgage loans represented 32% of the total non-performing loans at December 31, 2014 compared to 16% of total non-performing loans at year-end 2013.

At December 31, 2014 there was only one relationship included in non-performing loans that was greater than $1.0 million. This relationship was a $1.8 million commercial real estate loan secured by a commercial warehouse facility. This loan was in non-performing status as of year-end 2013. The borrower has made all contractual payments due during 2014 and the principal balance of this relationship was reduced by $91,000 during 2014.

The Company purchases individual loans and groups of loans. Purchased loans that show evidence of credit deterioration since origination are recorded at the amount paid (or allocated fair value in a purchase business combination), such that there is no carryover of the seller's allowance for loan losses. After acquisition, incurred losses are recognized by an increase in the allowance for loan losses.

Purchased loans that indicated evidence of credit deterioration since origination at the time of acquisition by the Company did not have a material adverse impact on the Company's key credit metrics during 2014 or 2013. The key credit metrics the Company measures generally include non-performing loans, past due loans, and adversely classified loans.

Non-performing purchased loans with evidence of credit deterioration since origination totaled $1,154,000 at December 31, 2014 compared with $1,705,000 at December 31, 2013. The non-performing purchased loans with evidence of credit deterioration since origination represented approximately 19% of total non-performing loans at December 31, 2014 compared with approximately 20% of total non-performing loans at December 31, 2013.

Past due purchased loans with evidence of credit deterioration since origination totaled $648,000 at December 31, 2014 and $1,250,000 at year-end 2013. Past due purchased loans with evidence of credit deterioration since origination represented approximately 9% of total past due loans at December 31, 2014 and approximately 16% of total past due loans at year-end 2013.

Adversely classified purchased loans with evidence of credit deterioration since origination totaled $4.4 million at December 31, 2014 compared with $9.0 million at December 31, 2013. Adversely classified purchased loans with evidence of credit deterioration since origination represented approximately 16% of total adversely classified loans at December 31, 2014 compared with approximately 25% of total adversely classified loans at year-end 2013.

Loan impairment is reported when full repayment under the terms of the loan is not expected. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate, or at the fair value of collateral if repayment is expected solely from the collateral. Commercial and industrial loans, commercial real estate loans, and agricultural loans are evaluated individually for impairment. Smaller balance homogeneous loans are evaluated for impairment in total. Such loans include real estate loans secured by one-to-four family residences and loans to individuals for household, family and other personal expenditures. Individually evaluated loans on non-accrual are generally considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible. The amount of loans individually evaluated for impairment, including purchase credit impaired loans, totaled $6.3 million at December 31, 2014. For additional detail on impaired loans, see Note 4 to the Company's consolidated financial statements included in Item 8 of this Report.

Interest income recognized on non-accrual loans for 2014 was $374,000. The gross interest income that would have been recognized in 2014 on non-performing loans if the loans had been current in accordance with their original terms was $532,000. Loans are typically placed on non-accrual status when scheduled principal or interest payments are past due for 90 days or more, unless the loan is well secured and in the process of collection.

LIQUIDITY AND INTEREST RATE RISK MANAGEMENT

Liquidity is a measure of the ability of the Company's subsidiary bank to fund new loan demand, existing loan commitments and deposit withdrawals. The purpose of liquidity management is to match sources of funds with anticipated customer borrowings and withdrawals and other obligations to ensure a dependable funding base, without unduly penalizing earnings. Failure to properly manage liquidity requirements can result in the need to satisfy customer withdrawals and other obligations on less than desirable terms. The liquidity of the parent company is dependent upon the receipt of dividends from its bank subsidiary, which are subject to certain regulatory limitations explained in Note 8 to the Company's consolidated financial statements included in Item 8 of this Report, as enhanced by its ability to draw upon term financing arrangements and a line of credit established by the parent company with a correspondent bank lender as described under "SOURCES OF FUNDS - Parent Company Funding Sources", above. The subsidiary bank's source of funding is predominately core deposits, time deposits in excess of $100,000 and brokered certificates of deposit, maturities of securities, repayments of loan principal and interest, federal funds purchased, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank and Federal Reserve Bank.

