GERMAN AMERICAN BANCORP, INC.
Form 10-Q
August 06, 2013

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, 2013

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, or a smaller reporting company:

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

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

YES ¨ NO 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, 2013
Common Shares, no par value	12,666,836

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, 2012, 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)

	June 30, 2013	December 31, 2012
ASSETS		
Cash and Due from Banks	$28,390	$41,624
Federal Funds Sold and Other Short-term Investments	10,105	7,463
Cash and Cash Equivalents	38,495	49,087
Interest-bearing Time Deposits with Banks	1,253	2,707
Securities Available-for-Sale, at Fair Value	612,569	587,602
Securities Held-to-Maturity, at Cost (Fair value of $271 and $351 on June 30, 2013 and December 31, 2012, respectively)	268	346
Loans Held-for-Sale, at Fair Value	19,435	16,641
Loans	1,245,705	1,207,901
Less: Unearned Income	(2,741)	(3,035)
Allowance for Loan Losses	(15,263)	(15,520)
Loans, Net	1,227,701	1,189,346
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	8,340	8,340
Premises, Furniture and Equipment, Net	36,702	36,554
Other Real Estate	1,560	1,645
Goodwill	18,865	18,865
Intangible Assets	1,977	2,692
Company Owned Life Insurance	30,701	30,223
Accrued Interest Receivable and Other Assets	12,746	62,252
TOTAL ASSETS	$2,010,612	$2,006,300
LIABILITIES		
Non-interest-bearing Demand Deposits	$331,571	$349,174
Interest-bearing Demand, Savings, and Money Market Accounts	982,665	962,574
Time Deposits	327,673	329,183
Total Deposits	1,641,909	1,640,931
FHLB Advances and Other Borrowings	175,640	161,006

Accrued Interest Payable and Other Liabilities	11,202	19,337
TOTAL LIABILITIES	1,828,751	1,821,274
SHAREHOLDERS' EQUITY		
Preferred Stock, no par value; 500,000 shares authorized, no shares issued	—	—
Common Stock, no par value, $1 stated value; 30,000,000 shares authorized	12,667	12,637
Additional Paid-in Capital	95,766	95,617
Retained Earnings	74,967	66,421
Accumulated Other Comprehensive Income (Loss)	(1,539)	10,351
TOTAL SHAREHOLDERS' EQUITY	181,861	185,026
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,010,612	$2,006,300
End of period shares issued and outstanding	12,666,936	12,636,656

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 June 30,	
	2013	2012
INTEREST INCOME		
Interest and Fees on Loans	$ 15,035	$ 15,513
Interest on Federal Funds Sold and Other Short-term Investments	13	40
Interest and Dividends on Securities:		
Taxable	2,771	3,421
Non-taxable	639	589
TOTAL INTEREST INCOME	18,458	19,563
INTEREST EXPENSE		
Interest on Deposits	1,154	1,855
Interest on FHLB Advances and Other Borrowings	592	1,059
TOTAL INTEREST EXPENSE	1,746	2,914
NET INTEREST INCOME	16,712	16,649
Provision for Loan Losses	(200)	391
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,912	16,258
NON-INTEREST INCOME		
Trust and Investment Product Fees	814	664
Service Charges on Deposit Accounts	1,050	1,017
Insurance Revenues	1,379	1,358
Company Owned Life Insurance	217	266
Interchange Fee Income	513	460
Other Operating Income	861	316
Net Gains on Sales of Loans	809	676
Net Gains on Securities	467	76
TOTAL NON-INTEREST INCOME	6,110	4,833
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	7,627	6,828
Occupancy Expense	1,099	1,061
Furniture and Equipment Expense	748	724
FDIC Premiums	260	283
Data Processing Fees	349	321
Professional Fees	525	587
Advertising and Promotion	516	396
Intangible Amortization	348	422

Other Operating Expenses	1,789	1,801
TOTAL NON-INTEREST EXPENSE	13,261	12,423
Income before Income Taxes	9,761	8,668
Income Tax Expense	3,229	2,701
NET INCOME	$ 6,532	$ 5,967
Basic Earnings Per Share	$ 0.52	$ 0.47
Diluted Earnings Per Share	$ 0.52	$ 0.47
Dividends Per Share	$ 0.15	$ 0.14

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(unaudited, dollars in thousands except per share data)

