

GERMAN AMERICAN BANCORP, INC.
Form 10-Q
May 10, 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 March 31, 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 (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, a smaller reporting company, or an emerging growth company:

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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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, 2018
Common Shares, no par value	22,967,448

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)

	March 31, 2018	December 31, 2017
ASSETS		
Cash and Due from Banks	\$32,023	\$ 58,233
Federal Funds Sold and Other Short-term Investments	8,187	12,126
Cash and Cash Equivalents	40,210	70,359
Securities Available-for-Sale, at Fair Value	737,604	740,641
Other Investments	353	353
Loans Held-for-Sale, at Fair Value	6,628	6,719
Loans	2,153,848	2,145,019
Less: Unearned Income	(3,302)	(3,381)
Allowance for Loan Losses	(14,460)	(15,694)
Loans, Net	2,136,086	2,125,944
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	13,048	13,048
Premises, Furniture and Equipment, Net	58,024	54,246
Other Real Estate	68	54
Goodwill	54,058	54,058
Intangible Assets	1,896	2,102
Company Owned Life Insurance	46,386	46,385
Accrued Interest Receivable and Other Assets	30,657	30,451
TOTAL ASSETS	\$3,125,018	\$ 3,144,360
LIABILITIES		
Non-interest-bearing Demand Deposits	\$599,374	\$ 606,134
Interest-bearing Demand, Savings, and Money Market Accounts	1,465,150	1,490,033
Time Deposits	402,597	387,885
Total Deposits	2,467,121	2,484,052
FHLB Advances and Other Borrowings	274,473	275,216
Accrued Interest Payable and Other Liabilities	19,419	20,521
TOTAL LIABILITIES	2,761,013	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	22,969	22,934
Additional Paid-in Capital	165,532	165,288
Retained Earnings	187,342	178,969
Accumulated Other Comprehensive Loss	(11,838)	(2,620)
TOTAL SHAREHOLDERS' EQUITY	364,005	364,571
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$3,125,018	\$ 3,144,360
End of period shares issued and outstanding	22,968,813	22,934,403

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,	
	2018	2017
INTEREST INCOME		
Interest and Fees on Loans	\$23,950	\$22,262
Interest on Federal Funds Sold and Other Short-term Investments	56	27
Interest and Dividends on Securities:		
Taxable	2,998	2,719
Non-taxable	2,141	2,025
TOTAL INTEREST INCOME	29,145	27,033
INTEREST EXPENSE		
Interest on Deposits	2,283	1,443
Interest on FHLB Advances and Other Borrowings	1,252	865
TOTAL INTEREST EXPENSE	3,535	2,308
NET INTEREST INCOME	25,610	24,725
Provision for Loan Losses	350	500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,260	24,225
NON-INTEREST INCOME		
Trust and Investment Product Fees	1,773	1,243
Service Charges on Deposit Accounts	1,471	1,484
Insurance Revenues	2,930	2,640
Company Owned Life Insurance	312	254
Interchange Fee Income	1,482	1,023
Other Operating Income	604	857
Net Gains on Sales of Loans	650	687
Net Gains on Securities	270	—
TOTAL NON-INTEREST INCOME	9,492	8,188
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	12,126	11,444
Occupancy Expense	1,744	1,549
Furniture and Equipment Expense	665	633
FDIC Premiums	237	239
Data Processing Fees	1,127	1,011
Professional Fees	871	803
Advertising and Promotion	701	778
Intangible Amortization	206	253
Other Operating Expenses	2,778	2,326
TOTAL NON-INTEREST EXPENSE	20,455	19,036
Income before Income Taxes	14,297	13,377
Income Tax Expense	2,484	3,821
NET INCOME	\$11,813	\$9,556

Basic Earnings per Share	\$0.51	\$0.42
Diluted Earnings per Share	\$0.51	\$0.42
Dividends per Share	\$0.15	\$0.13

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,	
	2018	2017
NET INCOME	\$11,813	\$9,556
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Securities:		
Unrealized Holding Gain (Loss) Arising During the Period	(11,452)	6,179
Reclassification Adjustment for Gains Included in Net Income	(270)	—
Tax Effect	2,504	(2,181)
Net of Tax	(9,218)	3,998
Total Other Comprehensive Income (Loss)	(9,218)	3,998
COMPREHENSIVE INCOME	\$2,595	\$13,554

