

GERMAN AMERICAN BANCORP, INC.  
Form 10-Q  
November 07, 2014  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period  
Ended September 30, 2014

Commission File Number 001-15877

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

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

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

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

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

YES  NO

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

YES  NO

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

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

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

YES  NO

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

Class	Outstanding at November 1, 2014
Common Shares, no par value	13,210,395

CAUTION REGARDING FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

Information included in or incorporated by reference in this Quarterly Report on Form 10-Q, our other filings with the Securities and Exchange Commission (the “SEC”) and our press releases or other public statements, contains or may contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to the discussions of our forward-looking statements and associated risks in our annual report on Form 10-K for the year ended December 31, 2013, in Item 1, “Business – Forward-Looking Statements and Associated Risks” and our discussion of risk factors in Item 1A, “Risk Factors” of that annual report on Form 10-K, as updated from time to time in our subsequent SEC filings, including by Item 2 of Part I of this Report (“Management’s Discussion and Analysis of Financial Condition and Results of Operations”) at the conclusion of that Item 2 under the heading “Forward-Looking Statements and Associated Risks.”

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## GERMAN AMERICAN BANCORP, INC.

## CONSOLIDATED BALANCE SHEETS

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

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Cash and Due from Banks	\$37,427	\$37,370
Federal Funds Sold and Other Short-term Investments	49,740	22,762
Cash and Cash Equivalents	87,167	60,132
Interest-bearing Time Deposits with Banks	100	100
Securities Available-for-Sale, at Fair Value	575,741	606,032
Securities Held-to-Maturity, at Cost (Fair value of \$186 and \$271 on September 30, 2014 and December 31, 2013, respectively)	184	268
Loans Held-for-Sale, at Fair Value	7,590	9,265
Loans	1,436,774	1,385,212
Less: Unearned Income	(4,025)	(2,830)
Allowance for Loan Losses	(15,592)	(14,584)
Loans, Net	1,417,157	1,367,798
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	9,096	9,004
Premises, Furniture and Equipment, Net	40,322	40,430
Other Real Estate	521	1,029
Goodwill	20,535	20,536
Intangible Assets	2,353	3,328
Company Owned Life Insurance	31,809	31,178
Accrued Interest Receivable and Other Assets	13,346	14,727
<b>TOTAL ASSETS</b>	<b>\$2,205,921</b>	<b>\$2,163,827</b>
<b>LIABILITIES</b>		
Non-interest-bearing Demand Deposits	\$410,329	\$400,024
Interest-bearing Demand, Savings, and Money Market Accounts	1,020,504	1,063,098
Time Deposits	333,638	349,034
Total Deposits	1,764,471	1,812,156
FHLB Advances and Other Borrowings	208,086	140,770
Accrued Interest Payable and Other Liabilities	13,099	10,804
<b>TOTAL LIABILITIES</b>	<b>1,985,656</b>	<b>1,963,730</b>
<b>SHAREHOLDERS' EQUITY</b>		
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	13,210	13,174
Additional Paid-in Capital	108,481	108,022
Retained Earnings	98,528	84,164
Accumulated Other Comprehensive Income (Loss)	46	(5,263)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>220,265</b>	<b>200,097</b>

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,205,921	\$2,163,827
End of period shares issued and outstanding	13,210,395	13,173,793

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2014	2013
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$16,680	\$15,307
Interest on Federal Funds Sold and Other Short-term Investments	2	2
Interest and Dividends on Securities:		
Taxable	2,531	2,768
Non-taxable	1,135	735
<b>TOTAL INTEREST INCOME</b>	<b>20,348</b>	<b>18,812</b>
<b>INTEREST EXPENSE</b>		
Interest on Deposits	1,025	1,145
Interest on FHLB Advances and Other Borrowings	532	475
<b>TOTAL INTEREST EXPENSE</b>	<b>1,557</b>	<b>1,620</b>
<b>NET INTEREST INCOME</b>	<b>18,791</b>	<b>17,192</b>
Provision for Loan Losses	—	(400)
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>18,791</b>	<b>17,592</b>
<b>NON-INTEREST INCOME</b>		
Trust and Investment Product Fees	901	802
Service Charges on Deposit Accounts	1,300	1,029
Insurance Revenues	1,739	1,495
Company Owned Life Insurance	210	233
Interchange Fee Income	508	449
Other Operating Income	599	395
Net Gains on Sales of Loans	613	613
Net Gains on Securities	567	428
<b>TOTAL NON-INTEREST INCOME</b>	<b>6,437</b>	<b>5,444</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and Employee Benefits	7,975	7,515
Occupancy Expense	1,262	1,155
Furniture and Equipment Expense	463	438
FDIC Premiums	277	261
Data Processing Fees	935	717
Professional Fees	516	970
Advertising and Promotion	613	447
Intangible Amortization	302	329
Other Operating Expenses	1,739	1,752
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>14,082</b>	<b>13,584</b>
Income before Income Taxes	11,146	9,452
Income Tax Expense	3,438	2,969
<b>NET INCOME</b>	<b>\$7,708</b>	<b>\$6,483</b>

