

GERMAN AMERICAN BANCORP, INC.
Form 10-Q
May 10, 2016
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 March 31, 2016

Commission File Number 001-15877

German American Bancorp, Inc.
(Exact name of registrant as specified in its charter)
Indiana 35-1547518
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

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

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

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

YES NO

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

YES NO

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

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

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

Class	Outstanding at May 1, 2016
Common Shares, no par value	15,253,503

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, 2015, 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)

	March 31, 2016	December 31, 2015
ASSETS		
Cash and Due from Banks	\$34,734	\$36,062
Federal Funds Sold and Other Short-term Investments	14,312	15,947
Cash and Cash Equivalents	49,046	52,009
Interest-bearing Time Deposits with Banks	1,992	—
Securities Available-for-Sale, at Fair Value	715,611	637,840
Securities Held-to-Maturity, at Cost (Fair value of \$0 and \$95 on March 31, 2016 and December 31, 2015, respectively)	—	95
Loans Held-for-Sale, at Fair Value	8,700	10,762
Loans	1,918,638	1,568,075
Less: Unearned Income	(3,690)	(3,728)
Allowance for Loan Losses	(15,161)	(14,438)
Loans, Net	1,899,787	1,549,909
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,048	8,571
Premises, Furniture and Equipment, Net	47,617	37,817
Other Real Estate	343	169
Goodwill	53,671	20,536
Intangible Assets	3,688	1,283
Company Owned Life Insurance	45,809	32,732
Accrued Interest Receivable and Other Assets	27,415	21,978
TOTAL ASSETS	\$2,866,727	\$2,373,701
LIABILITIES		
Non-interest-bearing Demand Deposits	\$507,567	\$465,357
Interest-bearing Demand, Savings, and Money Market Accounts	1,310,089	1,054,983
Time Deposits	422,958	306,036
Total Deposits	2,240,614	1,826,376
FHLB Advances and Other Borrowings	278,698	273,323
Accrued Interest Payable and Other Liabilities	25,777	21,654
TOTAL LIABILITIES	2,545,089	2,121,353
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	15,254	13,279
Additional Paid-in Capital	170,676	110,145
Retained Earnings	127,867	125,112
Accumulated Other Comprehensive Income	7,841	3,812
TOTAL SHAREHOLDERS' EQUITY	321,638	252,348

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,866,727	\$2,373,701
End of period shares issued and outstanding	15,253,503	13,278,824

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 March 31,	
	2016	2015
INTEREST INCOME		
Interest and Fees on Loans	\$ 18,664	\$ 16,299
Interest on Federal Funds Sold and Other Short-term Investments	17	3
Interest and Dividends on Securities:		
Taxable	2,277	2,435
Non-taxable	1,722	1,263
TOTAL INTEREST INCOME	22,680	20,000
INTEREST EXPENSE		
Interest on Deposits	1,155	993
Interest on FHLB Advances and Other Borrowings	741	458
TOTAL INTEREST EXPENSE	1,896	1,451
NET INTEREST INCOME	20,784	18,549
Provision for Loan Losses	850	250
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	19,934	18,299
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,021	984
Service Charges on Deposit Accounts	1,233	1,137
Insurance Revenues	2,727	2,545
Company Owned Life Insurance	215	205
Interchange Fee Income	537	483
Other Operating Income	764	576
Net Gains on Sales of Loans	720	749
Net Gains on Securities	—	463
TOTAL NON-INTEREST INCOME	7,217	7,142
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	11,601	8,825
Occupancy Expense	1,379	1,226
Furniture and Equipment Expense	508	479
FDIC Premiums	328	282
Data Processing Fees	2,165	837
Professional Fees	1,318	644
Advertising and Promotion	544	443
Intangible Amortization	208	245
Other Operating Expenses	2,189	1,852
TOTAL NON-INTEREST EXPENSE	20,240	14,833
Income before Income Taxes	6,911	10,608
Income Tax Expense	1,765	3,302
NET INCOME	\$5,146	\$7,306

Basic Earnings per Share	\$0.37	\$0.55
Diluted Earnings per Share	\$0.37	\$0.55
Dividends per Share	\$0.18	\$0.17

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
NET INCOME	\$5,146	\$7,306
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	6,209	5,868
Reclassification Adjustment for Losses (Gains) Included in Net Income	—	(463)
Tax Effect	(2,180)	(1,908)
Net of Tax	4,029	3,497
Total Other Comprehensive Income (Loss)	4,029	3,497
COMPREHENSIVE INCOME	\$9,175	\$10,803