Interest rate risk is the exposure of the Company's financial condition to adverse changes in market interest rates. In an effort to estimate the impact of sustained interest rate movements to the Company's earnings, the Company monitors

interest rate risk through computer-assisted simulation modeling of its net interest income. The Company's simulation modeling monitors the potential impact to net interest income under various interest rate scenarios. The Company's objective is to actively manage its asset/liability position within a one-year interval and to limit the risk in any of the interest rate scenarios to a reasonable level of tax-equivalent net interest income within that interval. The Company's Asset/Liability Committee monitors compliance within established guidelines of the Funds Management Policy. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk section for further discussion regarding interest rate risk.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements other than stand-by letters of credit as disclosed in Note 13 to the Company's consolidated financial statements included in Item 8 of this Report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company's exposure to market risk is reviewed on a regular basis by the Asset/Liability Committee and Board of Directors. Primary market risks, which impact the Company's operations, are liquidity risk and interest rate risk, as discussed above.

As discussed previously, the Company monitors interest rate risk by the use of computer simulation modeling to estimate the potential impact on its net interest income under various interest rate scenarios. Another method by which the Company's interest rate risk position can be estimated is by computing estimated changes in its net portfolio value ("NPV"). This method estimates interest rate risk exposure from movements in interest rates by using interest rate sensitivity analysis to determine the change in the NPV of discounted cash flows from assets and liabilities. NPV represents the market value of portfolio equity and is equal to the estimated market value of assets minus the estimated market value of liabilities. Computations are based on a number of assumptions, including the relative levels of market interest rates and prepayments in mortgage loans and certain types of investments. These computations do not contemplate any actions management may undertake in response to changes in interest rates, and should not be relied upon as indicative of actual results. In addition, certain shortcomings are inherent in the method of computing NPV. Should interest rates remain or decrease below current levels, the proportion of adjustable rate loans could decrease in future periods due to refinancing activity. In the event of an interest rate change, prepayment levels would likely be different from those assumed in the table. Lastly, the ability of many borrowers to repay their adjustable rate debt may decline during a rising interest rate environment.

The following table provides an assessment of the risk to NPV in the event of sudden and sustained 1% and 2% increases and decreases in prevailing interest rates. The table indicates that as of December 31, 2014 the Company's estimated NPV might be expected to decrease under either an increase or decrease of 2% in prevailing interest rates (dollars in thousands).

Interest Rate Sensitivity as of December 31, 2014

	Net Portfolio Value		Net Portfolio Value as a % of Present Value of Assets	
Changes in Rates	Amount	% Change	NPV Ratio	Change
+2%	$251,323	(10.22)%	11.93%	(73)b.p.
+1%	266,319	(4.86)%	12.34%	(32)b.p.
Base	279,929	—	12.66%	—
-1%	250,852	(10.39)%	11.19%	(147)b.p.
-2%	206,158	(26.35)%	9.13%	(353)b.p.

The above discussion, and the portions of MANAGEMENT'S DISCUSSION AND ANALYSIS in Item 7 of this Report that are referenced in the above discussion contain statements relating to future results of the Company that are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, simulation of the impact on net interest income from changes in interest rates. Actual results may differ materially from those expressed or implied therein as a result of certain risks and uncertainties, including those risks and uncertainties expressed above, those that are described in MANAGEMENT'S DISCUSSION AND ANALYSIS in Item 7 of this Report, and those that are described in Item 1 of this Report, "Business," under the caption "Forward-Looking Statements and Associated Risks," which discussions are incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

Board of Directors and Shareholders
German American Bancorp, Inc.
Jasper, Indiana

We have audited the accompanying consolidated balance sheets of German American Bancorp, Inc. (the Company) as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. We also have audited German American Bancorp, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). German American Bancorp, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of German American Bancorp, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion German American Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in the 2013 Internal Control – Integrated Framework issued by the COSO.

