

GERMAN AMERICAN BANCORP, INC.
Form 10-Q
November 09, 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 September 30, 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 November 1, 2016
Common Shares, no par value	15,257,849

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)

	September 30, 2016	December 31, 2015
ASSETS		
Cash and Due from Banks	\$ 38,329	\$ 36,062
Federal Funds Sold and Other Short-term Investments	16,455	15,947
Cash and Cash Equivalents	54,784	52,009
Interest-bearing Time Deposits with Banks	744	—
Securities Available-for-Sale, at Fair Value	732,911	637,840
Securities Held-to-Maturity, at Cost (Fair value of \$0 and \$95 on September 30, 2016 and December 31, 2015, respectively)	—	95
Loans Held-for-Sale, at Fair Value	12,967	10,762
Loans	2,006,090	1,568,075
Less: Unearned Income	(3,710)	(3,728)
Allowance for Loan Losses	(15,154)	(14,438)
Loans, Net	1,987,226	1,549,909
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,048	8,571
Premises, Furniture and Equipment, Net	48,074	37,817
Other Real Estate	355	169
Goodwill	53,671	20,536
Intangible Assets	3,096	1,283
Company Owned Life Insurance	46,343	32,732
Accrued Interest Receivable and Other Assets	26,321	21,978
TOTAL ASSETS	\$ 2,979,540	\$ 2,373,701
LIABILITIES		
Non-interest-bearing Demand Deposits	\$ 534,620	\$ 465,357
Interest-bearing Demand, Savings, and Money Market Accounts	1,361,522	1,054,983
Time Deposits	433,521	306,036
Total Deposits	2,329,663	1,826,376
FHLB Advances and Other Borrowings	279,110	273,323
Accrued Interest Payable and Other Liabilities	29,776	21,654
TOTAL LIABILITIES	2,638,549	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	15,258	13,279
Additional Paid-in Capital	171,261	110,145
Retained Earnings	142,347	125,112
Accumulated Other Comprehensive Income	12,125	3,812
TOTAL SHAREHOLDERS' EQUITY	340,991	252,348

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,979,540	\$ 2,373,701
End of period shares issued and outstanding	15,257,849	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 September 30,	
	2016	2015
INTEREST INCOME		
Interest and Fees on Loans	\$22,311	\$16,702
Interest on Federal Funds Sold and Other Short-term Investments	25	3
Interest and Dividends on Securities:		
Taxable	2,491	2,176
Non-taxable	1,907	1,538
TOTAL INTEREST INCOME	26,734	20,419
INTEREST EXPENSE		
Interest on Deposits	1,323	987
Interest on FHLB Advances and Other Borrowings	851	573
TOTAL INTEREST EXPENSE	2,174	1,560
NET INTEREST INCOME	24,560	18,859
Provision for Loan Losses	—	(500)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	24,560	19,359
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,191	1,051
Service Charges on Deposit Accounts	1,612	1,237
Insurance Revenues	1,661	1,752
Company Owned Life Insurance	247	205
Interchange Fee Income	688	547
Other Operating Income	1,523	2,134
Net Gains on Sales of Loans	1,004	831
Net Gains on Securities	458	—
TOTAL NON-INTEREST INCOME	8,384	7,757
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	10,572	8,998
Occupancy Expense	1,656	1,305
Furniture and Equipment Expense	568	456
FDIC Premiums	373	284
Data Processing Fees	1,261	901
Professional Fees	777	787
Advertising and Promotion	687	2,198
Intangible Amortization	280	183
Other Operating Expenses	2,479	1,854
TOTAL NON-INTEREST EXPENSE	18,653	16,966
Income before Income Taxes	14,291	10,150
Income Tax Expense	4,106	2,429
NET INCOME	\$10,185	\$7,721

Basic Earnings per Share	\$0.67	\$0.58
Diluted Earnings per Share	\$0.67	\$0.58
Dividends per Share	\$0.18	\$0.17

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
INTEREST INCOME		
Interest and Fees on Loans	\$63,645	\$49,538
Interest on Federal Funds Sold and Other Short-term Investments	62	10
Interest and Dividends on Securities:		
Taxable	7,055	6,830
Non-taxable	5,502	4,219
TOTAL INTEREST INCOME	76,264	60,597
INTEREST EXPENSE		
Interest on Deposits	3,804	3,002
Interest on FHLB Advances and Other Borrowings	2,445	1,481
TOTAL INTEREST EXPENSE	6,249	4,483
NET INTEREST INCOME	70,015	56,114
Provision for Loan Losses	1,200	—
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	68,815	56,114
NON-INTEREST INCOME		
Trust and Investment Product Fees	3,435	2,974
Service Charges on Deposit Accounts	4,379	3,594
Insurance Revenues	5,993	5,812
Company Owned Life Insurance	709	617
Interchange Fee Income	1,824	1,593
Other Operating Income	3,283	3,341
Net Gains on Sales of Loans	2,607	2,364
Net Gains on Securities	1,426	725
TOTAL NON-INTEREST INCOME	23,656	21,020
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	32,357	26,082
Occupancy Expense	4,649	3,732
Furniture and Equipment Expense	1,680	1,417
FDIC Premiums	1,040	850
Data Processing Fees	4,607	2,608
Professional Fees	2,875	2,073
Advertising and Promotion	1,860	3,125
Intangible Amortization	800	630
Other Operating Expenses	7,364	5,597
TOTAL NON-INTEREST EXPENSE	57,232	46,114
Income before Income Taxes	35,239	31,020
Income Tax Expense	10,120	8,668
NET INCOME	\$25,119	\$22,352