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Basic Earnings Per Share	\$0.58	\$0.51
Diluted Earnings Per Share	\$0.58	\$0.51
Dividends Per Share	\$0.16	\$0.15

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2014	2013
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$48,766	\$45,227
Interest on Federal Funds Sold and Other Short-term Investments	8	25
Interest and Dividends on Securities:		
Taxable	7,944	8,380
Non-taxable	3,136	2,008
<b>TOTAL INTEREST INCOME</b>	<b>59,854</b>	<b>55,640</b>
<b>INTEREST EXPENSE</b>		
Interest on Deposits	3,098	3,533
Interest on FHLB Advances and Other Borrowings	1,448	1,978
<b>TOTAL INTEREST EXPENSE</b>	<b>4,546</b>	<b>5,511</b>
<b>NET INTEREST INCOME</b>	<b>55,308</b>	<b>50,129</b>
Provision for Loan Losses	550	(250)
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>54,758</b>	<b>50,379</b>
<b>NON-INTEREST INCOME</b>		
Trust and Investment Product Fees	2,728	2,433
Service Charges on Deposit Accounts	3,552	3,034
Insurance Revenues	5,777	4,658
Company Owned Life Insurance	603	716
Interchange Fee Income	1,467	1,392
Other Operating Income	1,579	1,547
Net Gains on Sales of Loans	1,475	2,176
Net Gains on Securities	1,039	1,508
<b>TOTAL NON-INTEREST INCOME</b>	<b>18,220</b>	<b>17,464</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and Employee Benefits	24,285	22,926
Occupancy Expense	3,776	3,359
Furniture and Equipment Expense	1,472	1,379
FDIC Premiums	828	776
Data Processing Fees	2,892	2,054
Professional Fees	1,761	2,156
Advertising and Promotion	1,635	1,453
Intangible Amortization	975	1,044
Other Operating Expenses	5,687	5,160
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>43,311</b>	<b>40,307</b>
Income before Income Taxes	29,667	27,536
Income Tax Expense	8,967	8,712
<b>NET INCOME</b>	<b>\$20,700</b>	<b>\$18,824</b>

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Basic Earnings Per Share	\$1.57	\$1.49
Diluted Earnings Per Share	\$1.57	\$1.48
Dividends Per Share	\$0.48	\$0.45

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2014	2013
NET INCOME	\$7,708	\$6,483
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	871	(1,687 )
Reclassification Adjustment for Losses (Gains) Included in Net Income	(567 )	(428 )
Tax Effect	(96 )	742 )
Net of Tax	208	(1,373 )
Total Other Comprehensive Income (Loss)	208	(1,373 )
COMPREHENSIVE INCOME	\$7,916	\$5,110

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

	Nine Months Ended September 30,	
	2014	2013
NET INCOME	\$20,700	\$18,824
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	9,251	(18,984 )
Reclassification Adjustment for Losses (Gains) Included in Net Income	(1,039 )	(1,508 )
Tax Effect	(2,903 )	7,229 )
Net of Tax	5,309	(13,263 )
Total Other Comprehensive Income (Loss)	5,309	(13,263 )
COMPREHENSIVE INCOME	\$26,009	\$5,561

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$20,700	\$18,824
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	1,510	2,338
Depreciation and Amortization	3,611	3,308
Loans Originated for Sale	(70,603	) (132,471
Proceeds from Sales of Loans Held-for-Sale	73,696	142,433
Provision for Loan Losses	550	(250
Gain on Sale of Loans, net	(1,475	) (2,176
Gain on Securities, net	(1,039	) (1,508
Loss (Gain) on Sales of Other Real Estate and Repossessed Assets	(46	) 258
Loss (Gain) on Disposition and Impairment of Premises and Equipment	28	(70
Increase in Cash Surrender Value of Company Owned Life Insurance	(631	) (709
Equity Based Compensation	482	247
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	(4,708	) 2,799
Interest Payable and Other Liabilities	2,214	278
Net Cash from Operating Activities	24,289	33,301
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Maturity of Other Short-term Investments	—	2,690
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	62,892	114,563
Proceeds from Sales of Securities Available-for-Sale	52,711	119,952
Purchase of Securities Available-for-Sale	(74,247	) (231,085
Proceeds from Maturities of Securities Held-to-Maturity	84	78
Purchase of Federal Home Loan Bank Stock	(92	) —
Purchase of Loans	(1,750	) (744
Proceeds from Sales of Loans	—	3,250
Loans Made to Customers, net of Payments Received	(49,436	) (80,564
Proceeds from Sales of Other Real Estate	1,831	1,479
Property and Equipment Expenditures	(2,492	) (2,296
Proceeds from Sales of Property and Equipment	23	88
Net Cash from Investing Activities	(10,476	) (72,589
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in Deposits	(47,658	) 30,120
Change in Short-term Borrowings	66,977	31,258
Advances in Long-term Debt	20,321	50,000
Repayments of Long-term Debt	(20,095	) (50,815
Issuance of Common Stock	50	13
Employee Stock Purchase Plan	(37	) (9
Dividends Paid	(6,336	) (5,695
Net Cash from Financing Activities	13,222	54,872

