

GERMAN AMERICAN BANCORP, INC.
Form 10-Q
November 09, 2018
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, 2018

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 (I.R.S. Employer
incorporation or organization) 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 every Interactive Data File required to be submitted 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 such files).

YES 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
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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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, 2018
Common Shares, no par value	24,959,106

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, 2017, 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, 2018	December 31, 2017
ASSETS		
Cash and Due from Banks	\$ 50,980	\$ 58,233
Federal Funds Sold and Other Short-term Investments	14,604	12,126
Cash and Cash Equivalents	65,584	70,359
Securities Available-for-Sale, at Fair Value	739,627	740,641
Other Investments	353	353
Loans Held-for-Sale, at Fair Value	9,178	6,719
Loans	2,340,173	2,145,019
Less: Unearned Income	(3,548) (3,381)
Allowance for Loan Losses	(16,051) (15,694)
Loans, Net	2,320,574	2,125,944
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,048	13,048
Premises, Furniture and Equipment, Net	69,267	54,246
Other Real Estate	100	54
Goodwill	60,913	54,058
Intangible Assets	4,635	2,102
Company Owned Life Insurance	46,918	46,385
Accrued Interest Receivable and Other Assets	33,572	30,451
TOTAL ASSETS	\$ 3,363,769	\$ 3,144,360
LIABILITIES		
Non-interest-bearing Demand Deposits	\$ 634,421	\$ 606,134
Interest-bearing Demand, Savings, and Money Market Accounts	1,605,818	1,490,033
Time Deposits	400,608	387,885
Total Deposits	2,640,847	2,484,052
FHLB Advances and Other Borrowings	327,039	275,216
Accrued Interest Payable and Other Liabilities	19,760	20,521
TOTAL LIABILITIES	2,987,646	2,779,789
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	22,968	22,934
Additional Paid-in Capital	166,227	165,288
Retained Earnings	204,188	178,969
Accumulated Other Comprehensive Loss	(17,260) (2,620)
TOTAL SHAREHOLDERS' EQUITY	376,123	364,571
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 3,363,769	\$ 3,144,360
End of period shares issued and outstanding	22,968,078	22,934,403

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, 2018 2017	
INTEREST INCOME		
Interest and Fees on Loans	\$28,148	\$23,182
Interest on Federal Funds Sold and Other Short-term Investments	101	46
Interest and Dividends on Securities:		
Taxable	2,970	2,688
Non-taxable	2,256	2,070
TOTAL INTEREST INCOME	33,475	27,986
INTEREST EXPENSE		
Interest on Deposits	3,535	1,959
Interest on FHLB Advances and Other Borrowings	1,392	1,110
TOTAL INTEREST EXPENSE	4,927	3,069
NET INTEREST INCOME	28,548	24,917
Provision for Loan Losses	500	250
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	28,048	24,667
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,585	1,301
Service Charges on Deposit Accounts	1,858	1,608
Insurance Revenues	1,827	1,728
Company Owned Life Insurance	251	317
Interchange Fee Income	1,847	1,186
Other Operating Income	639	608
Net Gains on Sales of Loans	866	952
Net Gains on Securities	90	575
TOTAL NON-INTEREST INCOME	8,963	8,275
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	12,134	11,570
Occupancy Expense	1,967	1,694
Furniture and Equipment Expense	771	678
FDIC Premiums	324	241
Data Processing Fees	1,309	1,067
Professional Fees	793	551
Advertising and Promotion	851	1,315
Intangible Amortization	430	230
Other Operating Expenses	2,997	2,425
TOTAL NON-INTEREST EXPENSE	21,576	19,771
Income before Income Taxes	15,435	13,171
Income Tax Expense	2,796	3,511
NET INCOME	\$12,639	\$9,660

Basic Earnings per Share	\$0.55	\$0.42
Diluted Earnings per Share	\$0.55	\$0.42
Dividends per Share	\$0.15	\$0.13

