GERMAN AMERICAN BANCORP, INC.
Form 10-Q
August 04, 2017
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 June 30, 2017

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, 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 x 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 x NO ¨

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
¨	x	¨	¨	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):
YES ¨ NO x

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 August 1, 2017
Common Shares, no par value	22,929,417

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, 2016, 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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INDEX

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)

	June 30, 2017	December 31, 2016
ASSETS		
Cash and Due from Banks	$36,833	$48,467
Federal Funds Sold and Other Short-term Investments	7,204	16,349
Cash and Cash Equivalents	44,037	64,816
Securities Available-for-Sale, at Fair Value	740,578	709,786
Loans Held-for-Sale, at Fair Value	9,844	15,273
Loans	2,035,147	1,993,404
Less: Unearned Income	(3,404)	(3,449)
Allowance for Loan Losses	(15,320)	(14,808)
Loans, Net	2,016,423	1,975,147
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,048	13,048
Premises, Furniture and Equipment, Net	49,249	48,230
Other Real Estate	1,289	242
Goodwill	54,058	54,058
Intangible Assets	2,549	2,835
Company Owned Life Insurance	46,127	46,642
Accrued Interest Receivable and Other Assets	27,601	25,917
TOTAL ASSETS	$3,004,803	$2,955,994
LIABILITIES		
Non-interest-bearing Demand Deposits	$557,535	$571,989
Interest-bearing Demand, Savings, and Money Market Accounts	1,453,512	1,399,381
Time Deposits	352,274	378,181
Total Deposits	2,363,321	2,349,551
FHLB Advances and Other Borrowings	263,469	258,114
Accrued Interest Payable and Other Liabilities	23,059	18,062
TOTAL LIABILITIES	2,649,849	2,625,727
SHAREHOLDERS' EQUITY		
Preferred Stock, no par value; 500,000 shares authorized, no shares issued	—	—
Common Stock, no par value, $1 stated value; 45,000,000 shares authorized (1)	22,930	15,261
Additional Paid-in Capital	164,683	171,744
Retained Earnings	163,181	149,666
Accumulated Other Comprehensive (Loss) Income	4,160	(6,404)
TOTAL SHAREHOLDERS' EQUITY	354,954	330,267
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,004,803	$2,955,994
End of period shares issued and outstanding (1)	22,929,627	22,904,157

(1) Share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,	
	2017	2016
INTEREST INCOME		
Interest and Fees on Loans	$22,602	$22,670
Interest on Federal Funds Sold and Other Short-term Investments	27	20
Interest and Dividends on Securities:		
Taxable	2,702	2,287
Non-taxable	2,070	1,873
TOTAL INTEREST INCOME	27,401	26,850
INTEREST EXPENSE		
Interest on Deposits	1,626	1,326
Interest on FHLB Advances and Other Borrowings	962	853
TOTAL INTEREST EXPENSE	2,588	2,179
NET INTEREST INCOME	24,813	24,671
Provision for Loan Losses	350	350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,463	24,321
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,350	1,223
Service Charges on Deposit Accounts	1,478	1,534
Insurance Revenues	1,744	1,605
Company Owned Life Insurance	480	247
Interchange Fee Income	1,156	873
Other Operating Income	630	722
Net Gains on Sales of Loans	959	883
Net Gains on Securities	—	968
TOTAL NON-INTEREST INCOME	7,797	8,055
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	11,460	10,184
Occupancy Expense	1,570	1,614
Furniture and Equipment Expense	654	604
FDIC Premiums	232	339
Data Processing Fees	1,044	1,181
Professional Fees	913	780
Advertising and Promotion	630	629
Intangible Amortization	242	312
Other Operating Expenses	2,251	2,696
TOTAL NON-INTEREST EXPENSE	18,996	18,339
Income before Income Taxes	13,264	14,037
Income Tax Expense	3,425	4,249
NET INCOME	$9,839	$9,788

Basic Earnings per Share [1]	$0.43	$0.43
Diluted Earnings per Share [1]	$0.43	$0.43
Dividends per Share [1]	$0.13	$0.12

[1] Per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

See accompanying notes to consolidated financial statements.

5

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

	Six Months Ended June 30,	
	2017	2016
INTEREST INCOME		
Interest and Fees on Loans	$44,864	$41,334
Interest on Federal Funds Sold and Other Short-term Investments	54	37
Interest and Dividends on Securities:		
Taxable	5,421	4,564
Non-taxable	4,095	3,595
TOTAL INTEREST INCOME	54,434	49,530
INTEREST EXPENSE		
Interest on Deposits	3,069	2,481
Interest on FHLB Advances and Other Borrowings	1,827	1,594
TOTAL INTEREST EXPENSE	4,896	4,075
NET INTEREST INCOME	49,538	45,455
Provision for Loan Losses	850	1,200
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	48,688	44,255
NON-INTEREST INCOME		
Trust and Investment Product Fees	2,593	2,244
Service Charges on Deposit Accounts	2,962	2,767
Insurance Revenues	4,384	4,332
Company Owned Life Insurance	734	462
Interchange Fee Income	2,179	1,661
Other Operating Income	1,487	1,235
Net Gains on Sales of Loans	1,646	1,603
Net Gains on Securities	—	968
TOTAL NON-INTEREST INCOME	15,985	15,272
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	22,904	21,785
Occupancy Expense	3,119	2,993
Furniture and Equipment Expense	1,287	1,112
FDIC Premiums	471	667
Data Processing Fees	2,055	3,346
Professional Fees	1,716	2,098
Advertising and Promotion	1,408	1,173
Intangible Amortization	495	520
Other Operating Expenses	4,577	4,885
TOTAL NON-INTEREST EXPENSE	38,032	38,579
Income before Income Taxes	26,641	20,948
Income Tax Expense	7,246	6,014
NET INCOME	$19,395	$14,934