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,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$11,813	\$9,556
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization (Accretion) on Securities	(904)	808
Depreciation and Amortization	1,199	1,127
Loans Originated for Sale	(29,822)	(24,566)
Proceeds from Sales of Loans Held-for-Sale	30,592	33,615
Provision for Loan Losses	350	500
Gain on Sale of Loans, net	(650)	(687)
Gain on Securities, net	(270)	—
Loss (Gain) on Sales of Other Real Estate and Repossessed Assets	(13)	—
Loss on Disposition and Donation of Premises and Equipment	(1)	—
Increase in Cash Surrender Value of Company Owned Life Insurance	(252)	(261)
Equity Based Compensation	279	295
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	16	(1,602)
Interest Payable and Other Liabilities	1,402	3,857
Net Cash from Operating Activities	13,739	22,642
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturity of Securities Available-for-Sale	22,930	21,154
Proceeds from Sales of Securities Available-for-Sale	7,295	—
Purchase of Securities Available-for-Sale	(37,736)	(32,351)
Purchase of Loans	—	(59)
Proceeds from Sales of Loans	6,000	—
Loans Made to Customers, net of Payments Received	(16,519)	6,182
Proceeds from Sales of Other Real Estate	26	152
Property and Equipment Expenditures	(4,790)	(2,433)
Proceeds from Sales of Property and Equipment	1	—
Net Cash from Investing Activities	(22,793)	(7,355)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	(16,894)	(23,003)
Change in Short-term Borrowings	9,297	(40,985)
Advances in Long-term Debt	35,000	25,000
Repayments of Long-term Debt	(45,058)	(776)
Dividends Paid	(3,440)	(2,900)
Net Cash from Financing Activities	(21,095)	(42,664)
Net Change in Cash and Cash Equivalents	(30,149)	(27,377)
Cash and Cash Equivalents at Beginning of Year	70,359	64,816
Cash and Cash Equivalents at End of Period	\$40,210	\$37,439

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Cash Paid During the Period for		
Interest	\$3,641	\$2,361
Income Taxes	—	—
Supplemental Non Cash Disclosures		
Loans Transferred to Other Real Estate	\$27	\$118

See accompanying notes to consolidated financial statements.

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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

March 31, 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 months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
	2018	2017
Non-interest Income		
In-Scope of Topic 606:		
Trust and Investment Product Fees	\$1,773	\$1,243
Service Charges on Deposit Accounts	1,471	1,484
Insurance Revenues	2,930	2,640
Interchange Fee Income	1,482	1,023
Other Operating Income	378	344
Non-interest Income (in-scope of Topic 606)	8,034	6,734
Non-interest Income (out-of-scope of Topic 606)	1,458	1,454
Total Non-interest Income	\$9,492	\$8,188

NOTE 3 – Per Share Data

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

	Three Months Ended March 31,	
	2018	2017
Basic Earnings per Share:		
Net Income	\$11,813	\$ 9,556
Weighted Average Shares Outstanding	22,940,402	22,908,648
Basic Earnings per Share	\$0.51	\$ 0.42
Diluted Earnings per Share:		
Net Income	\$11,813	\$ 9,556
Weighted Average Shares Outstanding	22,940,402	22,908,648
Potentially Dilutive Shares, Net	—	—
Diluted Weighted Average Shares Outstanding	22,940,402	22,908,648
Diluted Earnings per Share	\$0.51	\$ 0.42

For the three months ended March 31, 2018 and 2017, there were no anti-dilutive shares.

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

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018				
Obligations of State and Political Subdivisions	\$ 271,135	\$ 3,893	\$(2,275)	\$ 272,753
MBS/CMO - Residential	481,192	76	(16,417)	464,851
Total	\$ 752,327	\$ 3,969	\$(18,692)	\$ 737,604
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 March 31, 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 March 31, 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	\$ 2,814	\$ 2,835
Due after one year through five years	20,970	21,520
Due after five years through ten years	80,105	81,462
Due after ten years	167,246	166,936
MBS/CMO - Residential	481,192	464,851
Total	\$ 752,327	\$ 737,604

Proceeds from the Sales of Securities are summarized below:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Proceeds from Sales	\$ 7,295	\$ —
Gross Gains on Sales	270	—
Income Taxes on Gross Gains	57	—