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,	
	2018	2017
INTEREST INCOME		
Interest and Fees on Loans	\$78,406	\$68,046
Interest on Federal Funds Sold and Other Short-term Investments	211	100
Interest and Dividends on Securities:		
Taxable	8,930	8,109
Non-taxable	6,606	6,165
TOTAL INTEREST INCOME	94,153	82,420
INTEREST EXPENSE		
Interest on Deposits	8,666	5,028
Interest on FHLB Advances and Other Borrowings	3,860	2,937
TOTAL INTEREST EXPENSE	12,526	7,965
NET INTEREST INCOME	81,627	74,455
Provision for Loan Losses	2,070	1,100
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	79,557	73,355
NON-INTEREST INCOME		
Trust and Investment Product Fees	5,035	3,894
Service Charges on Deposit Accounts	4,972	4,570
Insurance Revenues	6,453	6,112
Company Owned Life Insurance	823	1,051
Interchange Fee Income	5,043	3,365
Other Operating Income	2,156	2,095
Net Gains on Sales of Loans	2,421	2,598
Net Gains on Securities	434	575
TOTAL NON-INTEREST INCOME	27,337	24,260
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	36,279	34,474
Occupancy Expense	5,522	4,813
Furniture and Equipment Expense	2,152	1,965
FDIC Premiums	799	712
Data Processing Fees	3,834	3,122
Professional Fees	3,025	2,267
Advertising and Promotion	2,409	2,723
Intangible Amortization	942	725
Other Operating Expenses	8,777	7,002
TOTAL NON-INTEREST EXPENSE	63,739	57,803
Income before Income Taxes	43,155	39,812
Income Tax Expense	7,606	10,757
NET INCOME	\$35,549	\$29,055

Basic Earnings per Share	\$1.55	\$1.27
Diluted Earnings per Share	\$1.55	\$1.27
Dividends per Share	\$0.45	\$0.39

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30, 2018 2017	
NET INCOME	\$12,639	\$9,660
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities:		
Unrealized Holding Gain (Loss) Arising During the Period	(4,889)	(1,450)
Reclassification Adjustment for Gains Included in Net Income	(90)	(575)
Tax Effect	1,058	714
Net of Tax	(3,921)	(1,311)
Total Other Comprehensive Income (Loss)	(3,921)	(1,311)
COMPREHENSIVE INCOME	\$8,718	\$8,349

	Nine Months Ended September 30, 2018 2017	
NET INCOME	\$35,549	\$29,055
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities:		
Unrealized Holding Gain (Loss) Arising During the Period	(18,181)	14,862
Reclassification Adjustment for Gains Included in Net Income	(434)	(575)
Tax Effect	3,975	(5,034)
Net of Tax	(14,640)	9,253
Total Other Comprehensive Income (Loss)	(14,640)	9,253
COMPREHENSIVE INCOME	\$20,909	\$38,308

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,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$35,549	\$29,055
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	2,698	2,591
Depreciation and Amortization	4,226	3,496
Loans Originated for Sale	(101,867)	(95,278)
Proceeds from Sales of Loans Held-for-Sale	101,802	104,639
Provision for Loan Losses	2,070	1,100
Gain on Sale of Loans, net	(2,421)	(2,598)
Gain on Securities, net	(434)	(575)
Gain on Sales of Other Real Estate and Repossessed Assets	(13)	(8)
Loss (Gain) on Disposition and Donation of Premises and Equipment	(36)	873
Increase in Cash Surrender Value of Company Owned Life Insurance	(784)	(1,089)
Equity Based Compensation	835	941
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	(2,314)	(1,985)
Interest Payable and Other Liabilities	3,147	2,656
Net Cash from Operating Activities	42,458	43,818
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturity of Securities Available-for-Sale	58,926	61,763
Proceeds from Sales of Securities Available-for-Sale	22,919	48,343
Purchase of Securities Available-for-Sale	(101,712)	(129,760)
Purchase of Loans	—	(211)
Proceeds from Sales of Loans	6,000	—
Loans Made to Customers, net of Payments Received	(85,183)	(97,976)
Proceeds from Sales of Other Real Estate	54	912
Property and Equipment Expenditures	(12,692)	(7,277)
Proceeds from Sales of Property and Equipment	40	2
Proceeds from Life Insurance	251	—
Cash from Acquisition of Bank Branches	41,392	—
Net Cash from Investing Activities	(70,005)	(124,204)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	(18,804)	75,211
Change in Short-term Borrowings	86,890	(20,354)
Advances in Long-term Debt	35,000	75,000
Repayments of Long-term Debt	(70,122)	(50,834)
Issuance (Retirement) of Common Stock	138	(29)
Dividends Paid	(10,330)	(8,862)
Net Cash from Financing Activities	22,772	70,132
Net Change in Cash and Cash Equivalents	(4,775)	(10,254)

