GERMAN AMERICAN BANCORP, INC.
Form 10-Q
August 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 June 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 incorporation or organization)	(I.R.S. Employer Identification No.)

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

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

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

YES x NO ¨

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

YES x NO ¨

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

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

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

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

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

Class	Outstanding at August 1, 2018
Common Shares, no par value	22,968,078

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)

	June 30, 2018	December 31, 2017
ASSETS		
Cash and Due from Banks	$ 60,244	$ 58,233
Federal Funds Sold and Other Short-term Investments	11,038	12,126
Cash and Cash Equivalents	71,282	70,359
Securities Available-for-Sale, at Fair Value	739,481	740,641
Other Investments	353	353
Loans Held-for-Sale, at Fair Value	9,552	6,719
Loans	2,321,845	2,145,019
Less: Unearned Income	(3,335)	(3,381)
Allowance for Loan Losses	(15,637)	(15,694)
Loans, Net	2,302,873	2,125,944
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,048	13,048
Premises, Furniture and Equipment, Net	66,641	54,246
Other Real Estate	40	54
Goodwill	60,913	54,058
Intangible Assets	5,065	2,102
Company Owned Life Insurance	46,655	46,385
Accrued Interest Receivable and Other Assets	28,641	30,451
TOTAL ASSETS	$ 3,344,544	$ 3,144,360
LIABILITIES		
Non-interest-bearing Demand Deposits	$ 629,724	$ 606,134
Interest-bearing Demand, Savings, and Money Market Accounts	1,611,583	1,490,033
Time Deposits	360,133	387,885
Total Deposits	2,601,440	2,484,052
FHLB Advances and Other Borrowings	354,803	275,216
Accrued Interest Payable and Other Liabilities	17,761	20,521
TOTAL LIABILITIES	2,974,004	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	165,917	165,288
Retained Earnings	194,994	178,969
Accumulated Other Comprehensive Loss	(13,339)	(2,620)
TOTAL SHAREHOLDERS’ EQUITY	370,540	364,571
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$ 3,344,544	$ 3,144,360
End of period shares issued and outstanding	22,967,898	22,934,403

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,	
	2018	2017
INTEREST INCOME		
Interest and Fees on Loans	$26,308	$22,602
Interest on Federal Funds Sold and Other Short-term Investments	54	27
Interest and Dividends on Securities:		
Taxable	2,962	2,702
Non-taxable	2,209	2,070
TOTAL INTEREST INCOME	31,533	27,401
INTEREST EXPENSE		
Interest on Deposits	2,848	1,626
Interest on FHLB Advances and Other Borrowings	1,216	962
TOTAL INTEREST EXPENSE	4,064	2,588
NET INTEREST INCOME	27,469	24,813
Provision for Loan Losses	1,220	350
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,249	24,463
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,677	1,350
Service Charges on Deposit Accounts	1,643	1,478
Insurance Revenues	1,696	1,744
Company Owned Life Insurance	260	480
Interchange Fee Income	1,714	1,156
Other Operating Income	913	630
Net Gains on Sales of Loans	905	959
Net Gains on Securities	74	—
TOTAL NON-INTEREST INCOME	8,882	7,797
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	12,019	11,460
Occupancy Expense	1,811	1,570
Furniture and Equipment Expense	716	654
FDIC Premiums	238	232
Data Processing Fees	1,398	1,044
Professional Fees	1,361	913
Advertising and Promotion	857	630
Intangible Amortization	306	242
Other Operating Expenses	3,002	2,251
TOTAL NON-INTEREST EXPENSE	21,708	18,996
Income before Income Taxes	13,423	13,264
Income Tax Expense	2,326	3,425
NET INCOME	$11,097	$9,839

Basic Earnings per Share	$0.48	$0.43
Diluted Earnings per Share	$0.48	$0.43
Dividends per Share	$0.15	$0.13