	Six Months Ended June 30,	
	2013	2012
INTEREST INCOME		
Interest and Fees on Loans	$29,920	$31,298
Interest on Federal Funds Sold and Other Short-term Investments	23	73
Interest and Dividends on Securities:		
Taxable	5,612	6,747
Non-taxable	1,273	1,172
TOTAL INTEREST INCOME	36,828	39,290
INTEREST EXPENSE		
Interest on Deposits	2,388	3,901
Interest on FHLB Advances and Other Borrowings	1,503	2,128
TOTAL INTEREST EXPENSE	3,891	6,029
NET INTEREST INCOME	32,937	33,261
Provision for Loan Losses	150	1,081
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	32,787	32,180
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,631	1,360
Service Charges on Deposit Accounts	2,005	1,952
Insurance Revenues	3,163	2,749
Company Owned Life Insurance	483	510
Interchange Fee Income	943	891
Other Operating Income	1,152	689
Net Gains on Sales of Loans	1,563	1,389
Net Gains on Securities	1,080	94
TOTAL NON-INTEREST INCOME	12,020	9,634
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	15,411	14,148
Occupancy Expense	2,204	2,153
Furniture and Equipment Expense	1,493	1,404
FDIC Premiums	515	580
Data Processing Fees	702	435
Professional Fees	1,186	1,192
Advertising and Promotion	1,006	769
Intangible Amortization	715	864

Other Operating Expenses	3,491	3,471
TOTAL NON-INTEREST EXPENSE	26,723	25,016
Income before Income Taxes	18,084	16,798
Income Tax Expense	5,743	5,229
NET INCOME	$12,341	$11,569
Basic Earnings Per Share	$0.98	$0.92
Diluted Earnings Per Share	$0.97	$0.92
Dividends Per Share	$0.30	$0.28

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited, dollars in thousands)

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
NET INCOME	$ 6,532	$ 5,967
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	(14,651)	1,154
Reclassification Adjustment for Losses (Gains) Included in Net Income	(467)	(76)
Tax Effect	5,464	(374)
Net of Tax	(9,654)	704
Total Other Comprehensive Income (Loss)	(9,654)	704
COMPREHENSIVE INCOME (LOSS)	$ (3,122)	$ 6,671

GERMAN AMERICAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited, dollars in thousands)

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
NET INCOME	$ 12,341	$ 11,569
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	(17,753)	1,885
Reclassification Adjustment for Losses (Gains) Included in Net Income	(1,080)	(94)
Tax Effect	6,943	(612)
Net of Tax	(11,890)	1,179
Total Other Comprehensive Income (Loss)	(11,890)	1,179

COMPREHENSIVE INCOME	$451	$12,748

See accompanying notes to consolidated financial statements.

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GERMAN AMERICAN BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, dollars in thousands)

	Six Months Ended June 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$12,341	$11,569
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	1,731	2,258
Depreciation and Amortization	2,224	2,499
Loans Originated for Sale	(99,547)	(77,713)
Proceeds from Sales of Loans Held-for-Sale	98,490	91,927
Provision for Loan Losses	150	1,081
Gain on Sale of Loans, net	(1,563)	(1,389)
Gain on Securities, net	(1,080)	(94)
Loss on Sales of Other Real Estate and Repossessed Assets	253	70
Gain on Disposition and Impairment of Premises and Equipment	(70)	(2)
Increase in Cash Surrender Value of Company Owned Life Insurance	(478)	(503)
Equity Based Compensation	170	308
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	3,529	5,068
Interest Payable and Other Liabilities	(1,648)	673
Net Cash from Operating Activities	14,502	35,752
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturity of Other Short-term Investments	1,445	2,240
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	81,734	61,373
Proceeds from Sales of Securities Available-for-Sale	100,721	51,395
Purchase of Securities Available-for-Sale	(180,647)	(197,985)
Proceeds from Maturities of Securities Held-to-Maturity	78	344
Purchase of Loans	(712)	—
Proceeds from Sales of Loans	2,000	—
Loans Made to Customers, net of Payments Received	(40,420)	(25,871)
Proceeds from Sales of Other Real Estate	459	246
Property and Equipment Expenditures	(1,606)	(1,108)
Proceeds from Sales of Property and Equipment	88	1
Net Cash from Investing Activities	(36,860)	(109,365)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	986	47,070
Change in Short-term Borrowings	35,371	22,156
Advances in Long-term Debt	30,000	—