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$5,146	\$7,306
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	823	565
Depreciation and Amortization	1,048	1,121
Loans Originated for Sale	(21,731)	(32,640)
Proceeds from Sales of Loans Held-for-Sale	24,700	33,260
Provision for Loan Losses	850	250
Gain on Sale of Loans, net	(720)	(749)
Gain on Securities, net	—	(463)
Loss on Sales of Other Real Estate and Repossessed Assets	—	8
Loss on Disposition and Donation of Premises and Equipment	2	—
Increase in Cash Surrender Value of Company Owned Life Insurance	(235)	(211)
Equity Based Compensation	261	234
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	1,462	2,245
Interest Payable and Other Liabilities	(407)	(967)
Net Cash from Operating Activities	11,199	9,959
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturity of Other Short-term Investments	(1,000)	—
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	20,743	18,811
Proceeds from Sales of Securities Available-for-Sale	62,975	9,808
Purchase of Securities Available-for-Sale	(23,706)	(11,899)
Proceeds from Maturities of Securities Held-to-Maturity	95	89
Purchase of Federal Home Loan Bank Stock	(1,350)	(160)
Purchase of Loans	(4,263)	—
Loans Made to Customers, net of Payments Received	(29,023)	832
Proceeds from Sales of Other Real Estate	717	151
Property and Equipment Expenditures	(459)	(283)
Acquisition of River Valley Bancorp	(793)	—
Net Cash from Investing Activities	23,936	17,349
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	8,826	20,642
Change in Short-term Borrowings	(29,463)	(27,212)
Repayments of Long-term Debt	(15,070)	(64)
Issuance of Common Stock	—	(7)
Dividends Paid	(2,391)	(2,246)
Net Cash from Financing Activities	(38,098)	(8,887)
Net Change in Cash and Cash Equivalents	(2,963)	18,421
Cash and Cash Equivalents at Beginning of Year	52,009	42,446

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Cash and Cash Equivalents at End of Period	\$49,046	\$60,867
Cash Paid During the Year for		
Interest	\$1,736	\$1,552
Income Taxes	1,503	—
Supplemental Non Cash Disclosures (See Note 12 for Business Combination)		
Loans Transferred to Other Real Estate	\$9	\$127

See accompanying notes to consolidated financial statements.

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GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2016
 (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, 2015. 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 – Per Share Data

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

	Three Months Ended March 31, 2016 2015	
Basic Earnings per Share:		
Net Income	\$5,146	\$ 7,306
Weighted Average Shares Outstanding	13,924,856	221,455
Basic Earnings per Share	\$0.37	\$ 0.55
Diluted Earnings per Share:		
Net Income	\$5,146	\$ 7,306
Weighted Average Shares Outstanding	13,924,856	221,455
Potentially Dilutive Shares, Net	4,077	16,038
Diluted Weighted Average Shares Outstanding	13,928,933	237,493
Diluted Earnings per Share	\$0.37	\$ 0.55

For the three months ended March 31, 2016 and 2015, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

(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 March 31, 2016 and December 31, 2015, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2016				
U.S. Treasury and Agency Securities	\$ 11,001	\$ 8	\$ —	\$ 11,009
Obligations of State and Political Subdivisions	227,294	9,295	(306)	236,283
Mortgage-backed Securities - Residential	464,714	4,606	(1,354)	467,966
Equity Securities	353	—	—	353
Total	\$ 703,362	\$ 13,909	\$ (1,660)	\$ 715,611

December 31, 2015

U.S. Treasury and Agency Securities	\$ 10,000	\$ —	\$ (102)	\$ 9,898
Obligations of State and Political Subdivisions	195,360	8,286	(18)	203,628
Mortgage-backed Securities - Residential	426,087	2,114	(4,240)	423,961
Equity Securities	353	—	—	353
Total	\$ 631,800	\$ 10,400	\$ (4,360)	\$ 637,840

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 March 31, 2016 and December 31, 2015, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
March 31, 2016				
Obligations of State and Political Subdivisions	\$ —	\$ —	—\$	—\$ —
December 31, 2015				
Obligations of State and Political Subdivisions	\$ 95	\$ —	—\$	—\$ 95

The amortized cost and fair value of securities at March 31, 2016 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay certain obligations with or without call or prepayment penalties. Mortgage-backed and Equity Securities are not due at a single maturity date and are shown separately in the table below.