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,	
	2018	2017
INTEREST INCOME		
Interest and Fees on Loans	$50,258	$44,864
Interest on Federal Funds Sold and Other Short-term Investments	110	54
Interest and Dividends on Securities:		
Taxable	5,960	5,421
Non-taxable	4,350	4,095
TOTAL INTEREST INCOME	60,678	54,434
INTEREST EXPENSE		
Interest on Deposits	5,131	3,069
Interest on FHLB Advances and Other Borrowings	2,468	1,827
TOTAL INTEREST EXPENSE	7,599	4,896
NET INTEREST INCOME	53,079	49,538
Provision for Loan Losses	1,570	850
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	51,509	48,688
NON-INTEREST INCOME		
Trust and Investment Product Fees	3,450	2,593
Service Charges on Deposit Accounts	3,114	2,962
Insurance Revenues	4,626	4,384
Company Owned Life Insurance	572	734
Interchange Fee Income	3,196	2,179
Other Operating Income	1,517	1,487
Net Gains on Sales of Loans	1,555	1,646
Net Gains on Securities	344	—
TOTAL NON-INTEREST INCOME	18,374	15,985
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	24,145	22,904
Occupancy Expense	3,555	3,119
Furniture and Equipment Expense	1,381	1,287
FDIC Premiums	475	471
Data Processing Fees	2,525	2,055
Professional Fees	2,232	1,716
Advertising and Promotion	1,558	1,408
Intangible Amortization	512	495
Other Operating Expenses	5,780	4,577
TOTAL NON-INTEREST EXPENSE	42,163	38,032
Income before Income Taxes	27,720	26,641
Income Tax Expense	4,810	7,246
NET INCOME	$22,910	$19,395

Basic Earnings per Share	$1.00	$0.85
Diluted Earnings per Share	$1.00	$0.85
Dividends per Share	$0.30	$0.26

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30, 2018	2017
NET INCOME	$11,097	$9,839
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities:		
Unrealized Holding Gain (Loss)Arising During the Period	(1,840)	10,133
Reclassification Adjustment for Gains Included in Net Income	(74)	—
Tax Effect	413	(3,567)
Net of Tax	(1,501)	6,566
Total Other Comprehensive Income (Loss)	(1,501)	6,566
COMPREHENSIVE INCOME	$9,596	$16,405

	Six Months Ended June 30, 2018	2017
NET INCOME	$22,910	$19,395
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities:		
Unrealized Holding Gain (Loss) Arising During the Period	(13,292)	16,312
Reclassification Adjustment for Gains Included in Net Income	(344)	—
Tax Effect	2,917	(5,748)
Net of Tax	(10,719)	10,564
Total Other Comprehensive Income (Loss)	(10,719)	10,564
COMPREHENSIVE INCOME	$12,191	$29,959

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$22,910	$19,395
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	1,793	1,669
Depreciation and Amortization	2,601	2,317
Loans Originated for Sale	(65,071)	(57,304)
Proceeds from Sales of Loans Held-for-Sale	63,710	64,286
Provision for Loan Losses	1,570	850
Gain on Sale of Loans, net	(1,555)	(1,646)
Gain on Securities, net	(344)	—
Gain on Sales of Other Real Estate and Repossessed Assets	(13)	(7)
Loss (Gain) on Disposition and Donation of Premises and Equipment	(36)	2
Increase in Cash Surrender Value of Company Owned Life Insurance	(521)	(759)
Equity Based Compensation	562	637
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	2,924	(196)
Interest Payable and Other Liabilities	90	(751)
Net Cash from Operating Activities	28,620	28,493
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturity of Securities Available-for-Sale	37,481	40,792
Proceeds from Sales of Securities Available-for-Sale	17,515	—
Purchase of Securities Available-for-Sale	(68,923)	(56,941)
Purchase of Loans	—	(59)
Proceeds from Sales of Loans	6,000	—
Loans Made to Customers, net of Payments Received	(66,922)	(43,297)
Proceeds from Sales of Other Real Estate	54	190
Property and Equipment Expenditures	(8,862)	(3,302)
Proceeds from Sales of Property and Equipment	40	—
Acquire Bank Branches	41,392	—
Net Cash from Investing Activities	(42,225)	(62,617)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	(58,239)	13,909
Change in Short-term Borrowings	89,640	(18,851)
Advances in Long-term Debt	35,000	50,000
Repayments of Long-term Debt	(45,089)	(25,804)
Issuance (Retirement) of Common Stock	101	(29)
Dividends Paid	(6,885)	(5,880)
Net Cash from Financing Activities	14,528	13,345
Net Change in Cash and Cash Equivalents	923	(20,779)
Cash and Cash Equivalents at Beginning of Year	70,359	64,816
Cash and Cash Equivalents at End of Period	$71,282	$44,037

