

GERMAN AMERICAN BANCORP, INC.
Form 10-Q
November 09, 2015
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, 2015

Commission File Number 001-15877

German American Bancorp, Inc.
(Exact name of registrant as specified in its charter)
Indiana
(State or other jurisdiction of
incorporation or organization)

35-1547518
(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 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, 2015
Common Shares, no par value	13,275,678

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, 2014, 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, 2015	December 31, 2014
ASSETS		
Cash and Due from Banks	\$39,998	\$33,481
Federal Funds Sold and Other Short-term Investments	22,140	8,965
Cash and Cash Equivalents	62,138	42,446
Interest-bearing Time Deposits with Banks	100	100
Securities Available-for-Sale, at Fair Value	625,144	630,995
Securities Held-to-Maturity, at Cost (Fair value of \$95 and \$186 on September 30, 2015 and December 31, 2014, respectively)	95	184
Loans Held-for-Sale, at Fair Value	6,410	6,311
Loans	1,517,285	1,451,990
Less: Unearned Income	(3,705)	(4,008)
Allowance for Loan Losses	(14,770)	(14,929)
Loans, Net	1,498,810	1,433,053
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	8,167	7,040
Premises, Furniture and Equipment, Net	37,905	39,930
Other Real Estate	123	356
Goodwill	20,536	20,536
Intangible Assets	1,443	2,074
Company Owned Life Insurance	32,497	32,043
Accrued Interest Receivable and Other Assets	19,842	22,031
TOTAL ASSETS	\$2,313,210	\$2,237,099
LIABILITIES		
Non-interest-bearing Demand Deposits	\$418,947	\$428,016
Interest-bearing Demand, Savings, and Money Market Accounts	1,039,520	1,018,320
Time Deposits	345,368	333,425
Total Deposits	1,803,835	1,779,761
FHLB Advances and Other Borrowings	239,072	206,064
Accrued Interest Payable and Other Liabilities	22,951	22,450
TOTAL LIABILITIES	2,065,858	2,008,275
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	13,273	13,216
Additional Paid-in Capital	109,839	108,660
Retained Earnings	119,656	104,058
Accumulated Other Comprehensive Income	4,584	2,890
TOTAL SHAREHOLDERS' EQUITY	247,352	228,824

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,313,210	\$2,237,099
End of period shares issued and outstanding	13,273,349	13,215,800

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,	
	2015	2014
INTEREST INCOME		
Interest and Fees on Loans	\$16,702	\$16,680
Interest on Federal Funds Sold and Other Short-term Investments	3	2
Interest and Dividends on Securities:		
Taxable	2,176	2,531
Non-taxable	1,538	1,135
TOTAL INTEREST INCOME	20,419	20,348
INTEREST EXPENSE		
Interest on Deposits	987	1,025
Interest on FHLB Advances and Other Borrowings	573	532
TOTAL INTEREST EXPENSE	1,560	1,557
NET INTEREST INCOME	18,859	18,791
Provision for Loan Losses	(500) —
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	19,359	18,791
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,051	901
Service Charges on Deposit Accounts	1,237	1,300
Insurance Revenues	1,752	1,739
Company Owned Life Insurance	205	210
Interchange Fee Income	547	508
Other Operating Income	2,134	599
Net Gains on Sales of Loans	831	613
Net Gains on Securities	—	567
TOTAL NON-INTEREST INCOME	7,757	6,437
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	8,998	7,975
Occupancy Expense	1,305	1,262
Furniture and Equipment Expense	456	463
FDIC Premiums	284	277
Data Processing Fees	901	935
Professional Fees	787	516
Advertising and Promotion	2,198	613
Intangible Amortization	183	302
Other Operating Expenses	1,854	1,739
TOTAL NON-INTEREST EXPENSE	16,966	14,082
Income before Income Taxes	10,150	11,146
Income Tax Expense	2,429	3,438
NET INCOME	\$7,721	\$7,708

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Basic Earnings per Share	\$0.58	\$0.58
Diluted Earnings per Share	\$0.58	\$0.58
Dividends per Share	\$0.17	\$0.16