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Cash and Cash Equivalents at Beginning of Year	70,359	64,816
Cash and Cash Equivalents at End of Period	\$65,584	\$54,562
Cash Paid During the Period for		
Interest	\$12,432	\$7,823
Income Taxes	3,710	10,661
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	\$87	\$1,230
Reclassification of Land to Other Assets	—	330

See accompanying notes to consolidated financial statements.

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(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, 2017. 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 - Revenue Recognition

In May 2014, the Financial Accounting Standards Board (the "FASB") issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). On January 1, 2018, the Company adopted ASU 2014-09 and all subsequent amendments to the ASU that modified Topic 606. Topic 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets. Since the guidance does not apply to revenue associated with financial instruments, the new guidance did not have a material impact on revenue most closely associated with financial instruments, including interest income and expense. The majority of the Company's revenues are from financial instruments and are not within the scope of Topic 606. The Company completed its overall assessment of revenue streams and related contracts, including service charges on deposit accounts, interchange income, and trust and investment brokerage fees. Based on the assessment, the Company concluded that ASU 2014-09 did not materially change the method in which the Company currently recognizes revenue for these revenue streams. The Company also completed its evaluation of certain costs related to these revenue streams to determine whether certain revenue streams should be reported gross versus net of certain expenses. Based on its evaluation, the Company determined that the classification of certain debit card related costs should change and now be reported as expenses versus contra-revenue. This reclassification change resulted in an immaterial impact to both revenue and expense. The Company adopted ASU 2014-09 and its related amendments utilizing the modified retrospective approach. Since there was no net income impact upon adoption of this guidance, a cumulative adjustment to retained earnings was not deemed necessary. Consistent with the modified retrospective approach, the Company did not adjust prior period amounts for the debit card costs noted above.

A description of the Company's revenue streams accounted for under Topic 606 follows:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as stop payment charges and statement rendering, are recognized at the time the transaction is executed (the point in time the Company fills the customer's request). Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs.

Interchange Fee Income: The Company earns interchange fees from debit/credit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Trust and Investment Product Fees: The Company earns trust and investment brokerage fees from its contracts with trust and brokerage customers to manage assets for investment and/or to transact their accounts. These fees are primarily earned over time as the Company provides the contracted monthly or quarterly services and are generally assessed based on the market value of assets under management at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed (trade date).

Insurance Revenues: The Company earns insurance revenue from commissions derived from the sale of personal and corporate property and casualty insurance products. These commissions are primarily earned over time as the Company provides the contracted insurance product to customers.

GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2018
 (unaudited, dollars in thousands except share and per share data)

NOTE 2 - Revenue Recognition (continued)

The following tables present non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and nine months ended September 30, 2018 and 2017. Trust and investment product fees are included in the trust and investment advisory services segment while insurance revenues are included in the insurance segment. All other revenue streams are primarily included in the banking segment.