Basic Earnings per Share [1]	$0.85	$0.68
Diluted Earnings per Share [1]	$0.85	$0.68
Dividends per Share [1]	$0.26	$0.24

[1] Per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30, 2017	2016
NET INCOME	$9,839	$9,788
Other Comprehensive Income:		
Unrealized Gains on Securities		
Unrealized Holding Gain Arising During the Period	10,133	6,134
Reclassification Adjustment for Losses (Gains) Included in Net Income	—	(968)
Tax Effect	(3,567)	(1,812)
Net of Tax	6,566	3,354
Total Other Comprehensive Income	6,566	3,354
COMPREHENSIVE INCOME	$16,405	$13,142

	Six Months Ended June 30, 2017	2016
NET INCOME	$19,395	$14,934
Other Comprehensive Income:		
Unrealized Gains on Securities		
Unrealized Holding Gain Arising During the Period	16,312	12,343
Reclassification Adjustment for Losses (Gains) Included in Net Income	—	(968)
Tax Effect	(5,748)	(3,992)
Net of Tax	10,564	7,383
Total Other Comprehensive Income	10,564	7,383
COMPREHENSIVE INCOME	$29,959	$22,317

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$19,395	$14,934
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	1,669	1,884
Depreciation and Amortization	2,317	2,227
Loans Originated for Sale	(57,304)	(53,059)
Proceeds from Sales of Loans Held-for-Sale	64,286	60,430
Provision for Loan Losses	850	1,200
Gain on Sale of Loans, net	(1,646)	(1,603)
Gain on Securities, net	—	(968)
Loss (Gain) on Sales of Other Real Estate and Repossessed Assets	(7)	1
Loss on Disposition and Donation of Premises and Equipment	2	5
Increase in Cash Surrender Value of Company Owned Life Insurance	(759)	(502)
Equity Based Compensation	637	528
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	(196)	5,736
Interest Payable and Other Liabilities	(751)	(2,307)
Net Cash from Operating Activities	28,493	28,506
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Other Short-term Investments	—	(1,000)
Proceeds from Maturity of Other Short-term Investments	—	248
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	40,792	46,809
Proceeds from Sales of Securities Available-for-Sale	—	105,339
Purchase of Securities Available-for-Sale	(56,941)	(91,368)
Proceeds from Maturities of Securities Held-to-Maturity	—	95
Purchase of Federal Home Loan Bank Stock	—	(1,350)
Purchase of Loans	(59)	(4,488)
Loans Made to Customers, net of Payments Received	(43,297)	(74,838)
Proceeds from Sales of Other Real Estate	190	869
Property and Equipment Expenditures	(3,302)	(1,504)
Acquisition of River Valley Bancorp	—	(793)
Net Cash from Investing Activities	(62,617)	(21,981)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	13,909	45,673
Change in Short-term Borrowings	(18,851)	(24,888)
Advances in Long-term Debt	50,000	—
Repayments of Long-term Debt	(25,804)	(20,096)
Issuance of Common Stock	(29)	54
Dividends Paid	(5,880)	(5,137)
Net Cash from Financing Activities	13,345	(4,394)
Net Change in Cash and Cash Equivalents	(20,779)	2,131

Cash and Cash Equivalents at Beginning of Year	64,816	52,009
Cash and Cash Equivalents at End of Period	$44,037	$54,140
Cash Paid During the Period for		
Interest	$4,913	$3,901
Income Taxes	7,239	5,133
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	$1,230	$10
Reclassification of Land to Other Assets	330	—

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 1 – Basis of Presentation

German American Bancorp, Inc. operates primarily in the banking industry. The accounting and reporting policies of German American Bancorp, Inc. and its subsidiaries (hereinafter collectively referred to as the "Company") conform to U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. It is suggested that these consolidated financial statements and notes be read in conjunction with the financial statements and notes thereto in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Certain items included in the prior period financial statements were reclassified to conform to the current presentation. There was no effect on net income or total shareholders' equity based on these reclassifications.

NOTE 2 - Common Stock Split

On March 27, 2017, the Company declared a 3-for-2 stock split on the Company's authorized and outstanding common shares. The stock split was distributed on April 21, 2017, to shareholders of record as of April 6, 2017. All share and per share data in this Quarterly Report on Form 10-Q relating to a date or period that precedes April 21, 2017 have been adjusted to retroactively reflect the stock split.

NOTE 3 – Per Share Data

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

	Three Months Ended June 30,	
	2017	2016
Basic Earnings per Share:		
Net Income	$9,839	$ 9,788
Weighted Average Shares Outstanding [1]	22,929,426	22,884,028
Basic Earnings per Share	$0.43	$ 0.43
Diluted Earnings per Share:		
Net Income	$9,839	$ 9,788
Weighted Average Shares Outstanding [1]	22,929,426	22,884,028
Potentially Dilutive Shares, Net	—	1,801
Diluted Weighted Average Shares Outstanding [1]	22,929,426	22,885,829
Diluted Earnings per Share	$0.43	$ 0.43

[1] Share and per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

For the three months ended June 30, 2017 and 2016, there were no anti-dilutive shares.

9

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 3 - Per Share Data (continued)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Basic Earnings per Share:		
Net Income	$19,395	$ 14,934
Weighted Average Shares Outstanding [1]	22,919,094	21,885,655
Basic Earnings per Share	$0.85	$ 0.68
Diluted Earnings per Share:		
Net Income	$19,395	$ 14,934
Weighted Average Shares Outstanding [1]	22,919,094	21,885,655
Potentially Dilutive Shares, Net	—	3,958
Diluted Weighted Average Shares Outstanding [1]	22,919,094	21,889,613
Diluted Earnings per Share	$0.85	$ 0.68

[1] Share and per share data has been adjusted to reflect a 3-for-2 stock split on April 21, 2017.

For the six months ended June 30, 2017 and 2016, there were no anti-dilutive shares.