Repayments of Long-term Debt	(50,805)	(10,050)
Issuance of Common Stock	9	15
Dividends Paid	(3,795)	(3,531)
Net Cash from Financing Activities	11,766	55,660
Net Change in Cash and Cash Equivalents	(10,592)	(17,953)
Cash and Cash Equivalents at Beginning of Year	49,087	61,103
Cash and Cash Equivalents at End of Period	$38,495	$43,150
Cash Paid During the Period for		
Interest	$4,349	$6,308
Income Taxes	6,609	1,934
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	$626	$2,223
Accounts Receivable Transferred to Securities	(45,803)	(43,167)

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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

Note 1 – Basis of Presentation

German American Bancorp, Inc. operates primarily in the banking industry. The accounting and reporting policies of German American Bancorp, Inc. and its subsidiaries conform to U.S. generally accepted accounting principles. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods reported have been included in the accompanying unaudited consolidated financial statements, and all such adjustments are of a normal recurring nature. It is suggested that these consolidated financial statements and notes be read in conjunction with the financial statements and notes thereto in the German American Bancorp, Inc. December 31, 2012 Annual Report on Form 10-K.

Note 2 – Per Share Data

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

	Three Months Ended June 30,	
	2013	2012
Basic Earnings per Share:		
Net Income	$6,532	$5,967
Weighted Average Shares Outstanding	12,666,315	12,627,715
Basic Earnings per Share	$0.52	$0.47
Diluted Earnings per Share:		
Net Income	$6,532	$5,967
Weighted Average Shares Outstanding	12,666,315	12,627,715
Potentially Dilutive Shares, Net	16,812	10,811
Diluted Weighted Average Shares Outstanding	12,683,127	12,638,526

Diluted Earnings per Share	$0.52	$0.47

For the three months ended June 30, 2013 and 2012, there were no anti-dilutive shares.

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

	Six Months Ended June 30,	
	2013	2012
Basic Earnings per Share:		
Net Income	$12,341	$11,569
Weighted Average Shares Outstanding	12,654,146	12,614,075
Basic Earnings per Share	$0.98	$0.92
Diluted Earnings per Share:		
Net Income	$12,341	$11,569
Weighted Average Shares Outstanding	12,654,146	12,614,075
Potentially Dilutive Shares, Net	17,560	14,003
Diluted Weighted Average Shares Outstanding	12,671,706	12,628,078
Diluted Earnings per Share	$0.97	$0.92

For the six months ended June 30, 2013 and 2012, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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

Note 3 – Securities

The amortized cost, unrealized gross gains and losses recognized in accumulated other comprehensive income (loss), and fair value of Securities Available-for-Sale at June 30, 2013 and December 31, 2012, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2013				
U.S. Treasury and Agency Securities	$ 23,257	$ 22	$ (918)	$ 22,361
Obligations of State and Political Subdivisions	76,710	2,585	(530)	78,765
Mortgage-backed Securities - Residential	513,751	5,624	(8,696)	510,679
Equity Securities	684	80	—	764
Total	$ 614,402	$ 8,311	$ (10,144)	$ 612,569
December 31, 2012				
U.S. Treasury and Agency Securities	$ 23,570	$ 40	$ (138)	$ 23,472
Obligations of State and Political Subdivisions	71,352	5,145	(12)	76,485
Mortgage-backed Securities - Residential	475,452	11,505	(45)	486,912
Equity Securities	684	49	—	733
Total	$ 571,058	$ 16,739	$ (195)	$ 587,602

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

The carrying amount, unrecognized gains and losses and fair value of Securities Held-to-Maturity at June 30, 2013 and December 31, 2012, were as follows:

Gross Gross

Securities Held-to-Maturity:	Carrying Amount	Unrecognized Gains	Unrecognized Losses	Fair Value
June 30, 2013				
Obligations of State and Political Subdivisions	$ 268	$ 3	$ —	$ 271
December 31, 2012				
Obligations of State and Political Subdivisions	$ 346	$ 5	$ —	$ 351

The amortized cost and fair value of Securities at June 30, 2013 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.