/s/ Crowe Horwath LLP
Crowe Horwath LLP

Indianapolis, Indiana
March 9, 2015

Consolidated Balance Sheets
Dollars in thousands, except per share data

	December 31,	
	2014	2013
ASSETS		
Cash and Due from Banks	$33,481	$37,370
Federal Funds Sold and Other Short-term Investments	8,965	22,762
Cash and Cash Equivalents	42,446	60,132
Interest-bearing Time Deposits with Banks	100	100
Securities Available-for-Sale, at Fair Value	630,995	606,032
Securities Held-to-Maturity, at Cost (Fair value of $186 and $271 on December 31, 2014 and 2013, respectively)	184	268
Loans Held-for-Sale, at Fair Value	6,311	9,265
Loans	1,451,990	1,385,212
Less: Unearned Income	(4,008)	(2,830)
Allowance for Loan Losses	(14,929)	(14,584)
Loans, Net	1,433,053	1,367,798
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	7,040	9,004
Premises, Furniture and Equipment, Net	39,930	40,430
Other Real Estate	356	1,029
Goodwill	20,536	20,536
Intangible Assets	2,074	3,328
Company Owned Life Insurance	32,043	31,178
Accrued Interest Receivable and Other Assets	22,031	14,727
TOTAL ASSETS	$2,237,099	$2,163,827
LIABILITIES		
Non-interest-bearing Demand Deposits	$428,016	$400,024
Interest-bearing Demand, Savings, and Money Market Accounts	1,018,320	1,063,098
Time Deposits	333,425	349,034
Total Deposits	1,779,761	1,812,156
FHLB Advances and Other Borrowings	206,064	140,770
Accrued Interest Payable and Other Liabilities	22,450	10,804
TOTAL LIABILITIES	2,008,275	1,963,730
Commitments and Contingencies (Note 13)		
SHAREHOLDERS' EQUITY		
Preferred Stock, no par value; 500,000 shares authorized, no shares issued	—	—

Common Stock, no par value, $1 stated value; 30,000,000 shares authorized	13,216	13,174
Additional Paid-in Capital	108,660	108,022
Retained Earnings	104,058	84,164
Accumulated Other Comprehensive Income (Loss)	2,890	(5,263)
TOTAL SHAREHOLDERS' EQUITY	228,824	200,097
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,237,099	$2,163,827
End of period shares issued and outstanding	13,215,800	13,173,793

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Income
Dollars in thousands, except per share data

	Years Ended December 31,		
	2014	2013	2012
INTEREST INCOME			
Interest and Fees on Loans	$65,597	$61,632	$61,691
Interest on Federal Funds Sold and Other Short-term Investments	12	30	91
Interest and Dividends on Securities:			
Taxable	10,409	11,091	12,946
Non-taxable	4,368	2,919	2,432
TOTAL INTEREST INCOME	80,386	75,672	77,160
INTEREST EXPENSE			
Interest on Deposits	4,128	4,697	6,958
Interest on FHLB Advances and Other Borrowings	1,919	2,458	3,954
TOTAL INTEREST EXPENSE	6,047	7,155	10,912
NET INTEREST INCOME	74,339	68,517	66,248
Provision for Loan Losses	150	350	2,412
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	74,189	68,167	63,836
NON-INTEREST INCOME			
Trust and Investment Product Fees	3,675	3,358	2,657
Service Charges on Deposit Accounts	4,829	4,144	4,076
Insurance Revenues	7,255	6,217	5,524
Company Owned Life Insurance	826	965	974
Interchange Fee Income	1,961	1,854	1,724
Other Operating Income	2,018	2,003	1,955
Net Gains on Sales of Loans	1,892	2,645	3,234
Net Gains on Securities	1,481	2,429	1,667
TOTAL NON-INTEREST INCOME	23,937	23,615	21,811
NON-INTEREST EXPENSE			
Salaries and Employee Benefits	32,710	31,482	29,086
Occupancy Expense	5,094	4,545	4,277
Furniture and Equipment Expense	1,953	1,898	1,979
FDIC Premiums	1,113	1,050	1,116
Data Processing Fees	3,675	3,133	1,879
Professional Fees	2,294	2,577	2,247