Cash Paid During the Period for		
Interest	$7,641	$4,913
Income Taxes	2,150	7,239
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	$27	$1,230

See accompanying notes to consolidated financial statements.

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

NOTE 2 - Revenue Recognition (continued)

The following table presents non-interest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and six months ended June 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 June 30,	
Non-interest Income	2018	2017
In-Scope of Topic 606:		
Trust and Investment Product Fees	$1,677	$1,350
Service Charges on Deposit Accounts	1,643	1,478
Insurance Revenues	1,696	1,744
Interchange Fee Income	1,714	1,156
Other Operating Income	442	387
Non-interest Income (in-scope of Topic 606)	7,172	6,115
Non-interest Income (out-of-scope of Topic 606)	1,710	1,682
Total Non-interest Income	$8,882	$7,797

	Six Months Ended June 30,	
Non-interest Income	2018	2017
In-Scope of Topic 606:		
Trust and Investment Product Fees	$3,450	$2,593
Service Charges on Deposit Accounts	3,114	2,962
Insurance Revenues	4,626	4,384
Interchange Fee Income	3,196	2,179
Other Operating Income	820	731
Non-interest Income (in-scope of Topic 606)	15,206	12,849
Non-interest Income (out-of-scope of Topic 606)	3,168	3,136
Total Non-interest Income	$18,374	$15,985

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 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 June 30,	
	2018	2017
Basic Earnings per Share:		
Net Income	$11,097	$ 9,839
Weighted Average Shares Outstanding	22,968,178	22,929,426
Basic Earnings per Share	$0.48	$ 0.43
Diluted Earnings per Share:		
Net Income	$11,097	$ 9,839
Weighted Average Shares Outstanding	22,968,178	22,929,426
Potentially Dilutive Shares, Net	—	—
Diluted Weighted Average Shares Outstanding	22,968,178	22,929,426
Diluted Earnings per Share	$0.48	$ 0.43

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

	Six Months Ended June 30,	
	2018	2017
Basic Earnings per Share:		
Net Income	$22,910	$ 19,395
Weighted Average Shares Outstanding	22,954,367	22,919,094
Basic Earnings per Share	$1.00	$ 0.85
Diluted Earnings per Share:		
Net Income	$22,910	$ 19,395
Weighted Average Shares Outstanding	22,954,367	22,919,094
Potentially Dilutive Shares, Net	—	—
Diluted Weighted Average Shares Outstanding	22,954,367	22,919,094
Diluted Earnings per Share	$1.00	$ 0.85

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

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 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 June 30, 2018 and December 31, 2017, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2018				
Obligations of State and Political Subdivisions	$ 277,135	$ 3,732	$ (2,030)	$ 278,837
MBS/CMO - Residential	478,983	57	(18,396)	460,644
Total	$ 756,118	$ 3,789	$ (20,426)	$ 739,481
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.

Equity securities that do not have readily determinable fair values are included as "Other Investments" on the Consolidated Balance Sheet, are carried at historical cost and are evaluated for impairment on a periodic basis. The Company's equity securities consist of one non-controlling investment in a single banking organization at June 30, 2018 and December 31, 2017. The original investment totaled $1,350 and other-than-temporary impairment was previously recorded totaling $997. When a decline in fair value below cost is deemed to be other-than-temporary, the unrealized loss must be recognized as a charge to earnings.