	Amortized Cost	Fair Value
Securities Available-for-Sale:		
Due in one year or less	$ 4,582	$ 4,616
Due after one year through five years	12,828	13,138
Due after five years through ten years	55,349	55,605
Due after ten years	27,208	27,767
Mortgage-backed Securities - Residential	513,751	510,679
Equity Securities	684	764
Totals	$ 614,402	$ 612,569

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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

Note 3 – Securities (continued)

	Carrying Amount	Fair Value
Securities Held-to-Maturity:		
Due in one year or less	$ —	$ —
Due after one year through five years	268	271
Due after five years through ten years	—	—
Due after ten years	—	—
Totals	$ 268	$ 271

Proceeds from the sales of Available-for-Sale Securities are summarized below:

	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012
Proceeds from Sales and Calls	$ 25,972	$ 9,247
Gross Gains on Sales and Calls	467	76
Income Taxes on Gross Gains	163	27

	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Proceeds from Sales and Calls	$ 100,721	$ 51,395
Gross Gains on Sales and Calls	1,080	94
Income Taxes on Gross Gains	378	33

Below is a summary of securities with unrealized losses as of June 30, 2013 and December 31, 2012, 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

	Less than 12 Months Fair Value	Less than 12 Months Unrealized Loss	12 Months or More Fair Value	12 Months or More Unrealized Loss	Total Fair Value	Total Unrealized Loss
June 30, 2013						
U.S. Treasury and Agency Securities	$19,082	$(918)	$ —	$ —	$19,082	$(918)
Obligations of State and Political Subdivisions	15,329	(530)	—	—	15,329	(530)
Mortgage-backed Securities - Residential	286,907	(8,696)	—	—	286,907	(8,696)
Equity Securities	—	—	—	—	—	—
Total	$321,318	$(10,144)	$ —	$ —	$321,318	$(10,144)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2012						
U.S. Treasury and Agency Securities	$ 19,862	$ (138)	$ —	$ —	$19,862	$ (138)
Obligations of State and Political Subdivisions	1,042	(12)	—	—	1,042	(12)
Mortgage-backed Securities - Residential	18,323	(45)	—	—	18,323	(45)
Equity Securities	—	—	—	—	—	—
Total	$ 39,227	$ (195)	$ —	$ —	$39,227	$ (195)

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

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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

Note 4 – Derivatives

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of these interest rate swaps and the offsetting counterparty derivative instruments were $18.0 million at June 30, 2013 and $6.0 million at December 31, 2012. 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, 2013		December 31, 2012	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	$18,044	$ 508	$ 6,051	$ 187
Included in Other Liabilities:				
Interest Rate Swaps	$18,044	$ 355	$ 6,051	$ 178

The following tables present 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**	
	2013	2012	2013	2012
Interest Rate Swaps:				
Included in Interest Income / (Expense)	$ —	$ —	$ —	$ —
Included in Other Income / (Expense)	549	—	551	—

Note 5 – Loans

Loans were comprised of the following classifications at June 30, 2013 and December 31, 2012:

	June 30, 2013	December 31, 2012
Commercial:		
Commercial and Industrial Loans and Leases	$346,375	$ 335,373
Commercial Real Estate Loans	508,675	488,496
Agricultural Loans	175,958	179,906
Retail:		
Home Equity Loans	73,232	74,437
Consumer Loans	46,186	41,103
Residential Mortgage Loans	95,279	88,586
Subtotal	1,245,705	1,207,901
Less: Unearned Income	(2,741)	(3,035)
Allowance for Loan Losses	(15,263)	(15,520)
Loans, Net	$1,227,701	$ 1,189,346

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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

NOTE 5 – Loans (continued)

The following table presents the activity in the allowance for loan losses by portfolio class for the three months ending June 30, 2013 and 2012:

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
June 30, 2013								
Beginning Balance	$ 4,753	$ 8,879	$ 766	$ 118	$ 189	$ 300	$ 729	$ 15,734
Provision for Loan Losses	(452)	(53)	51	196	43	(16)	31	(200)
Recoveries	10	27	—	—	16	1	—	54
Loans Charged-off	(53)	(217)	—	(1)	(49)	(5)	—	(325)
Ending Balance	$ 4,258	$ 8,636	$ 817	$ 313	$ 199	$ 280	$ 760	$ 15,263

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
June 30, 2012								
Beginning Balance	$ 4,460	$ 9,234	$ 751	$ 204	$ 196	$ 441	$ 480	$ 15,766
Provision for Loan Losses	312	(202)	139	(17)	83	(8)	84	391
Recoveries	4	7	—	—	33	7	—	51
Loans Charged-off	(69)	(307)	—	(6)	(85)	(49)	—	(516)
Ending Balance	$ 4,707	$ 8,732	$ 890	$ 181	$ 227	$ 391	$ 564	$ 15,692