Basic Earnings per Share	\$1.70	\$1.69
Diluted Earnings per Share	\$1.70	\$1.69
Dividends per Share	\$0.54	\$0.51

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30, 2016 2015	
NET INCOME	\$10,185	\$7,721
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	1,898	6,420
Reclassification Adjustment for Losses (Gains) Included in Net Income	(458) —
Tax Effect	(510) (2,259)
Net of Tax	930	4,161
Total Other Comprehensive Income (Loss)	930	4,161
COMPREHENSIVE INCOME	\$11,115	\$11,882

	Nine Months Ended September 30, 2016 2015	
NET INCOME	\$25,119	\$22,352
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	14,241	3,333
Reclassification Adjustment for Losses (Gains) Included in Net Income	(1,426) (725)
Tax Effect	(4,502) (914)
Net of Tax	8,313	1,694
Total Other Comprehensive Income (Loss)	8,313	1,694
COMPREHENSIVE INCOME	\$33,432	\$24,046

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$25,119	\$22,352
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	2,794	1,869
Depreciation and Amortization	3,366	3,254
Loans Originated for Sale	(95,244)	(111,296)
Proceeds from Sales of Loans Held-for-Sale	95,765	113,472
Provision for Loan Losses	1,200	—
Gain on Sale of Loans, net	(2,607)	(2,364)
Gain on Securities, net	(1,426)	(725)
Loss (Gain) on Sales of Other Real Estate and Repossessed Assets	(95)	53
Loss on Disposition and Donation of Premises and Equipment	5	389
Increase in Cash Surrender Value of Company Owned Life Insurance	(769)	(454)
Equity Based Compensation	796	737
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	4,805	2,278
Interest Payable and Other Liabilities	(911)	(412)
Net Cash from Operating Activities	32,798	29,153
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Other Short-term Investments	(1,000)	—
Proceeds from Maturity of Other Short-term Investments	1,248	—
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	74,179	71,026
Proceeds from Sales of Securities Available-for-Sale	141,451	18,999
Purchase of Securities Available-for-Sale	(166,857)	(82,711)
Proceeds from Maturities of Securities Held-to-Maturity	95	89
Purchase of Federal Home Loan Bank Stock	(1,350)	(1,127)
Purchase of Loans	(5,608)	(1,852)
Proceeds from Sales of Loans	1,063	—
Loans Made to Customers, net of Payments Received	(116,801)	(64,708)
Proceeds from Sales of Other Real Estate	1,071	983
Property and Equipment Expenditures	(2,855)	(886)
Acquisition of River Valley Bancorp	(793)	—
Net Cash from Investing Activities	(76,157)	(60,187)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	98,036	24,085
Change in Short-term Borrowings	(19,189)	(1,993)
Advances in Long-term Debt	—	75,000
Repayments of Long-term Debt	(24,883)	(40,111)
Issuance of Common Stock	54	52
Employee Stock Purchase Plan	—	447
Dividends Paid	(7,884)	(6,754)

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Net Cash from Financing Activities	46,134	50,726
Net Change in Cash and Cash Equivalents	2,775	19,692
Cash and Cash Equivalents at Beginning of Year	52,009	42,446
Cash and Cash Equivalents at End of Period	\$54,784	\$62,138
Cash Paid During the Year for		
Interest	\$6,201	\$4,610
Income Taxes	7,064	6,219
Supplemental Non Cash Disclosures (See Note 12 for Business Combination)		
Loans Transferred to Other Real Estate	\$55	\$804
See accompanying notes to consolidated financial statements.		

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GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 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 September 30, 2016 2015	
Basic Earnings per Share:		
Net Income	\$ 10,185	\$ 7,721
Weighted Average Shares Outstanding	15,257,811	13,265,893
Basic Earnings per Share	\$0.67	\$ 0.58
Diluted Earnings per Share:		
Net Income	\$ 10,185	\$ 7,721
Weighted Average Shares Outstanding	15,257,811	13,265,893
Potentially Dilutive Shares, Net	—	7,617
Diluted Weighted Average Shares Outstanding	15,257,811	13,273,510
Diluted Earnings per Share	\$0.67	\$ 0.58

For the three months ended September 30, 2016 and 2015, there were no anti-dilutive shares.