NOTE 4 – Securities

The amortized cost, unrealized gross gains and losses recognized in accumulated other comprehensive income (loss), and fair value of Securities Available-for-Sale at June 30, 2017 and December 31, 2016, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2017				
Obligations of State and Political Subdivisions	$258,242	$ 9,337	$(592)	$266,987
MBS/CMO - Residential	475,440	2,096	(4,298)	473,238
Equity Securities	353	—	—	353
Total	$734,035	$ 11,433	$(4,890)	$740,578
December 31, 2016				
Obligations of State and Political Subdivisions	$247,350	$ 3,847	$(3,678)	$247,519
MBS/CMO - Residential	471,852	480	(10,418)	461,914
Equity Securities	353	—	—	353
Total	$719,555	$ 4,327	$(14,096)	$709,786

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.

10

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 4 - Securities (continued)

The amortized cost and fair value of securities at June 30, 2017 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 in the table below.

Securities Available-for-Sale:	Amortized Cost	Fair Value
Due in one year or less	$ 2,282	$ 2,303
Due after one year through five years	22,311	23,357
Due after five years through ten years	75,810	79,589
Due after ten years	157,839	161,738
MBS/CMO - Residential	475,440	473,238
Equity Securities	353	353
Total	$ 734,035	$ 740,578

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016
Proceeds from Sales	$ —	$ 42,364
Gross Gains on Sales	—	968
Income Taxes on Gross Gains	—	339

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Proceeds from Sales	$ —	$ 105,339
Gross Gains on Sales	—	968
Income Taxes on Gross Gains	—	339

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was $174,047 and $186,572 as of June 30, 2017 and December 31, 2016, respectively.

Below is a summary of securities with unrealized losses as of June 30, 2017 and December 31, 2016, presented by length of time the securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
June 30, 2017	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss

Obligations of State and Political Subdivisions	$35,898	$(592)	$—	$—	$35,898	$(592)
MBS/CMO - Residential	241,223	(3,198)	45,397	(1,100)	286,620	(4,298)
Equity Securities	—	—	—	—	—	—
Total	$277,121	$(3,790)	$45,397	$(1,100)	$322,518	$(4,890)

December 31, 2016	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of State and Political Subdivisions	$108,918	$(3,678)	$—	$—	$108,918	$(3,678)
MBS/CMO - Residential	356,040	(8,782)	47,271	(1,636)	403,311	(10,418)
Equity Securities	—	—	—	—	—	—
Total	$464,958	$(12,460)	$47,271	$(1,636)	$512,229	$(14,096)

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 4 - Securities (continued)

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 does not 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 and collateralized mortgage obligations (MBS/CMO - Residential) in the Company’s portfolio are guaranteed by government sponsored entities, are investment grade, and are performing as expected.

The Company's equity securities consist of one non-controlling investment in a single banking organization at June 30, 2017 and December 31, 2016. The original investment totaled $1,350 and other-than-temporary impairment was previously recorded totaling $997. When a decline in fair value below cost is deemed to be other-than-temporary, the unrealized loss must be recognized as a charge to earnings.

NOTE 5 – Derivatives

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of these interest rate swaps and the offsetting counterparty derivative instruments were $84.5 million at June 30, 2017 and $67.9 million at December 31, 2016. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions with approved, reputable, independent counterparties with substantially matching terms. The agreements are considered stand alone derivatives and changes in the fair value of derivatives are reported in earnings as non-interest income.

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

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

	June 30, 2017		December 31, 2016	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	$84,546	$ 1,655	$67,902	$ 1,291
Included in Other Liabilities:				
Interest Rate Swaps	$84,546	$ 1,736	$67,902	$ 1,238

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Interest Rate Swaps:				
Included in Other Operating Income	$ —	$ 104	$ 348	$ 158

12

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 – Loans

Loans were comprised of the following classifications at June 30, 2017 and December 31, 2016:

	June 30, 2017	December 31, 2016
Commercial:		
Commercial and Industrial Loans and Leases	$467,754	$457,372
Commercial Real Estate Loans	870,100	856,094
Agricultural Loans	313,254	303,128
Retail:		
Home Equity Loans	141,377	133,575
Consumer Loans	61,185	59,945
Residential Mortgage Loans	181,477	183,290
Subtotal	2,035,147	1,993,404
Less: Unearned Income	(3,404)	(3,449)
Allowance for Loan Losses	(15,320)	(14,808)
Loans, Net	$2,016,423	$1,975,147

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ended June 30, 2017 and 2016:

June 30, 2017	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	$ 3,612	$ 5,696	$ 4,361	$ 299	$ 244	$ 348	$ 606	$ 15,166
Provision for Loan Losses	62	(259)	468	16	54	19	(10)	350
Recoveries	7	34	—	2	67	8	—	118
Loans Charged-off	(9)	(155)	—	(17)	(111)	(22)	—	(314)
Ending Balance	$ 3,672	$ 5,316	$ 4,829	$ 300	$ 254	$ 353	$ 596	$ 15,320

June 30, 2016	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	$ 4,346	$ 6,463	$ 2,529	$ 352	$ 230	$ 531	$ 710	$ 15,161
Provision for Loan Losses	(180)	68	175	9	66	196	16	350
Recoveries	24	2	—	—	43	4	—	73
Loans Charged-off	—	—	—	(11)	(97)	(172)	—	(280)
Ending Balance	$ 4,190	$ 6,533	$ 2,704	$ 350	$ 242	$ 559	$ 726	$ 15,304

13

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

The following tables present the activity in the allowance for loan losses by portfolio class for the six months ended June 30, 2017 and 2016:

June 30, 2017	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	$ 3,725	$ 5,452	$ 4,094	$ 283	$ 235	$ 329	$ 690	$ 14,808
Provision for Loan Losses	(53)	19	735	33	172	38	(94)	850
Recoveries	9	39	—	2	127	35	—	212
Loans Charged-off	(9)	(194)	—	(18)	(280)	(49)	—	(550)
Ending Balance	$ 3,672	$ 5,316	$ 4,829	$ 300	$ 254	$ 353	$ 596	$ 15,320

June 30, 2016	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	$ 4,242	$ 6,342	$ 2,115	$ 383	$ 230	$ 414	$ 712	$ 14,438
Provision for Loan Losses	(75)	188	589	40	93	351	14	1,200
Recoveries	28	3	—	1	88	9	—	129
Loans Charged-off	(5)	—	—	(74)	(169)	(215)	—	(463)
Ending Balance	$ 4,190	$ 6,533	$ 2,704	$ 350	$ 242	$ 559	$ 726	$ 15,304

In determining the adequacy of the allowance for loan loss, general allocations are made for pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on historical averages for loan losses for these portfolios, judgmentally adjusted for current economic factors and portfolio trends.