The amortized cost and fair value of securities at June 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	$ 2,588	$ 2,602
Due after one year through five years	21,074	21,560
Due after five years through ten years	75,427	76,655
Due after ten years	178,046	178,020
MBS/CMO - Residential	478,983	460,644
Total	$ 756,118	$ 739,481

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
Proceeds from Sales	$ 10,220	$ —
Gross Gains on Sales	74	—
Income Taxes on Gross Gains	16	—

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

NOTE 4 - Securities (continued)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Proceeds from Sales	$17,515	$ —
Gross Gains on Sales	344	—
Income Taxes on Gross Gains	73	—

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was $206,633 and $165,404 as of June 30, 2018 and December 31, 2017, respectively.

Below is a summary of securities with unrealized losses as of June 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	
June 30, 2018	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Obligations of State and Political Subdivisions	$71,937	$(1,096)	$23,735	$(934)	$95,672	$(2,030)
MBS/CMO - Residential	226,405	(6,454)	226,703	(11,942)	453,108	(18,396)
Total	$298,342	$(7,550)	$250,438	$(12,876)	$548,780	$(20,426)

	Less than 12 Months		12 Months or More		Total	
December 31, 2017	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
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 $86.7 million at June 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.

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NOTE 5 - Derivatives (continued)

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

	June 30, 2018		December 31, 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	$86,739	$ 2,845	$87,788	$ 1,564
Included in Other Liabilities:				
Interest Rate Swaps	$86,739	$ 2,797	$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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest Rate Swaps:				
Included in Other Operating Income	$ 26	$ —	$116	$348

NOTE 6 – Loans

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

	June 30, 2018	December 31, 2017
Commercial:		
Commercial and Industrial Loans and Leases	$518,299	$486,668
Commercial Real Estate Loans	986,486	926,729
Agricultural Loans	352,308	333,227
Retail:		
Home Equity Loans	169,456	152,187
Consumer Loans	71,859	67,475
Residential Mortgage Loans	223,437	178,733
Subtotal	2,321,845	2,145,019
Less: Unearned Income	(3,335)	(3,381)
Allowance for Loan Losses	(15,637)	(15,694)
Loans, Net	$2,302,873	$2,125,944

As further described in Note 14, during 2018 the Company acquired loans with a fair value of $117,619 as part of a branch acquisition. This was made up of loans with an acquired balance of $120,499, net of $2,880 of fair value discounts at date of acquisition. At June 30, 2018, the remaining carrying amount of such loans totaled $115,713, which is included in the table above. This amount is made up of loans with a remaining balance of $118,517 net of remaining fair value discounts of $2,804. No loans with deteriorated credit quality were acquired as part of the branch acquisition described in Note 14.

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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 June 30, 2018 and 2017:

June 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	$ 3,603	$ 4,622	$ 4,825	$ 272	$ 316	$ 327	$ 495	$ 14,460
Provision for Loan Losses	(44)	335	753	86	107	19	(36)	1,220
Recoveries	4	5	—	8	68	29	—	114
Loans Charged-off	—	(4)	—	—	(144)	(9)	—	(157)
Ending Balance	$ 3,563	$ 4,958	$ 5,578	$ 366	$ 347	$ 366	$ 459	$ 15,637

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

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

June 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	323	360	684	42	204	1	(44)	1,570
Recoveries	5	11	—	10	157	31	—	214
Loans Charged-off	(1,500)	(4)	—	(16)	(312)	(9)	—	(1,841)
Ending Balance	$ 3,563	$ 4,958	$ 5,578	$ 366	$ 347	$ 366	$ 459	$ 15,637

June 30, 2017	Commercial and Industrial	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total