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2015	2014
INTEREST INCOME		
Interest and Fees on Loans	\$49,538	\$48,766
Interest on Federal Funds Sold and Other Short-term Investments	10	8
Interest and Dividends on Securities:		
Taxable	6,830	7,944
Non-taxable	4,219	3,136
TOTAL INTEREST INCOME	60,597	59,854
INTEREST EXPENSE		
Interest on Deposits	3,002	3,098
Interest on FHLB Advances and Other Borrowings	1,481	1,448
TOTAL INTEREST EXPENSE	4,483	4,546
NET INTEREST INCOME	56,114	55,308
Provision for Loan Losses	—	550
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	56,114	54,758
NON-INTEREST INCOME		
Trust and Investment Product Fees	2,974	2,728
Service Charges on Deposit Accounts	3,594	3,552
Insurance Revenues	5,812	5,777
Company Owned Life Insurance	617	603
Interchange Fee Income	1,593	1,467
Other Operating Income	3,341	1,579
Net Gains on Sales of Loans	2,364	1,475
Net Gains on Securities	725	1,039
TOTAL NON-INTEREST INCOME	21,020	18,220
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	26,082	24,285
Occupancy Expense	3,732	3,776
Furniture and Equipment Expense	1,417	1,472
FDIC Premiums	850	828
Data Processing Fees	2,608	2,892
Professional Fees	2,073	1,761
Advertising and Promotion	3,125	1,635
Intangible Amortization	630	975
Other Operating Expenses	5,597	5,687
TOTAL NON-INTEREST EXPENSE	46,114	43,311
Income before Income Taxes	31,020	29,667
Income Tax Expense	8,668	8,967
NET INCOME	\$22,352	\$20,700

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Basic Earnings per Share	\$1.69	\$1.57
Diluted Earnings per Share	\$1.69	\$1.57
Dividends per Share	\$0.51	\$0.48

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,	
	2015	2014
NET INCOME	\$7,721	\$7,708
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	6,420	871
Reclassification Adjustment for Losses (Gains) Included in Net Income	—	(567)
Tax Effect	(2,259)	(96)
Net of Tax	4,161	208
Total Other Comprehensive Income (Loss)	4,161	208
COMPREHENSIVE INCOME	\$11,882	\$7,916

	Nine Months Ended September 30,	
	2015	2014
NET INCOME	\$22,352	\$20,700
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities		
Unrealized Holding Gain (Loss) Arising During the Period	3,333	9,251
Reclassification Adjustment for Losses (Gains) Included in Net Income	(725)	(1,039)
Tax Effect	(914)	(2,903)
Net of Tax	1,694	5,309
Total Other Comprehensive Income (Loss)	1,694	5,309
COMPREHENSIVE INCOME	\$24,046	\$26,009

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,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$22,352	\$20,700
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	1,869	1,510
Depreciation and Amortization	3,254	3,611
Loans Originated for Sale	(111,296)	(70,603)
Proceeds from Sales of Loans Held-for-Sale	113,472	73,696
Provision for Loan Losses	—	550
Gain on Sale of Loans, net	(2,364)	(1,475)
Gain on Securities, net	(725)	(1,039)
Loss (Gain) on Sales of Other Real Estate and Repossessed Assets	53	(46)
Loss (Gain) on Disposition and Donation of Premises and Equipment	389	28
Increase in Cash Surrender Value of Company Owned Life Insurance	(454)	(631)
Equity Based Compensation	737	482
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	2,278	(4,708)
Interest Payable and Other Liabilities	(412)	2,214
Net Cash from Operating Activities	29,153	24,289
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	71,026	62,892
Proceeds from Sales of Securities Available-for-Sale	18,999	52,711
Purchase of Securities Available-for-Sale	(82,711)	(74,247)
Proceeds from Maturities of Securities Held-to-Maturity	89	84
Purchase of Federal Home Loan Bank Stock	(1,127)	(92)
Purchase of Loans	(1,852)	(1,750)
Loans Made to Customers, net of Payments Received	(64,708)	(49,436)
Proceeds from Sales of Other Real Estate	983	1,831
Property and Equipment Expenditures	(886)	(2,492)
Proceeds from Sales of Property and Equipment	—	23
Net Cash from Investing Activities	(60,187)	(10,476)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	24,085	(47,658)
Change in Short-term Borrowings	(1,993)	66,977
Advances in Long-term Debt	75,000	20,321
Repayments of Long-term Debt	(40,111)	(20,095)
Issuance of Common Stock	52	50
Employee Stock Purchase Plan	447	(37)
Dividends Paid	(6,754)	(6,336)
Net Cash from Financing Activities	50,726	13,222
Net Change in Cash and Cash Equivalents	19,692	27,035
Cash and Cash Equivalents at Beginning of Year	42,446	60,132