The following table presents the activity in the allowance for loan losses by portfolio class for the six months ending June 30, 2013 and 2012:

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
June 30, 2013								
Beginning Balance	$ 4,555	$ 8,931	$ 989	$ 141	$ 214	$ 186	$ 504	$ 15,520
Provision for Loan Losses	(257)	(47)	(172)	237	36	97	256	150
Recoveries	13	78	—	—	71	3	—	165
Loans Charged-off	(53)	(326)	—	(65)	(122)	(6)	—	(572)
Ending Balance	$ 4,258	$ 8,636	$ 817	$ 313	$ 199	$ 280	$ 760	$ 15,263

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
June 30, 2012								
Beginning Balance	$ 3,493	$ 9,297	$ 926	$ 258	$ 190	$ 402	$ 746	$ 15,312
Provision for Loan Losses	1,273	(144)	(36)	(30)	129	71	(182)	1,081
Recoveries	49	26	—	1	64	9	—	149
Loans Charged-off	(108)	(447)	—	(48)	(156)	(91)	—	(850)
Ending Balance	$ 4,707	$ 8,732	$ 890	$ 181	$ 227	$ 391	$ 564	$ 15,692

GERMAN AMERICAN BANCORP, INC.

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NOTE 5 – Loans (continued)

In determining the adequacy of the allowance for loan loss, general allocations are made for other pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on a three-year historical average for loan losses for these portfolios, judgmentally adjusted for economic factors and portfolio trends. For 2012, the Company utilized a 4 quarter rolling historical loan loss average. Beginning in 2013, management deemed a rolling 12 quarter historical loan loss average to be more indicative of the inherent losses in the Company's loan portfolio in the current economic environment than the 4 quarter average. This change in methodology resulted in an increase to the required loan loss allowance of approximately $280.

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. 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.

The following table presents 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, 2013 and December 31, 2012:

Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	**Consumer** Loans	Residential Mortgage Loans	Unallocated

June 30, 2013								
Allowance for Loan Losses:								
Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	$4,158	$496	$3,662	$—	$—	$—	$—	$ —
Collectively Evaluated for Impairment	10,955	3,762	4,824	817	313	199	280	760
Acquired with Deteriorated Credit Quality	150	—	150	—	—	—	—	—
Total Ending Allowance Balance	$15,263	$4,258	$8,636	$817	$313	$199	$280	$ 760
Loans:								
Loans Individually Evaluated for Impairment	$10,923	$2,511	$7,467	$945	$—	$—	$—	$ —
Loans Collectively Evaluated for Impairment	1,229,900	342,557	495,213	177,017	73,486	46,175	95,452	—
Loans Acquired with Deteriorated Credit Quality	9,851	2,231	7,333	—	—	140	147	—
Total Ending Loans Balance [1]	$1,250,674	$347,299	$510,013	$177,962	$73,486	$46,315	$95,599	$ —

[1] Total recorded investment in loans includes $4,969 in accrued interest.

GERMAN AMERICAN BANCORP, INC.

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NOTE 5 – Loans (continued)

	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	**Consumer** Loans	Residential Mortgage Loans	Unallocated
December 31, 2012								
Allowance for Loan Losses:								
Ending Allowance Balance Attributable to Loans:								
Individually Evaluated for Impairment	$5,323	$1,279	$3,894	$150	$—	$—	$—	$ —
Collectively Evaluated for Impairment	10,109	3,208	5,017	839	141	214	186	504
Acquired with Deteriorated Credit Quality	88	68	20	—	—	—	—	—
Total Ending Allowance Balance	$15,520	$4,555	$8,931	$989	$141	$214	$186	$ 504
Loans:								
Loans Individually Evaluated for Impairment	$12,520	$2,547	$7,550	$2,423	$—	$—	$—	$ —
Loans Collectively Evaluated for Impairment	1,189,729	331,920	473,209	180,152	74,699	41,083	88,666	—
Loans Acquired with Deteriorated Credit Quality	11,174	1,840	9,037	—	—	148	149	—
	$1,213,423	$336,307	$489,796	$182,575	$74,699	$41,231	$88,815	$ —

Total Ending Loans
Balance [1]

[1] Total recorded investment in loans includes $5,522 in accrued interest.