	Loans and Leases							
Beginning Balance	$ 3,725	$ 5,452	$ 4,094	$ 283	$ 235	$ 329	$ 690	$ 14,808
Provision for Loan Losses	(53)	19	735	33	172	38	(94)	850
Recoveries	9	39	—	2	127	35	—	212
Loans Charged-off	(9)	(194)	—	(18)	(280)	(49)	—	(550)
Ending Balance	$ 3,672	$ 5,316	$ 4,829	$ 300	$ 254	$ 353	$ 596	$ 15,320

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 June 30, 2018 and December 31, 2017:

June 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	$ 1,372	$ 233	$ 1,139	$ —	$—	$ —	$—	$ —
Collectively Evaluated for Impairment	14,228	3,327	3,790	5,578	366	347	361	459
Acquired with Deteriorated Credit Quality	37	3	29	—	—	—	5	—
Total Ending Allowance Balance	$ 15,637	$ 3,563	$ 4,958	$ 5,578	$ 366	$ 347	$ 366	$ 459
Loans:								
Loans Individually Evaluated for Impairment	$ 9,897	$ 3,840	$ 6,057	$ —	$—	$ —	$—	n/m(2)
	2,313,658	515,126	977,762	355,566	170,141	72,045	223,018	n/m(2)

Loans Collectively Evaluated for Impairment								
Loans Acquired with Deteriorated Credit Quality	7,776	783	5,174	951	—	—	868	n/m[2]
Total Ending Loans Balance[1]	$ 2,331,331	$ 519,749	$ 988,993	$ 356,517	$ 170,141	$ 72,045	$ 223,886	n/m[2]

[1]Total recorded investment in loans includes $9,486 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 June 30, 2018 and December 31, 2017:

June 30, 2018	Unpaid Principal Balance[1]	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 1,135	$ 1,139	$ —
Commercial Real Estate Loans	1,203	1,177	—

Agricultural Loans	663	538	—
Subtotal	3,001	2,854	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,923	2,706	236
Commercial Real Estate Loans	5,265	5,079	1,168
Agricultural Loans	—	—	—
Subtotal	8,188	7,785	1,404
Total	$ 11,189	$ 10,639	$ 1,404
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 663	$ 538	$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 410	$ 204	$ 32

(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 principal 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 June 30, 2018 and 2017:

June 30, 2018	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 1,142	$ 13	$ —
Commercial Real Estate Loans	1,180	13	—
Agricultural Loans	546	—	—
Subtotal	2,868	26	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,690	1	—
Commercial Real Estate Loans	5,130	6	—
Agricultural Loans	—	—	—
Subtotal	7,820	7	—
Total	$ 10,688	$ 33	$ —
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 546	$ —	$ —

Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 207	$ 7	$ —

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NOTE 6 - Loans (continued)

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

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

June 30, 2018	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$ 1,163	$ 26	$ 1
Commercial Real Estate Loans	1,294	26	6
Agricultural Loans	623	—	—
Subtotal	3,080	52	7
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	3,487	2	—
Commercial Real Estate Loans	4,876	9	—
Agricultural Loans	—	—	—
Subtotal	8,363	11	—
Total	$ 11,443	$ 63	$ 7
Loans Acquired With Deteriorated Credit Quality With No Related Allowance Recorded (Included in the Total Above)	$ 548	$ —	$ —
Loans Acquired With Deteriorated Credit Quality With An Additional Allowance Recorded (Included in the Total Above)	$ 211	$ 11	$ —

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NOTE 6 - Loans (continued)

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

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 June 30, 2018 and December 31, 2017:

	Non-Accrual Loans		Loans Past Due 90 Days or More & Still Accruing	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Commercial and Industrial Loans and Leases	$2,701	$ 4,753	$ 455	$ —
Commercial Real Estate Loans	4,966	4,618	93	474
Agricultural Loans	538	748	—	268