Loan impairment is reported when full repayment under the terms of the loan is not expected. This methodology is used for all loans, including loans acquired with deteriorated credit quality if such loans perform worse than what was expected at the time of acquisition. For purchased loans, the assessment is made at the time of acquisition as well as over the life of loan. 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.

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

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

The following tables present the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of June 30, 2017 and December 31, 2016:

June 30, 2017	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
Allowance for Loan Losses:								
Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	$260	$10	$180	$70	$—	$—	$—	$ —
Collectively Evaluated for Impairment	15,000	3,659	5,132	4,711	300	249	353	596
Acquired with Deteriorated Credit Quality	60	3	4	48	—	5	—	—
Total Ending Allowance Balance	$15,320	$3,672	$5,316	$4,829	$300	$254	$353	$ 596
Loans:								
Loans Individually Evaluated for Impairment	$1,413	$187	$836	$390	$—	$—	$—	n/m[2]
Loans Collectively Evaluated for Impairment	2,031,844	467,531	864,532	315,691	141,851	61,281	180,958	n/m[2]
Loans Acquired with Deteriorated Credit Quality	9,513	1,247	6,602	683	—	53	928	n/m[2]
Total Ending Loans Balance[1]	$2,042,770	$468,965	$871,970	$316,764	$141,851	$61,334	$181,886	n/m[2]

[1]Total recorded investment in loans includes $7,623 in accrued interest.
[2]n/m = not meaningful

December 31, 2016	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
Allowance for Loan Losses:								

Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	$255	$ 24	$ 231	$—	$—	$—	$—	$ —
Collectively Evaluated for Impairment	14,448	3,698	5,172	4,046	283	230	329	690
Acquired with Deteriorated Credit Quality	105	3	49	48	—	5	—	—
Total Ending Allowance Balance	$14,808	$ 3,725	$ 5,452	$ 4,094	$283	$235	$329	$ 690
Loans:								
Loans Individually Evaluated for Impairment	$1,239	$ 113	$ 832	$ 294	$—	$—	$—	n/m[2]
Loans Collectively Evaluated for Impairment	1,989,128	456,769	849,510	305,946	134,032	60,046	182,825	n/m[2]
Loans Acquired with Deteriorated Credit Quality	11,048	1,656	7,688	706	—	53	945	n/m[2]
Total Ending Loans Balance[1]	$2,001,415	$ 458,538	$ 858,030	$ 306,946	$134,032	$ 60,099	$ 183,770	n/m[2]

[1]Total recorded investment in loans includes $8,011 in accrued interest.
[2]n/m = not meaningful

15

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans as of June 30, 2017 and December 31, 2016:

June 30, 2017	Unpaid Principal Balance[1]	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 196	$ 139	$ —
Commercial Real Estate Loans	838	450	—
Agricultural Loans	199	162	—
Subtotal	1,233	751	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	105	64	13
Commercial Real Estate Loans	800	791	184
Agricultural Loans	806	715	118
Subtotal	1,711	1,570	315
Total	$ 2,944	$ 2,321	$ 315
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 581	$ 203	$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 844	$ 705	$ 55

[1] Unpaid Principal Balance is the remaining contractual payments gross of partial charge-offs and discounts.

December 31, 2016	Unpaid Principal Balance[1]	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 85	$ 29	$ —
Commercial Real Estate Loans	1,278	784	—
Agricultural Loans	356	294	—
Subtotal	1,719	1,107	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	148	107	27
Commercial Real Estate Loans	839	827	280
Agricultural Loans	588	497	48
Subtotal	1,575	1,431	355
Total	$ 3,294	$ 2,538	$ 355
	$ 1,018	$ 531	$ —

Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)			
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 910	$ 768	$ 100

(1) Unpaid Principal Balance is the remaining contractual payments gross of partial charge-offs and discounts.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans for the three month period ended June 30, 2017 and 2016:

June 30, 2017	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 150	$ 2	$ 1
Commercial Real Estate Loans	1,124	26	26
Agricultural Loans	496	19	16
Subtotal	1,770	47	43
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	65	1	—
Commercial Real Estate Loans	795	4	—
Agricultural Loans	727	—	—
Subtotal	1,587	5	—
Total	$ 3,357	$ 52	$ 43
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 245	$ 25	$ 25
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 712	$ 4	$ —

June 30, 2016	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 185	$ 3	$ 1
Commercial Real Estate Loans	3,397	6	1
Agricultural Loans	845	—	—
Subtotal	4,427	9	2
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	86	—	—
Commercial Real Estate Loans	2,198	1	—
Agricultural Loans	—	—	—
Subtotal	2,284	1	—
Total	$ 6,711	$ 10	$ 2
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 2,324	$ 4	$ 1
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ —	$ —	$ —

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

The following tables present loans individually evaluated for impairment by class of loans for the six month period ended June 30, 2017 and 2016:

June 30, 2017	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 83	$ 2	$ 2
Commercial Real Estate Loans	823	30	29
Agricultural Loans	607	24	16
Subtotal	1,513	56	47
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	84	2	1
Commercial Real Estate Loans	1,609	10	6
Agricultural Loans	612	—	—
Subtotal	2,305	12	7
Total	$ 3,818	$ 68	$ 54
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 311	$ 25	$ 25
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 721	$ 11	$ 7