Securities Available-for-Sale:	Amortized Cost	Fair Value
--------------------------------	----------------	------------

Due in one year or less	\$ 5,790	\$5,840
Due after one year through five years	22,502	23,022
Due after five years through ten years	72,541	76,500
Due after ten years	137,462	141,930
Mortgage-backed Securities - Residential	464,714	467,966
Equity Securities	353	353
Total	\$ 703,362	\$ 715,611

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2016
(unaudited, dollars in thousands except share and per share data)

NOTE 3 - Securities (continued)

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Proceeds from Sales	\$ 62,975	\$ 9,808
Gross Gains on Sales	—	463
Income Taxes on Gross Gains	—	162

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$186,726 and \$154,628 as of March 31, 2016 and December 31, 2015, respectively.

Below is a summary of securities with unrealized losses as of March 31, 2016 and December 31, 2015, 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
March 31, 2016						
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	33,380	(299)	417	(7)	33,797	(306)
Mortgage-backed Securities - Residential	57,048	(182)	80,937	(1,172)	137,985	(1,354)
Equity Securities	—	—	—	—	—	—
Total	\$ 90,428	\$ (481)	\$ 81,354	\$ (1,179)	\$ 171,782	\$ (1,660)
December 31, 2015						
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ 9,898	\$ (102)	\$ 9,898	\$ (102)
Obligations of State and Political Subdivisions	1,891	(15)	356	(3)	2,247	(18)
Mortgage-backed Securities - Residential	150,427	(1,173)	129,040	(3,067)	279,467	(4,240)
Equity Securities	—	—	—	—	—	—
Total	\$ 152,318	\$ (1,188)	\$ 139,294	\$ (3,172)	\$ 291,612	\$ (4,360)

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 in the Company's portfolio are guaranteed by

government sponsored entities, are investment grade, and are performing as expected.

NOTE 4 – Derivatives

The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. The notional amounts of these interest rate swaps and the offsetting counterparty derivative instruments were \$44.0 million at March 31, 2016 and \$36.8 million at December 31, 2015. 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.

GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2016
 (unaudited, dollars in thousands except share and per share data)

NOTE 4 - Derivatives (continued)

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:

	March 31, 2016		December 31, 2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$44,048	\$ 2,739	\$36,781	\$ 1,201
Included in Other Liabilities:				
Interest Rate Swaps	\$44,048	\$ 2,905	\$36,781	\$ 1,232

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

	Three Months Ended March 31, 2016		2015	
	Interest Rate Swaps:			
Included in Other Income / (Expense)	\$54	\$ 58		

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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

NOTE 5 – Loans

Loans were comprised of the following classifications at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015
Commercial:		
Commercial and Industrial Loans and Leases	\$448,569	\$418,154
Commercial Real Estate Loans	812,565	618,788
Agricultural Loans	275,938	246,886
Retail:		
Home Equity Loans	119,006	97,902
Consumer Loans	54,999	50,029
Residential Mortgage Loans	207,561	136,316
Subtotal	1,918,638	1,568,075
Less: Unearned Income	(3,690)	(3,728)
Allowance for Loan Losses	(15,161)	(14,438)
Loans, Net	\$1,899,787	\$1,549,909

The table above includes loans acquired during 2016 totaling \$316,564 which is net of purchase discount on the acquired loans of \$10,572.

The following table presents the activity in the allowance for loan losses by portfolio class for the three months ended March 31, 2016 and 2015:

March 31, 2016	Commercial							Unallocated	Total
	and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans			
Beginning Balance	\$ 4,242	\$ 6,342	\$ 2,115	\$ 383	\$ 230	\$ 414	\$ 712	\$ 14,438	
Provision for Loan Losses	105	120	414	31	27	155	(2)	850	
Recoveries	4	1	—	1	45	5	—	56	
Loans Charged-off	(5)	—	—	(63)	(72)	(43)	—	(183)	
Ending Balance	\$ 4,346	\$ 6,463	\$ 2,529	\$ 352	\$ 230	\$ 531	\$ 710	\$ 15,161	

March 31, 2015	Commercial							Unallocated	Total
	and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans			
Beginning Balance	\$ 4,627	\$ 7,273	\$ 1,123	\$ 246	\$ 354	\$ 622	\$ 684	\$ 14,929	
Provision for Loan Losses	101	(52)	19	72	35	88	(13)	250	
Recoveries	41	8	—	—	100	2	—	151	

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Loans Charged-off	(22)	—	—	—	(100)	(39)	—	(161)
Ending Balance	\$ 4,747	\$ 7,229	\$ 1,142	\$ 318	\$ 389	\$ 673	\$ 671	\$15,169

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 historical averages for loan losses for these portfolios, judgmentally adjusted for current economic factors and portfolio trends. When comparing to March 31, 2015, the overall allowance for loan and lease losses was increased in the agricultural sector as a result of qualitative considerations for current economic conditions and trends.

GERMAN AMERICAN BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2016

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

NOTE 5 - 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. 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.