	Three Months Ended September 30,	
	2018	2017
Non-interest Income		
In-Scope of Topic 606:		
Trust and Investment Product Fees	\$1,585	\$1,301
Service Charges on Deposit Accounts	1,858	1,608
Insurance Revenues	1,827	1,728
Interchange Fee Income	1,847	1,186
Other Operating Income	432	383
Non-interest Income (in-scope of Topic 606)	7,549	6,206
Non-interest Income (out-of-scope of Topic 606)	1,414	2,069
Total Non-interest Income	\$8,963	\$8,275
	Nine Months Ended September 30,	
	2018	2017
Non-interest Income		
In-Scope of Topic 606:		
Trust and Investment Product Fees	\$5,035	\$3,894
Service Charges on Deposit Accounts	4,972	4,570
Insurance Revenues	6,453	6,112
Interchange Fee Income	5,043	3,365
Other Operating Income	1,252	1,114
Non-interest Income (in-scope of Topic 606)	22,755	19,055
Non-interest Income (out-of-scope of Topic 606)	4,582	5,205
Total Non-interest Income	\$27,337	\$24,260

GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2018
 (unaudited, dollars in thousands except share and per share data)

NOTE 3 – Per Share Data

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

	Three Months Ended September 30, 2018 2017	
Basic Earnings per Share:		
Net Income	\$ 12,639	\$ 9,660
Weighted Average Shares Outstanding	22,968,047	22,929,864
Basic Earnings per Share	\$0.55	\$ 0.42
Diluted Earnings per Share:		
Net Income	\$ 12,639	\$ 9,660
Weighted Average Shares Outstanding	22,968,047	22,929,864
Potentially Dilutive Shares, Net	—	—
Diluted Weighted Average Shares Outstanding	22,968,047	22,929,864
Diluted Earnings per Share	\$0.55	\$ 0.42

For the three months ended September 30, 2018 and 2017, there were no anti-dilutive shares.

	Nine Months Ended September 30, 2018 2017	
Basic Earnings per Share:		
Net Income	\$ 35,549	\$ 29,055
Weighted Average Shares Outstanding	22,958,977	22,922,724
Basic Earnings per Share	\$ 1.55	\$ 1.27
Diluted Earnings per Share:		
Net Income	\$ 35,549	\$ 29,055
Weighted Average Shares Outstanding	22,958,977	22,922,724
Potentially Dilutive Shares, Net	—	—
Diluted Weighted Average Shares Outstanding	22,958,977	22,922,724
Diluted Earnings per Share	\$ 1.55	\$ 1.27

For the nine months ended September 30, 2018 and 2017, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2018
 (unaudited, dollars in thousands except share and per share data)

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 September 30, 2018 and December 31, 2017, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2018				
Obligations of State and Political Subdivisions	\$ 284,991	\$ 2,473	\$(3,425)	\$ 284,039
MBS/CMO - Residential	476,252	38	(20,702)	455,588
Total	\$ 761,243	\$ 2,511	\$(24,127)	\$ 739,627
December 31, 2017				
Obligations of State and Political Subdivisions	\$ 267,437	\$ 6,733	\$(861)	\$ 273,309
MBS/CMO - Residential	476,205	416	(9,289)	467,332
Total	\$ 743,642	\$ 7,149	\$(10,150)	\$ 740,641

All mortgage-backed securities in the above table (identified above and throughout this Note 4 as "MBS/CMO - Residential") are residential mortgage-backed securities and guaranteed by government sponsored entities.

The Company's equity securities are listed as Investment Securities on the Consolidated Balance Sheets and consist of one non-controlling investment in a single banking organization at September 30, 2018 and December 31, 2017. The original investment totaled \$1,350 and other-than-temporary impairment was previously recorded totaling \$997. Under ASU 2016-01 (Financial Instruments - Overall), equity securities are required to be measured at fair value with changes in fair value recognized in net income. No fair value adjustments were recognized during 2018.