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Cash and Cash Equivalents at End of Period	\$62,138	\$87,167
Cash Paid During the Year for		
Interest	\$4,610	\$4,650
Income Taxes	6,219	7,192
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	\$864	\$1,277
Securities Sold Pending Settlement	—	(3,323)
See accompanying notes to consolidated financial statements.		

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GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2015
 (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, 2014. 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 shareholder's 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,	
	2015	2014
Basic Earnings per Share:		
Net Income	\$7,721	\$7,708
Weighted Average Shares Outstanding	13,265,893	13,210,395
Basic Earnings per Share	\$0.58	\$0.58
Diluted Earnings per Share:		
Net Income	\$7,721	\$7,708
Weighted Average Shares Outstanding	13,265,893	13,210,395
Potentially Dilutive Shares, Net	7,617	20,280
Diluted Weighted Average Shares Outstanding	13,273,510	13,230,675
Diluted Earnings per Share	\$0.58	\$0.58

For the three months ended September 30, 2015 and 2014, there were no anti-dilutive shares.

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

	Nine Months Ended September 30,	
	2015	2014
Basic Earnings per Share:		
Net Income	\$22,352	\$20,700
Weighted Average Shares Outstanding	13,247,954	13,200,025
Basic Earnings per Share	\$1.69	\$1.57

Diluted Earnings per Share:		
Net Income	\$22,352	\$20,700
Weighted Average Shares Outstanding	13,247,954	13,200,025
Potentially Dilutive Shares, Net	7,556	20,975
Diluted Weighted Average Shares Outstanding	13,255,510	13,221,000
Diluted Earnings per Share	\$1.69	\$1.57

For the nine months ended September 30, 2015 and 2014, there were no anti-dilutive shares.

GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2015
 (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, 2015 and December 31, 2014, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
U.S. Treasury and Agency Securities	\$10,000	\$—	\$(30)	) \$9,970
Obligations of State and Political Subdivisions	187,819	5,885	(362)	) 193,342
Mortgage-backed Securities - Residential	419,753	4,091	(2,365)	) 421,479
Equity Securities	353	—	—	353
Total	\$617,925	\$9,976	\$(2,757)	) \$625,144
December 31, 2014				
U.S. Treasury and Agency Securities	\$20,000	\$—	\$(439)	) \$19,561
Obligations of State and Political Subdivisions	147,321	6,515	(59)	) 153,777
Mortgage-backed Securities - Residential	458,709	3,615	(5,020)	) 457,304
Equity Securities	353	—	—	353
Total	\$626,383	\$10,130	\$(5,518)	) \$630,995

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, 2015 and December 31, 2014, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
September 30, 2015				
Obligations of State and Political Subdivisions	\$95	\$—	\$—	\$95
December 31, 2014				
Obligations of State and Political Subdivisions	\$184	\$2	\$—	\$186

GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 September 30, 2015
 (unaudited, dollars in thousands except share and per share data)

NOTE 3 - Securities (continued)

The amortized cost and fair value of securities at September 30, 2015 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	\$7,109	\$7,213
Due after one year through five years	19,186	19,449
Due after five years through ten years	66,484	69,404
Due after ten years	105,040	107,246
Mortgage-backed Securities - Residential Equity Securities	419,753	421,479
Total	\$617,925	\$625,144

Securities Held-to-Maturity:	Carrying Amount	Fair Value
Due in one year or less	\$95	\$95
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	—	—
Total	\$95	\$95