June 30, 2016	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 133	$ 25	$ 12
Commercial Real Estate Loans	1,988	24	4
Agricultural Loans	428	2	1
Subtotal	2,549	51	17
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	108	—	—
Commercial Real Estate Loans	2,216	2	—
Agricultural Loans	—	—	—
Subtotal	2,324	2	—
Total	$ 4,873	$ 53	$ 17
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 1,697	$ 12	$ 2
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ —	$ —	$ —

All classes of loans, including loans acquired with deteriorated credit quality, are generally placed on non-accrual status when scheduled principal or interest payments are past due for 90 days or more or when the borrower's ability to repay becomes doubtful. For purchased loans, the determination is made at the time of acquisition as well as over the life of the loan. Uncollected accrued interest for each class of loans is reversed against income at the time a loan is placed on non-accrual. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. All classes of loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

are reasonably assured. Loans are typically charged-off at 180 days past due, or earlier if deemed uncollectible. Exceptions to the non-accrual and charge-off policies are made when the loan is well secured and in the process of collection.

The following tables present the recorded investment in non-accrual loans and loans past due 90 days or more still on accrual by class of loans as of June 30, 2017 and December 31, 2016:

	Non-Accrual Loans		Loans Past Due 90 Days or More & Still Accruing	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Commercial and Industrial Loans and Leases	$60	$ 86	$ —	$ 2
Commercial Real Estate Loans	982	1,408	32	—
Agricultural Loans	878	792	31	—
Home Equity Loans	72	73	—	—
Consumer Loans	433	85	—	—
Residential Mortgage Loans	672	1,349	—	—
Total	$3,097	$ 3,793	$ 63	$ 2
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$820	$ 1,264	$ —	$ —

The following tables present the aging of the recorded investment in past due loans by class of loans as of June 30, 2017 and December 31, 2016:

June 30, 2017	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
Commercial and Industrial Loans and Leases	$468,965	$ 51	$ 3	$ 53	$107	$468,858
Commercial Real Estate Loans	871,970	1,060	52	393	1,505	870,465
Agricultural Loans	316,764	110	—	746	856	315,908
Home Equity Loans	141,851	234	19	72	325	141,526
Consumer Loans	61,334	164	40	433	637	60,697
Residential Mortgage Loans	181,886	2,791	982	382	4,155	177,731
Total(1)	$2,042,770	$ 4,410	$ 1,096	$ 2,079	$7,585	$2,035,185
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$9,513	$ —	$ —	$ 568	$568	$8,945

(1)Total recorded investment in loans includes $7,623 in accrued interest.

December 31, 2016	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
Commercial and Industrial Loans and Leases	$458,538	$ 20	$ 4	$ 77	$ 101	$458,437
Commercial Real Estate Loans	858,030	1,509	21	330	1,860	856,170

Agricultural Loans	306,946	84	50	610	744	306,202
Home Equity Loans	134,032	707	16	73	796	133,236
Consumer Loans	60,099	175	147	85	407	59,692
Residential Mortgage Loans	183,770	3,470	1,251	806	5,527	178,243
Total[(1)]	$2,001,415	$ 5,965	$ 1,489	$ 1,981	$ 9,435	$1,991,980
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$11,048	$ 130	$ —	$ 627	$ 757	$10,291
Loans Acquired in Current Year (Included in the Total Above)	$262,809	$ 2,752	$ 862	$ 1,126	$ 4,740	$258,069

[(1)]Total recorded investment in loans includes $8,011 in accrued interest.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

Troubled Debt Restructurings:

In certain instances, the Company may choose to restructure the contractual terms of loans. A troubled debt restructuring occurs when the Bank grants a concession to the borrower that it would not otherwise consider due to a borrower's financial difficulty. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without modification. This evaluation is performed under the Company's internal underwriting policy. The Company uses the same methodology for loans acquired with deteriorated credit quality as for all other loans when determining whether the loan is a troubled debt restructuring.

During the three months ended June 30, 2017 there was one loan modified as a troubled debt restructuring. During the six months ended June 30, 2017, there were two loans modified as troubled debt restructurings. During the three and six months ended June 30, 2016, there were no loans modified as troubled debt restructurings.

The following tables present the recorded investment of troubled debt restructurings by class of loans as of June 30, 2017 and December 31, 2016:

June 30, 2017	Total	Performing	Non-Accrual[1]
Commercial and Industrial Loans and Leases	$127	$ 127	$ —
Commercial Real Estate Loans	27	27	—
Total	$154	$ 154	$ —
December 31, 2016	Total	Performing	Non-Accrual[1]
Commercial and Industrial Loans and Leases	$ 28	$ 28	$ —
Commercial Real Estate Loans	—	—	—
Total	$ 28	$ 28	$ —

[1]The non-accrual troubled debt restructurings are included in the Non-Accrual Loan table presented on a previous page.

The Company had not committed to lending any additional amounts as of June 30, 2017 and December 31, 2016 to customers with outstanding loans that are classified as troubled debt restructurings. The total allowance associated with the loans modified as troubled debt restructurings as of June 30, 2017 and December 31, 2016 was $16 and $3, respectively.

The following tables present loans by class modified as troubled debt restructurings that occurred during the three months ending June 30, 2017 and 2016:

June 30, 2017	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial Loans and Leases	1	$ 127	$ 127
Commercial Real Estate Loans	—	—	—
Total	1	$ 127	$ 127

The troubled debt restructurings described above increased the allowance for loan losses by $8 and resulted in charge-offs of $0 during the three months ending June 30, 2017.

June 30, 2016	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial Loans and Leases	—	$ —	$ —
Commercial Real Estate Loans	—	—	—
Total	—	$ —	$ —

The troubled debt restructurings described above increased the allowance for loan losses by $0 and resulted in charge-offs of $0 during the three months ending June 30, 2016.