	Nine Months Ended September 30, 2016 2015	
Basic Earnings per Share:		
Net Income	\$ 25,119	\$ 22,352
Weighted Average Shares Outstanding	14,814,521	13,247,954
Basic Earnings per Share	\$ 1.70	\$ 1.69

Diluted Earnings per Share:

Net Income	\$25,119	\$ 22,352
Weighted Average Shares Outstanding	14,814,521	13,247,954
Potentially Dilutive Shares, Net	1,759	7,556
Diluted Weighted Average Shares Outstanding	14,816,279	13,255,510
Diluted Earnings per Share	\$1.70	\$ 1.69

For the nine months ended September 30, 2016 and 2015, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 September 30, 2016 and December 31, 2015, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2016				
U.S. Treasury and Agency Securities	\$—	\$—	\$—	\$—
Obligations of State and Political Subdivisions	234,656	12,630	(76)	247,210
Mortgage-backed Securities - Residential	479,047	6,802	(501)	485,348
Equity Securities	353	—	—	353
Total	\$714,056	\$19,432	\$(577)	\$732,911
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 September 30, 2016 and December 31, 2015, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 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 September 30, 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
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Due in one year or less	\$ 4,663	\$ 4,700
Due after one year through five years	16,432	17,282
Due after five years through ten years	71,210	75,651
Due after ten years	142,351	149,577
Mortgage-backed Securities - Residential	479,047	485,348
Equity Securities	353	353
Total	\$ 714,056	\$ 732,911

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 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 September 30, 2016	Three Months Ended September 30, 2015
Proceeds from Sales	\$ 36,112	\$ —
Gross Gains on Sales	458	—
Income Taxes on Gross Gains	160	—
	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Proceeds from Sales	\$ 141,451	\$ 18,999
Gross Gains on Sales	1,426	725
Income Taxes on Gross Gains	499	254

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$202,808 and \$154,628 as of September 30, 2016 and December 31, 2015, respectively.

Below is a summary of securities with unrealized losses as of September 30, 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
September 30, 2016						
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	6,627	(76)	—	—	6,627	(76)
Mortgage-backed Securities - Residential	9,634	(6)	51,066	(495)	60,700	(501)
Equity Securities	—	—	—	—	—	—
Total	\$ 16,261	\$ (82)	\$ 51,066	\$ (495)	\$ 67,327	\$ (577)
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
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.

GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2016
 (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 \$68.3 million at September 30, 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 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:

	September 30, 2016		December 31, 2015	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$68,334	\$ 4,208	\$36,781	\$ 1,201
Included in Other Liabilities:				
Interest Rate Swaps	\$68,334	\$ 4,535	\$36,781	\$ 1,232

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

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Interest Rate Swaps:				
Included in Other Operating Income	\$670	\$179	\$828	\$344

GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2016
 (unaudited, dollars in thousands except share and per share data)

NOTE 5 – Loans

Loans were comprised of the following classifications at September 30, 2016 and December 31, 2015:

	September 30, 2016	December 31, 2015
Commercial:		
Commercial and Industrial Loans and Leases	\$ 469,255	\$ 418,154
Commercial Real Estate Loans	862,998	618,788
Agricultural Loans	299,080	246,886
Retail:		
Home Equity Loans	128,321	97,902
Consumer Loans	58,533	50,029
Residential Mortgage Loans	187,903	136,316
Subtotal	2,006,090	1,568,075
Less: Unearned Income	(3,710)	(3,728)
Allowance for Loan Losses	(15,154)	(14,438)
Loans, Net	\$ 1,987,226	\$ 1,549,909

As further described in Note 12, during 2016 the Company acquired loans with a fair value of \$317,760 as a part of a business combination. This was made up of loans with an acquired balance of \$328,431, net of \$10,671 of fair value discounts at date of acquisition. At September 30, 2016, the remaining carrying amount of such loans total \$280,027, which is included in the September 30, 2016 table above. This amount is made up of loans with a remaining balance of \$288,559 net of remaining fair value discounts of \$8,532.

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ended September 30, 2016 and 2015:

September 30, 2016	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 4,190	\$ 6,533	\$ 2,704	\$ 350	\$ 242	\$ 559	\$ 726	\$15,304
Provision for Loan Losses	(378)	(1,111)	1,408	20	119	(7)	(51)	—
Recoveries	1	2	—	1	59	2	—	65
Loans Charged-off	—	—	(10)	(15)	(173)	(17)	—	(215)
Ending Balance	\$ 3,813	\$ 5,424	\$ 4,102	\$ 356	\$ 247	\$ 537	\$ 675	\$15,154

September 30, 2015	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$ 4,659	\$ 7,315	\$ 1,223	\$ 350	\$ 382	\$ 619	\$ 710	\$15,258

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Provision for Loan Losses	(337)	(568)	754	(41)	(105)	(172)	(31)	(500)
Recoveries	16		30		—	2		39		3		—		90	
Loans Charged-off	(5)	—		—	(2)	(71)	—		—		(78)
Ending Balance															