Advertising and Promotion	1,977	1,863	1,714
Intangible Amortization	1,254	1,416	1,655
Other Operating Expenses	7,643	6,941	6,970
TOTAL NON-INTEREST EXPENSE	57,713	54,905	50,923
Income before Income Taxes	40,413	36,877	34,724
Income Tax Expense	12,069	11,464	10,669
NET INCOME	$28,344	$25,413	$24,055
Basic Earnings per Share	$2.15	$1.99	$1.91
Diluted Earnings per Share	$2.14	$1.98	$1.90

See accompanying notes to the consolidated financial statements

Consolidated Statements of Comprehensive Income
Dollars in thousands, except per share data

	Years Ended December 31,		
	2014	2013	2012
NET INCOME	$28,344	$25,413	$24,055
Other Comprehensive Income (Loss):			
Unrealized Gains (Losses) on Securities			
Unrealized Holding Gain (Loss) Arising During the Period	14,146	(22,169)	1,495
Reclassification Adjustment for (Gains) Losses Included in Net Income	(1,481)	(2,429)	(1,667)
Tax Effect	(4,476)	8,724	48
Net of Tax	8,189	(15,874)	(124)
Defined Benefit Pension Plans			
Net Gain (Loss) Arising During the Period	—	749	(155)
Reclassification Adjustment for Amortization of Prior Service Cost and Net (Gain) Loss Included in Net Periodic Pension Cost	—	(373)	78
Tax Effect	—	(145)	30
Net of Tax	—	231	(47)
Postretirement Benefit Obligation			
Net Gain (Loss) Arising During the Period	(96)	80	(79)
Reclassification Adjustment for Amortization of Prior Service Cost and Net (Gain) Loss Included in Net Periodic Pension Cost	50	(37)	42
Tax Effect	10	(14)	16
Net of Tax	(36)	29	(21)
Total Other Comprehensive Income (Loss)	8,153	(15,614)	(192)
COMPREHENSIVE INCOME	$36,497	$9,799	$23,863

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
Dollars in thousands, except per share data

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balances, January 1, 2012	12,594,258	$12,594	$95,039	$49,434	$10,543	$167,610
Net Income				24,055		24,055
Other Comprehensive Income (Loss)					(192)	(192)
Cash Dividends ($.56 per share)				(7,068)		(7,068)
Issuance of Common Stock for:						
Exercise of Stock Options	7,278	8	29			37
Restricted Share Grants	35,120	35	593			628
Employee Stock Purchase Plan			(67)			(67)
Income Tax Benefit From Restricted Share Grant			23			23
Balances, December 31, 2012	12,636,656	12,637	95,617	66,421	10,351	185,026
Net Income				25,413		25,413
Other Comprehensive Income (Loss)					(15,614)	(15,614)
Cash Dividends ($.60 per share)				(7,670)		(7,670)
Issuance of Common Stock for:						
Exercise of Stock Options	1,999	2	18			20
Acquisition of United Commerce Bancorp	502,560	503	12,071			12,574
Restricted Share Grants	32,578	32	297			329
Employee Stock Purchase Plan			(9)			(9)
Income Tax Benefit From Restricted Share Grant			28			28
Balances, December 31, 2013	13,173,793	13,174	108,022	84,164	(5,263)	200,097
Net Income				28,344		28,344
Other Comprehensive Income (Loss)					8,153	8,153
Cash Dividends ($.64 per share)				(8,450)		(8,450)
Issuance of Common Stock for:						
Exercise of Stock Options	6,640	7	43			50
Restricted Share Grants	35,367	35	592			627
Employee Stock Purchase Plan			(37)			(37)
Income Tax Benefit From Restricted Share Grant			40			40

Balances, December 31, 2014	13,215,800	$13,216	$108,660	$104,058	$2,890	$228,824

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows
Dollars in thousands

	Years Ended December 31,		
CASH FLOWS FROM OPERATING ACTIVITIES	2014	2013	2012
Net Income	$28,344	$25,413	$24,055
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:			
Net Amortization on Securities	2,025	2,875	4,567
Depreciation and Amortization	4,810	4,461	4,688
Loans Originated for Sale	(96,760)	(158,845)	(181,993)
Proceeds from Sales of Loans Held-for-Sale	101,608	169,242	189,984
Provision for Loan Losses	150	350	2,412
Gain on Sale of Loans, net	(1,892		