The amortized cost and fair value of securities at September 30, 2018 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 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	\$ 1,765	\$ 1,772
Due after one year through five years	21,474	21,838
Due after five years through ten years	80,362	81,129
Due after ten years	181,390	179,300
MBS/CMO - Residential	476,252	455,588
Total	\$ 761,243	\$ 739,627

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017
Proceeds from Sales	\$ 5,404	\$ 48,343
Gross Gains on Sales	90	575
Income Taxes on Gross Gains	19	201

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2018
(unaudited, dollars in thousands except share and per share data)

NOTE 4 - Securities (continued)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Proceeds from Sales	\$ 22,919	\$ 48,343
Gross Gains on Sales	434	575
Income Taxes on Gross Gains	92	201

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$208,959 and \$165,404 as of September 30, 2018 and December 31, 2017, respectively.

Below is a summary of securities with unrealized losses as of September 30, 2018 and December 31, 2017, presented by length of time the securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
September 30, 2018						
Obligations of State and Political Subdivisions	\$ 109,010	\$ (2,085)	\$ 27,524	\$ (1,340)	\$ 136,534	\$ (3,425)
MBS/CMO - Residential	174,305	(4,989)	278,806	(15,713)	453,111	(20,702)
Total	\$ 283,315	\$ (7,074)	\$ 306,330	\$ (17,053)	\$ 589,645	\$ (24,127)
December 31, 2017						
Obligations of State and Political Subdivisions	\$ 33,230	\$ (237)	\$ 24,161	\$ (624)	\$ 57,391	\$ (861)
MBS/CMO - Residential	172,354	(2,048)	250,520	(7,241)	422,874	(9,289)
Total	\$ 205,584	\$ (2,285)	\$ 274,681	\$ (7,865)	\$ 480,265	\$ (10,150)

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.

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 \$86.2 million at September 30, 2018 and \$87.8 million at December 31, 2017. 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.
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NOTE 5 - Derivatives (continued)

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

	September 30, 2018		December 31, 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$86,180	\$ 3,490	\$87,788	\$ 1,564
Included in Other Liabilities:				
Interest Rate Swaps	\$86,180	\$ 3,425	\$87,788	\$ 1,633

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	\$	\$	\$	\$
Interest Rate Swaps:				
Included in Other Operating Income	\$ 17	\$ 101	\$ 133	\$ 449

NOTE 6 – Loans

Loans were comprised of the following classifications at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Commercial:		
Commercial and Industrial Loans and Leases	\$ 527,938	\$486,668
Commercial Real Estate Loans	985,915	926,729
Agricultural Loans	358,543	333,227
Retail:		
Home Equity Loans	175,008	152,187
Consumer Loans	72,853	67,475
Residential Mortgage Loans	219,916	178,733
Subtotal	2,340,173	2,145,019
Less: Unearned Income	(3,548)	(3,381)
Allowance for Loan Losses	(16,051)	(15,694)
Loans, Net	\$ 2,320,574	\$ 2,125,944

As further described in Note 14, during 2018 the Company acquired loans with a fair value of \$117,604 as part of a branch acquisition. This was made up of loans with an acquired balance of \$120,484, net of \$2,880 of fair value discounts at date of acquisition. At September 30, 2018, the remaining carrying amount of such loans totaled

\$112,873, which is included in the September 30, 2018 table above. This amount is made up of loans with a remaining balance of \$115,523 net of remaining fair value discounts of \$2,650. No loans with deteriorated credit quality were acquired as part of the branch acquisition described in Note 14.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 6 - Loans (continued)

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ended September 30, 2018 and 2017:

September 30, 2018	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 3,563	\$ 4,958	\$ 5,578	\$ 366	\$ 347	\$ 366	\$ 459	\$15,637
Provision for Loan Losses	(444)	138	618	(80)	195	67	6	500
Recoveries	69	7	20	1	82	3	—	182
Loans Charged-off	—	(9)	—	(10)	(238)	(11)	—	(268)
Ending Balance	\$ 3,188	\$ 5,094	\$ 6,216	\$ 277	\$ 386	\$ 425	\$ 465	\$16,051

September 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	\$ 3,672	\$ 5,316	\$ 4,829	\$ 300	\$ 254	\$ 353	\$ 596	\$15,320
Provision for Loan Losses	204	(81)	(10)	37	135	56	(91)	250
Recoveries	1	4	9	6	78	3	—	101
Loans Charged-off	(140)	(6)	—	—	(204)	—	—	(350)
Ending Balance	\$ 3,737	\$ 5,233	\$ 4,828	\$ 343	\$ 263	\$ 412	\$ 505	\$15,321