20

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

The following tables present loans by class modified as troubled debt restructurings that occurred during the six months ending June 30, 2017 and 2016:

June 30, 2017	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial Loans and Leases	1	$ 127	$ 127
Commercial Real Estate Loans	1	28	28
Total	2	$ 155	$ 155

The troubled debt restructurings described above increased the allowance for loan losses by $10 and resulted in charge-offs of $0 during the six months ending June 30, 2017.

June 30, 2016	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial Loans and Leases	—	$ —	$ —
Commercial Real Estate Loans	—	—	—
Total	—	$ —	$ —

The troubled debt restructurings described above increased the allowance for loan losses by $0 and resulted in charge-offs of $0 during the six months ending June 30, 2016.

Additionally, there were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three and six months ending June 30, 2017 and 2016.

A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company classifies loans as to credit risk by individually analyzing loans. This analysis includes commercial and industrial loans, commercial real estate loans, and agricultural loans with an outstanding balance greater than $250. This analysis is typically performed on at least an annual basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

June 30, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	$449,772	$8,792	$ 10,401	$ —	$468,965
Commercial Real Estate Loans	833,572	23,865	14,533	—	871,970
Agricultural Loans	287,410	26,230	3,124	—	316,764
Total	$1,570,754	$58,887	$ 28,058	$ —	$1,657,699
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$1,479	$3,120	$ 3,933	$ —	$8,532
December 31, 2016	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	$437,353	$10,454	$ 10,731	$ —	$458,538
Commercial Real Estate Loans	814,033	26,549	17,448	—	858,030
Agricultural Loans	287,975	14,670	4,301	—	306,946
Total	$1,539,361	$51,673	$ 32,480	$ —	$1,623,514
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$1,897	$3,121	$ 5,032	$ —	$10,050
Loans Acquired in Current Year (Included in the Total Above)	$175,915	$11,638	$ 8,145	$ —	$195,698

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For home equity, consumer and residential mortgage loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in home equity, consumer and residential mortgage loans based on payment activity as of June 30, 2017 and December 31, 2016:

June 30, 2017	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	$141,779	$ 60,901	$ 181,214
Nonperforming	72	433	672
Total	$141,851	$ 61,334	$ 181,886
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$—	$ 53	$ 928

December 31, 2016	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	$133,959	$ 60,014	$ 182,421
Nonperforming	73	85	1,349
Total	$134,032	$ 60,099	$ 183,770
Loans Acquired With Deteriorated Credit Quality	$—	$ 53	$ 945

(Included in the Total Above)

22

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The recorded investment of those loans is as follows:

	June 30, 2017	December 31, 2016
Commercial and Industrial Loans	$ 1,247	$ 1,656
Commercial Real Estate Loans	6,602	7,688
Agricultural Loans	683	706
Consumer Loans	53	53
Residential Mortgage Loans	928	945
Total	$ 9,513	$ 11,048
Carrying Amount, Net of Allowance	$ 9,453	$ 10,943

Accretable yield, or income expected to be collected, is as follows:

	2017	2016
Balance at April 1	$2,790	$2,613
New Loans Purchased	—	—
Accretion of Income	(240)	(415)
Reclassifications from Non-accretable Difference	155	—
Charge-off of Accretable Yield	—	—
Balance at June 30	$2,705	$2,198

For those purchased loans disclosed above, the Company did not increase the allowance for loan losses during the three months ended June 30, 2017 and 2016. The Company reversed allowances for loan losses of $56 during the three months ended June 30, 2017. No allowance for loan losses were reversed during the three months ended June 30, 2016.

	2017	2016
Balance at January 1	$2,521	$1,279
New Loans Purchased	—	1,395
Accretion of Income	(282)	(476)
Reclassifications from Non-accretable Difference	466	—
Charge-off of Accretable Yield	—	—
Balance at June 30	$2,705	$2,198

For those purchased loans disclosed above, the Company increased the allowance for loan losses by $11 and $0 during the six months ended June 30, 2017 and 2016. The Company reversed allowances for loan losses of $56 during the six months ended June 30, 2017. No allowance for loan losses was reversed during the six months ended June 30, 2016.

The carrying amount of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction totaled $137 as of June 30, 2017 and $202 as of December 31, 2016.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 7 – Repurchase Agreements Accounted for as Secured Borrowings

Repurchase agreements are short-term borrowings included in FHLB Advances and Other Borrowings and mature overnight and continuously. Repurchase agreements, which were secured by mortgage-backed securities, totaled $43,026 and $42,412 as of June 30, 2017 and December 31, 2016, respectively. Risk could arise when the collateral pledged to a repurchase agreement declines in fair value. The Company minimizes risk by consistently monitoring the value of the collateral pledged. At the point in time where the collateral has declined in fair value, the Company is required to provide additional collateral based on the value of the underlying securities.

NOTE 8 – Segment Information

The Company's operations include three primary segments: core banking, trust and investment advisory services, and insurance operations. The core banking segment involves attracting deposits from the general public and using such funds to originate consumer, commercial and agricultural, commercial and agricultural real estate, and residential mortgage loans, primarily in the Company's local markets. The core banking segment also involves the sale of residential mortgage loans in the secondary market. The trust and investment advisory services segment involves providing trust, investment advisory, and brokerage services to customers. The insurance segment offers a full range of personal and corporate property and casualty insurance products, primarily in the Company's banking subsidiary's local markets.