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
Proceeds from Sales	\$—	\$45,473
Gross Gains on Sales	—	567
Income Taxes on Gross Gains	—	198
	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Proceeds from Sales	\$18,999	\$52,711
Gross Gains on Sales	725	1,039
Income Taxes on Gross Gains	254	364

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015
(unaudited, dollars in thousands except share and per share data)

NOTE 3 - Securities (continued)

Below is a summary of securities with unrealized losses as of September 30, 2015 and December 31, 2014, presented by length of time the securities have been in a continuous unrealized loss position:

September 30, 2015	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and Agency Securities	\$—	\$—	\$9,970	\$(30)	\$9,970	\$(30)
Obligations of State and Political Subdivisions	32,447	(356)	353	(6)	32,800	(362)
Mortgage-backed Securities - Residential	50,786	(236)	136,030	(2,129)	186,816	(2,365)
Equity Securities	—	—	—	—	—	—
Total	\$83,233	\$(592)	\$146,353	\$(2,165)	\$229,586	\$(2,757)

December 31, 2014	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and Agency Securities	\$—	\$—	\$19,561	\$(439)	\$19,561	\$(439)
Obligations of State and Political Subdivisions	3,765	(25)	4,298	(34)	8,063	(59)
Mortgage-backed Securities - Residential	26,606	(191)	209,679	(4,829)	236,285	(5,020)
Equity Securities	—	—	—	—	—	—
Total	\$30,371	\$(216)	\$233,538	\$(5,302)	\$263,909	\$(5,518)

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, which may be at maturity. The Company doesn't intend to sell or expect to be required to sell these securities, and the decline in fair value is largely due to changes in market interest rates, therefore, the Company does not consider these securities to be other-than-temporarily impaired. All mortgage-backed securities in the Company's portfolio are guaranteed by government sponsored entities, are investment grade, and are performing as expected.

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 \$31.1 million at September 30, 2015 and \$23.1 million at December 31, 2014. These interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions with approved, reputable,

independent counterparties with substantially matching terms. The agreements are considered stand alone derivatives and changes in the fair value of derivatives are reported in earnings as non-interest income.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. The Company's exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. There are provisions in the agreements with the counterparties that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed thresholds are collateralized. In addition, the Company minimizes credit risk through credit approvals, limits, and monitoring procedures.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015
(unaudited, dollars in thousands except share and per share data)

NOTE 4 - Derivatives (continued)

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

	September 30, 2015		December 31, 2014	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$31,068	\$1,433	\$23,104	\$507
Included in Other Liabilities:				
Interest Rate Swaps	\$31,068	\$1,462	\$23,104	\$508

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

	Three Months Ended		Nine Months Ended	
	September 30, 2015	2014	September 30, 2015	2014
Interest Rate Swaps:				
Included in Interest Income / (Expense)	\$—	\$—	\$—	\$—
Included in Other Income / (Expense)	179	(4	) 344	74

NOTE 5 – Loans

Loans were comprised of the following classifications at September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014
Commercial:		
Commercial and Industrial Loans and Leases	\$404,946	\$380,079
Commercial Real Estate Loans	600,688	583,086
Agricultural Loans	236,619	216,774
Retail:		
Home Equity Loans	90,907	86,234
Consumer Loans	47,480	48,613
Residential Mortgage Loans	136,645	137,204
Subtotal	1,517,285	1,451,990
Less: Unearned Income	(3,705	) (4,008
Allowance for Loan Losses	(14,770	) (14,929
Loans, Net	\$1,498,810	\$1,433,053

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2015
(unaudited, dollars in thousands except share and per share data)

NOTE 5 - Loans (continued)

The following table presents the activity in the allowance for loan losses by portfolio class for the three months ending September 30, 2015 and 2014:

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
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	\$4,333	\$6,777	\$1,977	\$309	\$245	\$450	\$679	\$14,770

September 30, 2014	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
Beginning Balance	\$5,661	\$7,199	\$1,016	\$418	\$326	\$435	\$495	\$15,550
Provision for Loan Losses	(563)	206	156	(33)	77	(33)	190	—
Recoveries	19	55	—	—	41	6	—	121
Loans Charged-off	—	(6)	—	(7)	(65)	(1)	—	—