The following tables present the activity in the allowance for loan losses by portfolio class for the nine months ended September 30, 2018 and 2017:

September 30, 2018	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 4,735	\$ 4,591	\$ 4,894	\$ 330	\$ 298	\$ 343	\$ 503	\$15,694
Provision for Loan Losses	(121)	498	1,302	(38)	399	68	(38)	2,070
Recoveries	74	18	20	11	239	34	—	396
Loans Charged-off	(1,500)	(13)	—	(26)	(550)	(20)	—	(2,109)
Ending Balance	\$ 3,188	\$ 5,094	\$ 6,216	\$ 277	\$ 386	\$ 425	\$ 465	\$16,051

September 30, 2017	Commercial and Industrial Loans	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
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	Loans and Leases							
Beginning Balance	\$ 3,725	\$ 5,452	\$ 4,094	\$ 283	\$ 235	\$ 329	\$ 690	\$14,808
Provision for Loan Losses	151	(62)	725	70	307	94	(185)	1,100
Recoveries	10	43	9	8	205	38	—	313
Loans Charged-off	(149)	(200)	—	(18)	(484)	(49)	—	(900)
Ending Balance	\$ 3,737	\$ 5,233	\$ 4,828	\$ 343	\$ 263	\$ 412	\$ 505	\$15,321

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.

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NOTE 6 - Loans (continued)

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 the 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.

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 September 30, 2018 and December 31, 2017:

September 30, 2018	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	\$1,594	\$208	\$1,386	\$—	\$—	\$—	\$—	\$—
Collectively Evaluated for Impairment	14,422	2,980	3,678	6,216	277	386	420	465
Acquired with Deteriorated Credit Quality	35	—	30	—	—	—	5	—
Total Ending Allowance Balance	\$16,051	\$3,188	\$5,094	\$6,216	\$277	\$386	\$425	\$465
Loans:								
Loans Individually Evaluated for Impairment	\$9,394	\$3,521	\$5,873	\$—	\$—	\$—	\$—	n/m ⁽²⁾
	2,334,284	524,754	978,124	362,982	175,800	73,050	219,574	n/m ⁽²⁾

Loans Collectively Evaluated for Impairment Loans Acquired with Deteriorated Credit Quality	7,599	1,189	4,578	972	—	—	860	n/m ⁽²⁾
Total Ending Loans Balance ⁽¹⁾	\$2,351,277	\$ 529,464	\$ 988,575	\$ 363,954	\$ 175,800	\$ 73,050	\$ 220,434	n/m ⁽²⁾

⁽¹⁾Total recorded investment in loans includes \$11,104 in accrued interest.

⁽²⁾n/m = not meaningful

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NOTE 6 - Loans (continued)

December 31, 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	\$2,228	\$ 1,399	\$ 829	\$—	\$—	\$—	\$—	\$ —
Collectively Evaluated for Impairment	13,455	3,333	3,759	4,894	330	298	338	503
Acquired with Deteriorated Credit Quality	11	3	3	—	—	—	5	—
Total Ending Allowance Balance	\$15,694	\$ 4,735	\$ 4,591	\$ 4,894	\$ 330	\$ 298	\$ 343	\$ 503
Loans:								
Loans Individually Evaluated for Impairment	\$11,633	\$ 5,918	\$ 5,552	\$ 163	\$—	\$—	\$—	n/m ⁽²⁾
Loans Collectively Evaluated for Impairment	2,133,752	481,152	917,036	336,849	152,757	67,647	178,311	n/m ⁽²⁾
Loans Acquired with Deteriorated Credit Quality	9,117	988	6,452	789	—	—	888	n/m ⁽²⁾
Total Ending Loans Balance ⁽¹⁾	\$2,154,502	\$ 488,058	\$ 929,040	\$ 337,801	\$ 152,757	\$ 67,647	\$ 179,199	n/m ⁽²⁾

⁽¹⁾Total recorded investment in loans includes \$9,483 in accrued interest.