Home Equity Loans	94	199	—	—
Consumer Loans	47	286	—	—
Residential Mortgage Loans	607	487	—	—
Total	$8,953	$ 11,091	$ 548	$ 742
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$600	$ 866	$ —	$ —

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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 June 30, 2018 and December 31, 2017:

June 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	$519,749	$ 4,438	$ 178	$ 1,073	$5,689	$514,060
Commercial Real Estate Loans	988,993	485	532	2,266	3,283	985,710
Agricultural Loans	356,517	616	1,313	—	1,929	354,588
Home Equity Loans	170,141	500	127	94	721	169,420
Consumer Loans	72,045	496	77	47	620	71,425
Residential Mortgage Loans	223,886	3,054	560	407	4,021	219,865
Total(1)	$2,331,331	$ 9,589	$ 2,787	$ 3,887	$16,263	$2,315,068
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$7,776	$ 60	$ 71	$ 26	$157	$7,619
Loans Acquired in Current Year (Included in the Total Above)	$115,960	$ 106	$ 17	$ —	$123	$115,837

(1)Total recorded investment in loans includes $9,486 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 six months ended June 30, 2018, there were no loans modified as a troubled debt restructuring. During the three months ended June 30, 2017, there was one loan modified as a troubled debt restructuring. During the six months ended June 30, 2017, there was 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 June 30, 2018 and December 31, 2017:

June 30, 2018	Total	Performing	Non-Accrual[1]
Commercial and Industrial Loans and Leases	$190	$ 123	$ 67
Commercial Real Estate Loans	—	—	—
Total	$190	$ 123	$ 67
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 June 30, 2018 and December 31, 2017 to customers with outstanding loans that are classified as troubled debt restructurings.

The following tables present loans by class modified as troubled debt restructurings that occurred during the three months ending June 30, 2018 and 2017:

June 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 three months ending June 30, 2018.

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

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

The following tables present loans by class modified as troubled debt restructurings that occurred during the six months ending June 30, 2018 and 2017:

June 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 six months ending June 30, 2018.

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NOTE 6 - Loans (continued)

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

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

Additionally, there were no loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the three and six months ending June 30, 2018 and 2017.

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

Credit Quality Indicators:

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

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

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

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

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

June 30, 2018	Pass	Special Mention	Substandard	Doubtful	Total

Commercial and Industrial Loans and Leases	$499,876	$4,247	$ 15,626	$ —	$519,749
Commercial Real Estate Loans	960,045	14,248	14,700	—	988,993
Agricultural Loans	323,339	20,427	12,751	—	356,517
Total	$1,783,260	$38,922	$ 43,077	$ —	$1,865,259
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$2,552	$1,597	$ 2,759	$ —	$6,908
Loans Acquired in Current Year (Included in the Total Above)	$52,771	$—	$ —	$ —	$52,771

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NOTE 6 - Loans (continued)

December 31, 2017	Pass	Special Mention	Substandard	Doubtful	Total
Commercial and Industrial Loans and Leases	$462,212	$7,901	$ 17,945	$ —	$488,058
Commercial Real Estate Loans	894,027	18,037	16,976	—	929,040
Agricultural Loans	304,032	27,288	6,481	—	337,801
Total	$1,660,271	$53,226	$ 41,402	$ —	$1,754,899
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$2,604	$1,647	$ 3,978	$ —	$8,229

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, 2018 and December 31, 2017:

June 30, 2018	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	$170,047	$71,998	$ 223,279
Nonperforming	94	47	607
Total	$170,141	$72,045	$ 223,886
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$—	$—	$ 868

December 31, 2017	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
Performing	$152,558	$67,361	$ 178,712
Nonperforming	199	286	487
Total	$152,757	$67,647	$ 179,199
Loans Acquired With Deteriorated Credit Quality (Included in the Total Above)	$—	$—	$ 888

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, 2018	December 31, 2017
Commercial and Industrial Loans	$783	$ 988
Commercial Real Estate Loans	5,174	6,452
Agricultural Loans	951	789
Residential Mortgage Loans	868	888