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Net Change in Cash and Cash Equivalents	27,035	15,584
Cash and Cash Equivalents at Beginning of Year	60,132	49,087
Cash and Cash Equivalents at End of Year	\$87,167	\$64,671
Cash Paid During the Year for		
Interest	\$4,650	\$6,096
Income Taxes	7,192	8,732
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	\$1,277	\$676
Accounts Receivable Transferred to Securities	(3,323	) (45,803
See accompanying notes to consolidated financial statements.		

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GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2014  
 (unaudited, dollars in thousands except share and per share data)

NOTE 1 – Basis of Presentation

German American Bancorp, Inc. operates primarily in the banking industry. The accounting and reporting policies of German American Bancorp, Inc. and its subsidiaries conform to U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. It is suggested that these consolidated financial statements and notes be read in conjunction with the financial statements and notes thereto in the German American Bancorp, Inc. December 31, 2013 Annual Report on Form 10-K. Certain items included in the prior period financial statements were reclassified to conform to the current presentation. There was no effect on net income or total shareholder's equity.

NOTE 2 – Per Share Data

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

	Three Months Ended September 30,	
	2014	2013
Basic Earnings per Share:		
Net Income	\$7,708	\$6,483
Weighted Average Shares Outstanding	13,210,395	12,666,780
Basic Earnings per Share	\$0.58	\$0.51
Diluted Earnings per Share:		
Net Income	\$7,708	\$6,483
Weighted Average Shares Outstanding	13,210,395	12,666,780
Potentially Dilutive Shares, Net	20,280	24,384
Diluted Weighted Average Shares Outstanding	13,230,675	12,691,164
Diluted Earnings per Share	\$0.58	\$0.51

For the three months ended September 30, 2014 and 2013, there were no anti-dilutive shares.

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

	Nine Months Ended September 30,	
	2014	2013
Basic Earnings per Share:		
Net Income	\$20,700	\$18,824
Weighted Average Shares Outstanding	13,200,025	12,658,403
Basic Earnings per Share	\$1.57	\$1.49
Diluted Earnings per Share:		

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Net Income	\$20,700	\$18,824
Weighted Average Shares Outstanding	13,200,025	12,658,403
Potentially Dilutive Shares, Net	20,975	19,950
Diluted Weighted Average Shares Outstanding	13,221,000	12,678,353
Diluted Earnings per Share	\$1.57	\$1.48

For the nine months ended September 30, 2014 and 2013, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 September 30, 2014  
 (unaudited, dollars in thousands except share and per share data)

## NOTE 3 – Securities

The amortized cost, unrealized gross gains and losses recognized in accumulated other comprehensive income (loss), and fair value of Securities Available-for-Sale at September 30, 2014 and December 31, 2013, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2014				
U.S. Treasury and Agency Securities	\$20,000	\$—	\$(637)	) \$19,363
Obligations of State and Political Subdivisions	134,763	5,858	(92)	) 140,529
Mortgage-backed Securities - Residential	420,466	2,758	(7,728)	) 415,496
Equity Securities	353	—	—	353
Total	\$575,582	\$8,616	\$(8,457)	) \$575,741
December 31, 2013				
U.S. Treasury and Agency Securities	\$20,000	\$—	\$(1,048)	) \$18,952
Obligations of State and Political Subdivisions	112,008	2,388	(899)	) 113,497
Mortgage-backed Securities - Residential	481,724	3,497	(11,991)	) 473,230
Equity Securities	353	—	—	353
Total	\$614,085	\$5,885	\$(13,938)	) \$606,032

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

The carrying amount, unrecognized gains and losses and fair value of Securities Held-to-Maturity at September 30, 2014 and December 31, 2013, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 2014				
Obligations of State and Political Subdivisions	\$184	\$2	\$—	\$186
December 31, 2013				
Obligations of State and Political Subdivisions	\$268	\$3	\$—	\$271



GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2014  
(unaudited, dollars in thousands except share and per share data)

## NOTE 3 - Securities (continued)

The amortized cost and fair value of Securities at September 30, 2014 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations with or without call or prepayment penalties. Mortgage-backed and Equity Securities are not due at a single maturity date and are shown separately.