The carrying value of securities pledged to secure repurchase agreements, public and trust deposits, and for other purposes as required by law was \$226,893 and \$165,404 as of March 31, 2018 and December 31, 2017, respectively.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018
(unaudited, dollars in thousands except share and per share data)

NOTE 4 - Securities (continued)

Below is a summary of securities with unrealized losses as of March 31, 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	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
March 31, 2018						
Obligations of State and Political Subdivisions	\$74,634	\$(1,264)	\$23,716	\$(1,011)	\$98,350	\$(2,275)
MBS/CMO - Residential	222,993	(5,380)	236,726	(11,037)	459,719	(16,417)
Total	\$297,627	\$(6,644)	\$260,442	\$(12,048)	\$558,069	\$(18,692)
December 31, 2017						
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 \$87.3 million at March 31, 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.

GERMAN AMERICAN BANCORP, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 March 31, 2018
 (unaudited, dollars in thousands except share and per share data)

NOTE 5 - Derivatives (continued)

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

	March 31, 2018		December 31, 2017	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in Other Assets:				
Interest Rate Swaps	\$87,257	\$ 2,232	\$87,788	\$ 1,564
Included in Other Liabilities:				
Interest Rate Swaps	\$87,257	\$ 2,210	\$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 March 31, 2018		2017	
Interest Rate Swaps:				
Included in Other Operating Income	\$90	\$348		

NOTE 6 – Loans

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

	March 31, 2018	December 31, 2017
Commercial:		
Commercial and Industrial Loans and Leases	\$482,219	\$486,668
Commercial Real Estate Loans	947,948	926,729
Agricultural Loans	329,138	333,227
Retail:		
Home Equity Loans	151,943	152,187
Consumer Loans	64,492	67,475
Residential Mortgage Loans	178,108	178,733
Subtotal	2,153,848	2,145,019
Less: Unearned Income	(3,302)	(3,381)
Allowance for Loan Losses	(14,460)	(15,694)
Loans, Net	\$2,136,086	\$2,125,944

The following tables present the activity in the allowance for loan losses by portfolio class for the three months ended March 31, 2018 and 2017:

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March 31, 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	367	25	(69)	(44)	97	(18)	(8)	350
Recoveries	1	6	—	2	89	2	—	100
Loans Charged-off	(1,500)	—	—	(16)	(168)	—	—	(1,684)
Ending Balance	\$ 3,603	\$ 4,622	\$ 4,825	\$ 272	\$ 316	\$ 327	\$ 495	\$14,460

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GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018
(unaudited, dollars in thousands except share and per share data)

NOTE 6 - Loans (continued)

March 31, 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	\$ 3,725	\$ 5,452	\$ 4,094	\$ 283	\$ 235	\$ 329	\$ 690	\$14,808
Provision for Loan Losses	(115)	278	267	17	118	19	(84)	500
Recoveries	2	5	—	—	60	27	—	94
Loans Charged-off	—	(39)	—	(1)	(169)	(27)	—	(236)
Ending Balance	\$ 3,612	\$ 5,696	\$ 4,361	\$ 299	\$ 244	\$ 348	\$ 606	\$15,166

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.

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.

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

NOTE 6 - Loans (continued)

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 March 31, 2018 and December 31, 2017:

March 31, 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	\$1,181	\$252	\$929	\$—	\$—	\$—	\$—	\$—
Collectively Evaluated for Impairment	13,238	3,348	3,660	4,825	272	316	322	495
Acquired with Deteriorated Credit Quality	41	3	33	—	—	—	5	—
Total Ending Allowance Balance	\$14,460	\$3,603	\$4,622	\$4,825	\$272	\$316	\$327	\$495
Loans:								
Loans Individually Evaluated for Impairment	\$9,793	\$4,249	\$5,401	\$143	\$—	\$—	\$—	n/m ⁽²⁾
Loans Collectively Evaluated for Impairment	2,144,933	478,473	938,731	332,888	152,527	64,655	177,659	n/m ⁽²⁾
Loans Acquired with Deteriorated Credit Quality	8,819	790	6,194	957	—	—	878	n/m ⁽²⁾
Total Ending Loans Balance ⁽¹⁾	\$2,163,545	\$483,512	\$950,326	\$333,988	\$152,527	\$64,655	\$178,537	n/m ⁽²⁾

⁽¹⁾Total recorded investment in loans includes \$9,697 in accrued interest.

⁽²⁾n/m = not meaningful

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:								

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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