The following table presents loans individually evaluated for impairment by class of loans as of June 30, 2013 and December 31, 2012:

	Unpaid Principal **Balance**[1]	Recorded Investment	Allowance for Loan Losses Allocated
June 30, 2013			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 1,975	$ 1,995	$ —
Commercial Real Estate Loans	3,674	1,894	—
Agricultural Loans	937	946	—
Subtotal	6,586	4,835	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	566	516	496
Commercial Real Estate Loans	6,011	5,925	3,812
Agricultural Loans	—	—	—
Subtotal	6,577	6,441	4,308
Total	$ 13,163	$ 11,276	$ 4,308
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)	$ 439	$ 353	$ 150

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

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NOTE 5 – Loans (continued)

	Unpaid Principal **Balance**[1]	Recorded Investment	Allowance for Loan Losses Allocated
December 31, 2012			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 108	$ 87	$ —
Commercial Real Estate Loans	4,312	2,154	—
Agricultural Loans	2,126	2,137	—
Subtotal	6,546	4,378	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,642	2,581	1,347
Commercial Real Estate Loans	5,579	5,418	3,914
Agricultural Loans	285	286	150
Subtotal	8,506	8,285	5,411
Total	$ 15,052	$ 12,663	$ 5,411
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 45	$ 25	$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 155	$ 118	$ 88

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

The following table presents loans individually evaluated for impairment by class of loans including purchase credit impaired loans that subsequently result in additional allowance for loan losses for the three month period ended June 30, 2013 and 2012:

	Average Recorded	Interest Income	Cash Basis

	Investment	Recognized	Recognized
June 30, 2013			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 1,993	$ —	$ —
Commercial Real Estate Loans	2,196	—	—
Agricultural Loans	2,041	127	168
Subtotal	6,230	127	168
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	522	1	1
Commercial Real Estate Loans	6,276	6	4
Agricultural Loans	—	—	—
Subtotal	6,798	7	5
Total	$ 13,028	$ 134	$ 173
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 80	$ —	$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 363	$ 1	$ 1

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GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 5 – Loans (continued)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
June 30, 2012			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 100	$ 1	$ 1
Commercial Real Estate Loans	6,166	1	1
Agricultural Loans	145	2	2
Subtotal	6,411	4	4
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,795	2	2
Commercial Real Estate Loans	6,546	5	5
Agricultural Loans	—	—	—
Subtotal	9,341	7	7
Total	$ 15,752	$ 11	$ 11
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 1,029	$ 1	$ 1
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 205	$ —	$ —

The following table presents loans individually evaluated for impairment by class of loans including purchase credit impaired loans that subsequently result in additional allowance for loan losses for the six month period ended June 30, 2013 and 2012:

	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
June 30, 2013			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 1,052	$ —	$ 1
Commercial Real Estate Loans	2,183	—	—
Agricultural Loans	2,231	175	184

Subtotal	5,466	175	185
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	1,528	2	2
Commercial Real Estate Loans	6,042	11	9
Agricultural Loans	—	—	—
Subtotal	7,570	13	11
Total	$ 13,036	$ 188	$ 196
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 55	$ —	$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 314	$ 1	$ 1

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GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 5 – Loans (continued)

	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
June 30, 2012			
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 377	$ 2	$ 2
Commercial Real Estate Loans	5,858	5	5
Agricultural Loans	73	2	2
Subtotal	6,308	9	9
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,818	3	3
Commercial Real Estate Loans	6,914	11	9
Agricultural Loans	—	—	—
Subtotal	9,732	14	12
Total	$ 16,040	$ 23	$ 21
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 212	$ 1	$ 1
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 77	$ —	$ —

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 table presents 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, 2013 and December 31, 2012:

	Non-Accrual		Loans Past Due 90 Days or More & Still Accruing	
	2013	2012	2013	2012
Commercial and Industrial Loans and Leases	$478	$2,480	$ —	$ —
Commercial Real Estate Loans	7,404	7,275	—	—
Agricultural Loans	14	—	102	—
Home Equity Loans	267	178	—	—
Consumer Loans	194	167	—	—
Residential Mortgage Loans	153	257	—	—
Total	$8,510	$10,357	$ 102	$ —
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$474	$148	$ —	$ —

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GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 5 – Loans (continued)

The following table presents the aging of the recorded investment in past due loans by class of loans as of June 30, 2013 and December 31, 2012:

	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
June 30, 2013						
Commercial and Industrial Loans and Leases	$347,299	$ 302	$ 119	$ 429	$ 850	$346,449
Commercial Real Estate Loans	510,013	206	40	1,657	1,903	508,110
Agricultural Loans	177,962	—	—	116	116	177,846
Home Equity Loans	73,486	336	98	267	701	72,785
Consumer Loans	46,315	207	27	53	287	46,028
Residential Mortgage Loans	95,599	2,672	643	153	3,468	92,131
Total [(1)]	$1,250,674	$ 3,723	$ 927	$ 2,675	$ 7,325	$1,243,349
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$9,851	$ —	$ —	$ —	$ —	$9,851

[(1)] Total recorded investment in loans includes $4,969 in accrued interest.

	Total	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Loans Not Past Due
December 31, 2012						
Commercial and Industrial Loans and Leases	$336,307	$ 436	$ 133	$ 448	$ 1,017	$335,290

Commercial Real Estate Loans	489,796	1,352	—	2,063	3,415	486,381
Agricultural Loans	182,575	42	14	—	56	182,519
Home Equity Loans	74,699	177	48	178	403	74,296
Consumer Loans	41,231	431	23	18	472	40,759
Residential Mortgage Loans	88,815	2,070	495	257	2,822	85,993
Total [(1)]	$1,213,423	$ 4,508	$ 713	$ 2,964	$ 8,185	$1,205,238
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$11,174	$ —	$ 120	$ —	$ 120	$11,054

[(1)] Total recorded investment in loans includes $5,522 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 six months ended June 30, 2013 and the year ended December 31, 2012, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan; an extension of the maturity date at a stated rate of interest lower than the current market rate for new debt with similar risk; or a permanent reduction of the recorded investment in the loan. There were no troubled debt restructurings for the six months ended June 30, 2013 and the year ended December 31, 2012 for loans acquired with deteriorated credit quality at the time of acquisition.

GERMAN AMERICAN BANCORP, INC.

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NOTE 5 – Loans (continued)

The following table presents the recorded investment of troubled debt restructurings by class of loans as of June 30, 2013 and December 31, 2012:

	Total	Performing	Non-Accrual[1]
June 30, 2013			
Commercial and Industrial Loans and Leases	$2,455	$ 2,033	$ 422
Commercial Real Estate Loans	4,521	395	4,126
Total	$6,976	$ 2,428	$ 4,548

	Total	Performing	Non-Accrual[1]
December 31, 2012			
Commercial and Industrial Loans and Leases	$2,461	$ 66	$ 2,395
Commercial Real Estate Loans	6,031	304	5,727
Total	$8,492	$ 370	$ 8,122

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

The Company has committed to lending an additional amount of $34 as of June 30, 2013 to customers with outstanding loans that are classified as troubled debt restructurings. The Company had not committed to lending any additional amounts as of December 31, 2012 to customers with outstanding loans that are classified as troubled debt restructurings.

The following table presents loans by class modified as troubled debt restructurings that occurred during the three months ending June 30, 2013 and 2012:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
June 30, 2013			
Commercial and Industrial Loans and Leases	—	$ —	$ —
Commercial Real Estate Loans	1	81	118
Total	1	$ 81	$ 118

The troubled debt restructurings described above decreased the allowance for loan losses by $210 and resulted in charge-offs of $0 during the three months ending June 30, 2013.

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
June 30, 2012			
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, 2012.

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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

NOTE 5 – Loans (continued)

The following table presents loans by class modified as troubled debt restructurings that occurred during the six months ending June 30, 2013 and 2012:

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
June 30, 2013			
Commercial and Industrial Loans and Leases	—	$ —	$ —
Commercial Real Estate Loans	1	81	118
Total	1	$ 81	$ 118

The troubled debt restructurings described above decreased the allowance for loan losses by $210 and resulted in charge-offs of $0 during the six months ending June 30, 2013.

	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
June 30, 2012			
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, 2012.

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three months ending June 30, 2013 and 2012:

Troubled Debt Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment
June 30, 2013		
Commercial and Industrial Loans and Leases	—	$ —
Commercial Real Estate Loans	—	—
Total	—	$ —

The troubled debt restructurings that subsequently defaulted described above resulted in no change to the allowance for loan losses and no charge-offs during the three months ending June 30, 2013.