Securities Available-for-Sale:	Amortized Cost	Fair Value
Due in one year or less	\$3,716	\$3,737
Due after one year through five years	20,274	20,174
Due after five years through ten years	65,615	67,862
Due after ten years	65,158	68,119
Mortgage-backed Securities - Residential	420,466	415,496
Equity Securities	353	353
Total	\$575,582	\$575,741

Securities Held-to-Maturity:	Carrying Amount	Fair Value
Due in one year or less	\$—	\$—
Due after one year through five years	184	186
Due after five years through ten years	—	—
Due after ten years	—	—
Total	\$184	\$186

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013
Proceeds from Sales	\$45,473	\$19,231
Gross Gains on Sales	567	428
Income Taxes on Gross Gains	198	150
	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Proceeds from Sales	\$52,711	\$119,952
Gross Gains on Sales	1,039	1,508
Income Taxes on Gross Gains	364	528



GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2014  
(unaudited, dollars in thousands except share and per share data)

## NOTE 3 - Securities (continued)

Below is a summary of securities with unrealized losses as of September 30, 2014 and December 31, 2013, presented by length of time the securities have been in a continuous unrealized loss position:

September 30, 2014	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and Agency Securities	\$—	\$—	\$19,363	\$(637)	\$19,363	\$(637)
Obligations of State and Political Subdivisions	4,849	(35)	4,038	(57)	8,887	(92)
Mortgage-backed Securities - Residential	67,038	(543)	239,488	(7,185)	306,526	(7,728)
Equity Securities	—	—	—	—	—	—
Total	\$71,887	\$(578)	\$262,889	\$(7,879)	\$334,776	\$(8,457)

  

December 31, 2013	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and Agency Securities	\$18,952	\$(1,048)	\$—	\$—	\$18,952	\$(1,048)
Obligations of State and Political Subdivisions	38,878	(899)	—	—	38,878	(899)
Mortgage-backed Securities - Residential	346,028	(11,903)	1,735	(88)	347,763	(11,991)
Equity Securities	—	—	—	—	—	—
Total	\$403,858	\$(13,850)	\$1,735	\$(88)	\$405,593	\$(13,938)

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

## NOTE 4 – Derivatives

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of these interest rate swaps and the offsetting counterparty derivative instruments were \$23.2 million at September 30, 2014 and \$17.9 million at December 31, 2013. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions with approved, reputable,

independent counterparties with substantially matching terms. The agreements are considered stand alone derivatives and changes in the fair value of derivatives are reported in earnings as non-interest income.

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

GERMAN AMERICAN BANCORP, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
September 30, 2014  
(unaudited, dollars in thousands except share and per share data)

## NOTE 4 - Derivatives (continued)

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

	September 30, 2014		December 31, 2013	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$23,233	\$470	\$17,853	\$866
Included in Other Liabilities:				
Interest Rate Swaps	\$23,233	\$412	\$17,853	\$737

The following tables present the effect of derivative instruments on the Consolidated Statements of Income for the periods presented:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Interest Rate Swaps:				
Included in Interest Income / (Expense)	\$—	\$—	\$—	\$—
Included in Other Income / (Expense)	(4	) (34	) 74	517

## NOTE 5 – Loans

Loans were comprised of the following classifications at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Commercial:		
Commercial and Industrial Loans and Leases	\$377,845	\$350,955
Commercial Real Estate Loans	586,012	582,066
Agricultural Loans	201,867	192,880
Retail:		
Home Equity Loans	85,160	81,504
Consumer Loans	48,604	49,124
Residential Mortgage Loans	137,286	128,683
Subtotal	1,436,774	1,385,212
Less: Unearned Income	(4,025	) (2,830
Allowance for Loan Losses	(15,592	) (14,584
Loans, Net	\$1,417,157	\$1,367,798

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## NOTE 5 - Loans (continued)

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ending September 30, 2014 and 2013:

September 30, 2014	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$5,661	\$7,199	\$1,016	\$418	\$326	\$435	\$495	\$15,550
Provision for Loan Losses	(563 )	206	156	(33 )	77	(33 )	190	—
Recoveries	19	55	—	—	41	6	—	121
Loans Charged-off	—	(6 )	—	(7 )	(65 )	(1 )	—	(79 )
Ending Balance	\$5,117	\$7,454	\$1,172	\$378	\$379	\$407	\$685	\$15,592
September 30, 2013	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$4,258	\$8,636	\$817	\$313	\$199	\$280	\$760	\$15,263
Provision for Loan Losses	(361 )	(214 )	53	89	64	36	(67 )	(400 )
Recoveries	108	7	—	—	33	2	—	150
Loans Charged-off	(34 )							