Total	$ 7,776	$ 9,117
Carrying Amount, Net of Allowance	$ 7,739	$ 9,106

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NOTE 6 - Loans (continued)

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

	2018	2017
Balance at April 1	$2,739	$2,790
New Loans Purchased	—	—
Accretion of Income	(140)	(240)
Reclassifications from Non-accretable Difference	65	155
Charge-off of Accretable Yield	(97)	—
Balance at June 30	$2,567	$2,705

For those purchased loans disclosed above, the Company did not increase the allowance for loan losses during the three months ended June 30, 2018 and 2017. The Company reversed allowance for loan losses of $3 and $56 during the three months ended June 30, 2018 and 2017.

	2018	2017
Balance at January 1	$2,734	$2,521
New Loans Purchased	—	—
Accretion of Income	(221)	(282)
Reclassifications from Non-accretable Difference	151	466
Charge-off of Accretable Yield	(97)	—
Balance at June 30	$2,567	$2,705

For those purchased loans disclosed above, the Company increased the allowance for loan losses by $30 and $11 during the six months ended June 30, 2018 and 2017. The Company reversed allowance for loan losses of $3 and $56 during the six months ended June 30, 2018 and 2017.

The carrying amount of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to local requirements of the applicable jurisdiction totaled $0 as of June 30, 2018 and $14 as of December 31, 2017.

NOTE 7 – Repurchase Agreements Accounted for as Secured Borrowings

Repurchase agreements are short-term borrowings included in FHLB Advances and Other Borrowings and mature overnight and continuously. Repurchase agreements, which were secured by mortgage-backed securities, totaled $35,039 and $41,499 as of June 30, 2018 and December 31, 2017, respectively. Risk could arise when the collateral pledged to a repurchase agreement declines in fair value. The Company minimizes risk by consistently monitoring the value of the collateral pledged. At the point in time where the collateral has declined in fair value, the Company is required to provide additional collateral based on the value of the underlying securities.

NOTE 8 – Segment Information

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

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NOTE 8 - Segment Information (continued)

The core banking segment is comprised by the Company’s banking subsidiary, German American Bank, which operated through 58 banking offices at June 30, 2018. Net interest income from loans and investments funded by deposits and borrowings is the primary revenue for the core-banking segment. The trust and investment advisory services segment’s revenues are comprised primarily of fees generated by the trust operations of the Company's banking subsidiary and by German American Investment Services, Inc. These fees are derived by providing trust, investment advisory, and brokerage services to its customers. The insurance segment primarily consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

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

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Three Months Ended June 30, 2018					
Net Interest Income	$ 27,672	$ (1)	$ 3	$ (205)	$ 27,469
Net Gains on Sales of Loans	905	—	—	—	905
Net Gains on Securities	74	—	—	—	74
Trust and Investment Product Fees	—	1,677	—	—	1,677
Insurance Revenues	5	2	1,689	—	1,696
Noncash Items:					
Provision for Loan Losses	1,220	—	—	—	1,220
Depreciation and Amortization	1,316	1	21	64	1,402
Income Tax Expense (Benefit)	2,487	96	13	(270)	2,326
Segment Profit (Loss)	11,478	269	30	(680)	11,097
Segment Assets at June 30, 2018	3,346,765	1,886	11,013	(15,120)	3,344,544

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

Trust and Investment Product Fees	1	1,350	—	(1)	1,350
Insurance Revenues	12	8	1,724	—	1,744
Noncash Items:					
Provision for Loan Losses	350	—	—	—	350
Depreciation and Amortization	1,103	4	19	64	1,190
Income Tax Expense (Benefit)	3,615	49	48	(287)	3,425
Segment Profit (Loss)	9,791	66	74	(92)	9,839
Segment Assets at December 31, 2017	3,142,096	1,987	10,078	(9,801)	3,144,360

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NOTE 8 - Segment Information (continued)

	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Six Months Ended					