Troubled Debt Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment
June 30, 2012		
Commercial and Industrial Loans and Leases	—	$ —
Commercial Real Estate Loans	—	—
Total	—	$ —

The troubled debt restructurings that subsequently defaulted described above resulted in no change to the allowance for loan losses and no charge-offs during the three months ending June 30, 2012.

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

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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NOTE 5 – Loans (continued)

The following table presents loans by class modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the six months ending June 30, 2013 and 2012:

Troubled Debt Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment	
June 30, 2013			
Commercial and Industrial Loans and Leases	—	$	—
Commercial Real Estate Loans	—		—
Total	—	$	—

The troubled debt restructurings that subsequently defaulted described above resulted in no change to the allowance for loan losses and no charge-offs during the six months ending June 30, 2013.

Troubled Debt Restructurings That Subsequently Defaulted:	Number of Loans	Recorded Investment	
June 30, 2012			
Commercial and Industrial Loans and Leases	1	$	565
Commercial Real Estate Loans	1		292
Total	2	$	857

The troubled debt restructurings that subsequently defaulted described above resulted in no change to the allowance for loan losses and charge-offs of $108 during the six months ending June 30, 2012.

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 $100. 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

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NOTE 5 – 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. Loans listed as not rated are either less than $100 or are included in groups of homogeneous loans. Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2013					
Commercial and Industrial Loans and Leases	$319,137	$16,894	$ 11,268	$ —	$347,299
Commercial Real Estate Loans	472,008	19,207	18,798	—	510,013
Agricultural Loans	174,218	2,596	1,148	—	177,962
Total	$965,363	$38,697	$ 31,214	$ —	$1,035,274
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$318	$3,525	$ 5,721	$ —	$9,564

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2012					
Commercial and Industrial Loans and Leases	$307,997	$14,441	$ 13,869	$ —	$336,307
Commercial Real Estate Loans	446,639	21,338	21,819	—	489,796
Agricultural Loans	176,730	2,855	2,990	—	182,575
Total	$931,366	$38,634	$ 38,678	$ —	$1,008,678
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$319	$3,220	$ 7,338	$ —	$10,877

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, 2013 and December 31, 2012:

	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
June 30, 2013			
Performing	$ 73,219	$ 46,121	$ 95,446
Nonperforming	267	194	153
Total	$ 73,486	$ 46,315	$ 95,599
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$ —	$ 140	$ 147

	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
December 31, 2012			
Performing	$ 74,521	$ 41,064	$ 88,558
Nonperforming	178	167	257
Total	$ 74,699	$ 41,231	$ 88,815
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$ —	$ 148	$ 149

GERMAN AMERICAN BANCORP, INC.

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NOTE 5 – 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, 2013
Commercial and Industrial Loans	$ 2,231
Commercial Real Estate Loans	7,333
Home Equity Loans	—
Consumer Loans	140
Residential Mortgage Loans	147
Total	$ 9,851
Carrying amount, Net of Allowance of $150	$ 9,701

	December 31, 2012
Commercial and Industrial Loans	$ 1,840
Commercial Real Estate Loans	9,037
Home Equity Loans	—
Consumer Loans	148
Residential Mortgage Loans	149
Total	$ 11,174
Carrying amount, Net of Allowance of $88	$ 11,086

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

	June 30, 2013	June 30, 2012
Balance at April 1	$ 208	$ 630
New Loans Purchased	—	—
Accretion of Income	(234)	(241)
Reclassifications from Non-accretable Difference	208	—
Charge-off of Accretable Yield	—	—
Balance at June 30	$ 182	$ 389

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

	June 30, 2013	June 30, 2012
Balance at January 1	$ 170	$ 967
New Loans Purchased	—	—
Accretion of Income	(446)	(784)
Reclassifications from Non-accretable Difference	458	206
Charge-off of Accretable Yield	—	—
Balance at June 30	$ 182	$ 389

For those purchased loans disclosed above, the Company increased the allowance for loan losses by $70 during the three months ended June 30, 2013. For those purchased loans disclosed above, the Company increased the allowance for loan losses by $61 during the six months ended June 30, 2013. For those purchased loans disclosed above, the Company did not increase the allowance for loan losses during the three and six months ended June 30, 2012. No allowances for loan losses were reversed during the same periods.

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2013

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

Note 6 – 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 35 banking offices at June 30, 2013. 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 German American Financial Advisors & Trust Company. 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.