The core banking segment is comprised by the Company's banking subsidiary, German American Bancorp, which operated through 52 banking offices at June 30, 2017. Net interest income from loans and investments funded by deposits and borrowings is the primary revenue for the core-banking segment. The trust and investment advisory services segment's revenues are comprised primarily of fees generated by the trust operations of the Company's banking subsidiary and by German American Investment Services, Inc. These fees are derived by providing trust, investment advisory, and brokerage services to its customers. The insurance segment primarily consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

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

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Three Months Ended June 30, 2017					
Net Interest Income	$ 24,999	$ 1	$ 2	$ (189)	$ 24,813
Net Gains on Sales of Loans	959	—	—	—	959
Net Gains on Securities	—	—	—	—	—
Trust and Investment Product Fees	1	1,350	—	(1)	1,350

Insurance Revenues	12	8	1,724	—	1,744
Noncash Items:					
Provision for Loan Losses	350	—	—	—	350
Depreciation and Amortization	1,103	4	19	64	1,190
Income Tax Expense (Benefit)	3,615	49	48	(287)	3,425
Segment Profit (Loss)	9,791	66	74	(92)	9,839
Segment Assets at June 30, 2017	3,001,898	1,907	9,774	(8,776)	3,004,803

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 8 - Segment Information (continued)

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Three Months Ended June 30, 2016					
Net Interest Income	$ 24,873	$ 1	$ 1	$ (204)	$ 24,671
Net Gains on Sales of Loans	883	—	—	—	883
Net Gains on Securities	968	—	—	—	968
Trust and Investment Product Fees	2	1,221	—	—	1,223
Insurance Revenues	4	5	1,596	—	1,605
Noncash Items:					
Provision for Loan Losses	350	—	—	—	350
Depreciation and Amortization	1,089	1	25	64	1,179
Income Tax Expense (Benefit)	4,419	50	58	(278)	4,249
Segment Profit (Loss)	9,800	76	87	(175)	9,788
Segment Assets at December 31, 2016	2,958,585	1,851	8,494	(12,936)	2,955,994

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Six Months Ended June 30, 2017					
Net Interest Income	$ 49,908	$ 2	$ 4	$ (376)	$ 49,538
Net Gains on Sales of Loans	1,646	—	—	—	1,646
Net Gains on Securities	—	—	—	—	—
Trust and Investment Product Fees	2	2,594	—	(3)	2,593
Insurance Revenues	14	13	4,357	—	4,384
Noncash Items:					
Provision for Loan Losses	850	—	—	—	850
Depreciation and Amortization	2,144	7	38	128	2,317
Income Tax Expense (Benefit)	7,237	83	475	(549)	7,246
Segment Profit (Loss)	18,756	110	747	(218)	19,395
Segment Assets at June 30, 2017	3,001,898	1,907	9,774	(8,776)	3,004,803

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 8 - Segment Information (continued)

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Six Months Ended June 30, 2016					
Net Interest Income	$ 45,771	$ —	$ 3	$ (319)	$ 45,455
Net Gains on Sales of Loans	1,603	—	—	—	1,603
Net Gains on Securities	968	—	—	—	968
Trust and Investment Product Fees	3	2,241	—	—	2,244
Insurance Revenues	8	13	4,311	—	4,332
Noncash Items:					
Provision for Loan Losses	1,200	—	—	—	1,200
Depreciation and Amortization	2,064	2	51	110	2,227
Income Tax Expense (Benefit)	6,100	64	568	(718)	6,014
Segment Profit (Loss)	14,881	83	877	(907)	14,934
Segment Assets at December 31, 2016	2,958,585	1,851	8,494	(12,936)	2,955,994

NOTE 9 – Stock Repurchase Plan

On April 26, 2001, the Company announced that its Board of Directors approved a stock repurchase program for up to 911,631 of the outstanding shares of common stock of the Company. Shares may be purchased from time to time in the open market and in large block privately negotiated transactions. The Company is not obligated to purchase any shares under the program, and the program may be discontinued at any time before the maximum number of shares specified by the program are purchased. The Board of Directors established no expiration date for this program. As of June 30, 2017, the Company had purchased 502,447 shares under the program. No shares were purchased under the program during the three or six months ended June 30, 2017 and 2016.

NOTE 10 – Equity Plans and Equity Based Compensation

The Company maintains three equity incentive plans under which stock options, restricted stock, and other equity incentive awards can be granted. At June 30, 2017, the Company has reserved 412,104 shares of common stock for the purpose of issuance pursuant to outstanding and future grants of options, restricted stock, and other equity awards to officers, directors and other employees of the Company.

For the three and six months ended June 30, 2017 and 2016, the Company granted no options. The Company recorded no stock compensation expense applicable to options during the three and six months ended June 30, 2017 and 2016 because all outstanding options were fully vested prior to 2007. In addition, there was no unrecognized option expense.

During the periods presented, awards of long-term incentives were granted in the form of restricted stock. Awards that were granted to management under a management incentive plan were granted in tandem with cash credit entitlements (typically in the form of 60% restricted stock grants and 40% cash credit entitlements). The management and employee restricted stock grants and tandem cash credit entitlements awarded will vest in three equal installments of 33.3% with the first annual vesting on December 5th of the year of the grant and on December 5th of the next two succeeding years. Awards that were granted to directors as additional retainer for their services do not include any cash credit entitlement. These director restricted stock grants are subject to forfeiture in the event that the recipient of the grant does not continue in service as a director of the Company through December 5th of the year after grant or does not satisfy certain meeting attendance requirements, at which time they generally vest 100 percent. For measuring compensation costs, restricted stock awards are valued based upon the market value of the common shares on the date of grant. During the three months ended June 30, 2017, the Company granted awards of 210 shares of restricted stock. The Company granted no shares of restricted stock during the three months ended June 30, 2016. During the six months ended June 30, 2017 and 2016, the Company granted awards of 38,100 and 48,375 shares of restricted stock, respectively. Total unvested restricted stock awards at June 30, 2017 and December 31, 2016 were 91,263 and 53,163, respectively.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

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

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

	Three Months Ended June 30,	
	2017	2016
Restricted Stock Expense	$342	$267
Cash Entitlement Expense	181	142
Tax Effect	(205)	(165)
Net of Tax	$318	$244

	Six Months Ended June 30,	
	2017	2016
Restricted Stock Expense	$649	$855
Cash Entitlement Expense	340	284
Tax Effect	(388)	(461)
Net of Tax	$601	$678

Unrecognized expense associated with the restricted stock grants and cash entitlements totaled $2,739 and $2,411 as of June 30, 2017 and 2016, respectively.