⁽²⁾n/m = not meaningful

The following tables present loans individually evaluated for impairment by class of loans as of September 30, 2018 and December 31, 2017:

September 30, 2018	Unpaid Principal Balance ⁽¹⁾	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 1,117	\$ 1,120	\$ —
Commercial Real Estate Loans	2,102	1,974	—

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Agricultural Loans	659	552	—
Subtotal	3,878	3,646	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,400	2,400	208
Commercial Real Estate Loans	4,713	4,546	1,416
Agricultural Loans	—	—	—
Subtotal	7,113	6,946	1,624
Total	\$ 10,991	\$ 10,592	\$ 1,624
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 1,194	\$ 1,003	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 363	\$ 195	\$ 30

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

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NOTE 6 - Loans (continued)

December 31, 2017	Unpaid Principal Balance ⁽¹⁾	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 1,205	\$ 1,166	\$ —
Commercial Real Estate Loans	1,812	1,495	—
Agricultural Loans	919	749	—
Subtotal	3,936	3,410	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	4,804	4,763	1,402
Commercial Real Estate Loans	4,489	4,465	832
Agricultural Loans	—	—	—
Subtotal	9,293	9,228	2,234
Total	\$ 13,229	\$ 12,638	\$ 2,234
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 1,255	\$ 797	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 252	\$ 208	\$ 6

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

The following tables present the average balance and related interest income of loans individually evaluated for impairment by class of loans for the three month period ended September 30, 2018 and 2017:

September 30, 2018	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 1,130	\$ 14	\$ 2
Commercial Real Estate Loans	1,988	26	—
Agricultural Loans	537	—	—
Subtotal	3,655	40	2
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,594	1	9
Commercial Real Estate Loans	4,693	4	—
Agricultural Loans	—	—	—
Subtotal	7,287	5	9
Total	\$ 10,942	\$ 45	\$ 11
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 995	\$ 11	\$ —
	\$ 197	\$ 5	\$ —

Loans Acquired With Deteriorated Credit Quality With An Additional Allowance
Recorded (Included in the Total Above)

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NOTE 6 - Loans (continued)

September 30, 2017	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 1,202	\$ 13	\$ —
Commercial Real Estate Loans	1,554	13	—
Agricultural Loans	735	—	—
Subtotal	3,491	26	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,865	2	1
Commercial Real Estate Loans	3,654	3	—
Agricultural Loans	228	—	—
Subtotal	6,747	5	1
Total	\$ 10,238	\$ 31	\$ 1
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 771	\$ —	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 215	\$ 4	\$ —

The following tables present the average balance and related interest income of loans individually evaluated for impairment by class of loans for the nine month period ended September 30, 2018 and 2017:

September 30, 2018	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 1,152	\$ 40	\$ 2
Commercial Real Estate Loans	1,525	52	7
Agricultural Loans	594	—	—
Subtotal	3,271	92	9
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	3,189	2	9
Commercial Real Estate Loans	4,816	14	—
Agricultural Loans	—	—	—
Subtotal	8,005	16	9
Total	\$ 11,276	\$ 108	\$ 18
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 697	\$ 11	\$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 200	\$ 16	\$ —

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NOTE 6 - Loans (continued)

September 30, 2017	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	\$ 456	\$ 15	\$ 2
Commercial Real Estate Loans	1,067	43	29
Agricultural Loans	650	24	16
Subtotal	2,173	82	47
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	1,011	4	2
Commercial Real Estate Loans	2,290	13	6
Agricultural Loans	484	—	—
Subtotal	3,785	17	8
Total	\$ 5,958	\$ 99	\$ 55
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	\$ 826	\$ 25	\$ 25
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	\$ 255	\$ 15	\$ 7

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 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 September 30, 2018 and December 31, 2017:

	Non-Accrual Loans		Loans Past Due 90 Days or More & Still Accruing	
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Commercial and Industrial Loans and Leases	\$2,400	\$ 4,753	\$ —	\$ —
Commercial Real Estate Loans	4,667	4,618	70	474
Agricultural Loans	552	748	—	268

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Home Equity Loans	59	199	—	—
Consumer Loans	148	286	—	—
Residential Mortgage Loans	602	487	—	—
Total	\$8,428	\$ 11,091	\$ 70	\$ 742
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$609	\$ 866	\$ 70	\$ —

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NOTE 6 - Loans (continued)

The following tables present the aging of the recorded investment in past due loans by class of loans as of September 30, 2018 and December 31, 2017:

September 30, 2018	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	\$529,464	\$ 3,172	\$ 4,519	\$ 25	\$7,716	\$521,748
Commercial Real Estate Loans	988,575	997	594	2,044	3,635	984,940
Agricultural Loans	363,954	333	—	—	333	363,621
Home Equity Loans	175,800	757	111	59	927	174,873
Consumer Loans	73,050	667	26	149	842	72,208
Residential Mortgage Loans	220,434	3,415	858	408	4,681	215,753
Total ⁽¹⁾	\$2,351,277	\$ 9,341	\$ 6,108	\$ 2,685	\$18,134	\$2,333,143
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$7,599	\$ 170	\$ 138	\$ 95	\$403	\$7,196
Loans Acquired in Current Year (Included in the Total Above)	\$113,173	\$ 33	\$ 111	\$ —	\$144	\$113,029

⁽¹⁾Total recorded investment in loans includes \$11,104 in accrued interest.

December 31, 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	\$488,058	\$ 209	\$ 1,365	\$ 905	\$2,479	\$485,579
Commercial Real Estate Loans	929,040	1,229	1,650	677	3,556	925,484
Agricultural Loans	337,801	27	—	268	295	337,506
Home Equity Loans	152,757	366	93	199	658	152,099
Consumer Loans	67,647	246	97	286	629	67,018
Residential Mortgage Loans	179,199	2,850	1,247	261	4,358	174,841
Total ⁽¹⁾	\$2,154,502	\$ 4,927	\$ 4,452	\$ 2,596	\$11,975	\$2,142,527
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	\$9,117	\$ 342	\$ 74	\$ 27	\$443	\$8,674

⁽¹⁾Total recorded investment in loans includes \$9,483 in accrued interest.

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 and nine months ended September 30, 2018, there were no loans modified as a troubled debt restructuring. During the three months ended September 30, 2017, there were no loans modified as a troubled debt restructuring. During the nine months ended September 30, 2017, there were two loans modified as troubled debt restructurings.

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NOTE 6 - Loans (continued)

The following tables present the recorded investment of troubled debt restructurings by class of loans as of September 30, 2018 and December 31, 2017:

September 30, 2018	Total	Performing	Non-Accrual ⁽¹⁾
Commercial and Industrial Loans and Leases	\$177	\$ 122	\$ 55
Commercial Real Estate Loans	—	—	—
Total	\$177	\$ 122	\$ 55
December 31, 2017	Total	Performing	Non-Accrual ⁽¹⁾
Commercial and Industrial Loans and Leases	\$258	\$ 125	\$ 133
Commercial Real Estate Loans	24	24	—
Total	\$282	\$ 149	\$ 133

⁽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 September 30, 2018 and December 31, 2017 to customers with outstanding loans that are classified as troubled debt restructurings.

The Company had no loans modified as troubled debt restructurings during the three months ended September 30, 2018 and 2017. The following tables present loans by class modified as troubled debt restructurings that occurred during the nine months ending September 30, 2018 and 2017:

September 30, 2018	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 nine months ending September 30, 2018.

September 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 nine months ending September 30, 2017.

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 nine months ending September 30, 2018 and 2017.

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

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NOTE 6 - Loans (continued)

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.

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:

September 30, 2018	Pass	Special Mention	Substandard	Doubtful
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