The Company maintains an Employee Stock Purchase Plan whereby eligible employees have the option to purchase the Company's common stock at a discount. The purchase price of the shares under this Plan has been set at 95% of the fair market value of the Company's common stock as of the last day of the plan year. The plan provided for the purchase of up to 750,000 shares of common stock, which the Company may obtain by purchases on the open market or from private sources, or by issuing authorized but unissued common shares. At June 30, 2017, there were 577,426 shares available for future issuance under this plan. Funding for the purchase of common stock is from employee and Company contributions.

There was no expense recorded for the employee stock purchase plan during the three or six months ended June 30, 2017. There was no expense recorded for the employee stock purchase plan during the three and six months ended June 30, 2016. There was no unrecognized compensation expense as of June 30, 2017 and 2016 for the Employee Stock Purchase Plan.

NOTE 11 – Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 11 - Fair Value (continued)

cash flows or other market indicators (Level 3). Level 3 pricing is obtained from a third-party based upon similar trades that are not traded frequently without adjustment by the Company. At June 30, 2017, the Company held $6.8 million in Level 3 securities which consist of $6.5 million of non-rated Obligations of State and Political Subdivisions and $353 thousand of equity securities that are not actively traded. Absent the credit rating, significant assumptions must be made such that the credit risk input becomes an unobservable input and thus these securities are reported by the Company in a Level 3 classification.

Derivatives: The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2).

Impaired Loans: Fair values for impaired collateral dependent loans are generally based on appraisals obtained from licensed real estate appraisers and in certain circumstances includes consideration of offers obtained to purchase properties prior to foreclosure. Appraisals for commercial real estate generally use three methods to derive value: cost, sales or market comparison and income approach. The cost method bases value in the cost to replace the current property. Value of market comparison approach evaluates the sales price of similar properties in the same market area. The income approach considers net operating income generated by the property and an investor's required return. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Comparable sales adjustments are based on known sales prices of similar type and similar use properties and duration of time that the property has been on the market to sell. Such adjustments made in the appraisal process are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral-dependent impaired loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, a member of the Company’s Risk Management Area reviews the assumptions and approaches utilized in the appraisal. In determining the value of impaired collateral dependent loans and other real estate owned, significant unobservable inputs may be used which include: physical condition of comparable properties sold, net operating income generated by the property and investor rates of return.

Other Real Estate: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate (ORE) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property utilizing similar techniques as discussed above for Impaired Loans, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, impairment loss is recognized.

Loan Servicing Rights: On a quarterly basis, loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount resulting in a Level 2 classification. The valuation model utilizes interest rate, prepayment speed, and default rate assumptions that market participants would use in estimating future net servicing income and that can be validated against available market data.

Loans Held-for-Sale: The fair values of loans held for sale are determined by using quoted prices for similar assets, adjusted for specific attributes of that loan resulting in a Level 2 classification.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 11 - Fair Value (continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at June 30, 2017 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Obligations of State and Political Subdivisions	$ —	$ 260,523	$ 6,464	$ 266,987
MBS/CMO - Residential	—	473,238	—	473,238
Equity Securities	—	—	353	353
Total Securities	$ —	$ 733,761	$ 6,817	$ 740,578
Loans Held-for-Sale	$ —	$ 9,844	$ —	$ 9,844
Derivative Assets	$ —	$ 1,655	$ —	$ 1,655
Mortgage Servicing Rights	$ —	$ 575	$ —	$ 575
Derivative Liabilities	$ —	$ 1,736	$ —	$ 1,736

	Fair Value Measurements at December 31, 2016 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Obligations of State and Political Subdivisions	$ —	$ 240,224	$ 7,295	$ 247,519
MBS/CMO - Residential	—	461,914	—	461,914
Equity Securities	—	—	353	353
Total Securities	$ —	$ 702,138	$ 7,648	$ 709,786
Loans Held-for-Sale	$ —	$ 15,273	$ —	$ 15,273
Derivative Assets	$ —	$ 1,291	$ —	$ 1,291
Mortgage Servicing Rights	$ —	$ 611	$ —	$ 611

Derivative Liabilities	$ —	$ 1,238	$ —	$ 1,238

There were no transfers between Level 1 and Level 2 for the periods ended June 30, 2017 and December 31, 2016.

At June 30, 2017, the aggregate fair value of the Loans Held-for-Sale was $9,844. Aggregate contractual principal balance was $9,622 with a difference of $222. At December 31, 2016, the aggregate fair value of the Loans Held-for-Sale was $15,273. Aggregate contractual principal balance was $14,983 with a difference of $290.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2017
(unaudited, dollars in thousands except share and per share data)

NOTE 11 - Fair Value (continued)

The tables below present a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2017 and 2016:

	Obligations of State and Political Subdivisions		Equity Securities	
	2017	2016	2017	2016
Balance of Recurring Level 3 Assets at April 1	$ 6,447	$ 8,196	$ 353	$ 353
Total Gains or Losses Included in Other Comprehensive Income	17	17	—	—
Maturities / Calls	—	—	—	—
Purchases	—	—	—	—
Balance of Recurring Level 3 Assets at June 30	$ 6,464	$ 8,213	$ 353	$ 353

	Obligations of State and Political Subdivisions		Equity Securities	
	2017	2016	2017	2016
Balance of Recurring Level 3 Assets at January 1	$ 7,295	$ 9,020	$ 353	$ 353
Total Gains or Losses Included in Other Comprehensive Income	34	38	—	—
Maturities / Calls	(865)	(845)	—	—
Purchases	—	—	—	—
Balance of Recurring Level 3 Assets at June 30				