GERMAN AMERICAN BANCORP, INC.
Form 10-Q
August 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended June 30, 2011

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 x NO ¨

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

YES x NO ¨

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

Large accelerated filer ¨ Accelerated filer x 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 x

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

Class	Outstanding at August 1, 2011

Common Shares, no par value	12,593,524

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, 2010, in Item 1, "Business – Forward-Looking Statements and Associated Risks" and our discussion of risk factors in Item 1A, "Risk Factors" of that annual report on Form 10-K, as updated from time to time in our subsequent SEC filings, including by Item 2 of Part I of this Report ("Management's Discussion and Analysis of Financial Condition and Results of Operations") at the conclusion of that Item 2 under the heading "Forward-Looking Statements and Associated Risks."

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GERMAN AMERICAN BANCORP, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited, dollars in thousands except share and per share data)

	June 30, 2011	December 31, 2010
ASSETS		
Cash and Due from Banks	$28,105	$ 15,021
Federal Funds Sold and Other Short-term Investments	79,668	4,250
Cash and Cash Equivalents	107,773	19,271
Interest-bearing Time Deposits with Banks	8,360	—
Securities Available-for-Sale, at Fair Value	485,386	346,747
Securities Held-to-Maturity, at Cost (Fair value of $1,454 and $1,613 on June 30, 2011 and December 31, 2010, respectively)	1,444	1,604
Loans Held-for-Sale	6,097	11,850
Loans	1,108,622	918,718
Less: Unearned Income	(1,875)	(1,482)
Allowance for Loan Losses	(14,780)	(13,317)
Loans, Net	1,091,967	903,919
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	8,340	9,207
Premises, Furniture and Equipment, Net	35,949	25,974
Other Real Estate	2,317	2,095
Goodwill	19,170	9,835
Intangible Assets	5,287	2,624
Company Owned Life Insurance	28,760	24,822
Accrued Interest Receivable and Other Assets	16,822	17,940
TOTAL ASSETS	$1,817,672	$ 1,375,888
LIABILITIES		
Non-interest-bearing Demand Deposits	$248,979	$ 184,204
Interest-bearing Demand, Savings, and Money Market Accounts	876,949	541,532
Time Deposits	395,321	361,550
Total Deposits	1,521,249	1,087,286
FHLB Advances and Other Borrowings	119,257	153,717
Accrued Interest Payable and Other Liabilities	17,083	13,351
TOTAL LIABILITIES	1,657,589	1,254,354
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	12,593	11,105
Additional Paid-in Capital	94,700	69,297

Retained Earnings	42,220	36,232
Accumulated Other Comprehensive Income	10,570	4,900
TOTAL SHAREHOLDERS' EQUITY	160,083	121,534
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,817,672	$ 1,375,888
End of period shares issued and outstanding	12,593,222	11,105,583

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
INTEREST INCOME		
Interest and Fees on Loans	$16,446	$13,194
Interest on Federal Funds Sold and Other Short-term Investments	66	27
Interest and Dividends on Securities:		
Taxable	3,586	2,462
Non-taxable	423	258
TOTAL INTEREST INCOME	20,521	15,941
INTEREST EXPENSE		
Interest on Deposits	3,248	2,686
Interest on FHLB Advances and Other Borrowings	1,009	1,340
TOTAL INTEREST EXPENSE	4,257	4,026
NET INTEREST INCOME	16,264	11,915
Provision for Loan Losses	1,300	1,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	14,964	10,915
NON-INTEREST INCOME		
Trust and Investment Product Fees	495	395
Service Charges on Deposit Accounts	1,074	1,075
Insurance Revenues	1,290	1,083
Company Owned Life Insurance	250	186
Interchange Fee Income	378	292
Other Operating Income	496	261
Net Gains on Sales of Loans	379	499
Net Gain on Securities	—	—
TOTAL NON-INTEREST INCOME	4,362	3,791
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	6,722	5,288
Occupancy Expense	1,024	835
Furniture and Equipment Expense	817	600
FDIC Premiums	382	336
Data Processing Fees	395	365
Professional Fees	499	524
Advertising and Promotion	314	273
Supplies	189	246
Intangible Amortization	498	247
Other Operating Expenses	1,431	1,188
TOTAL NON-INTEREST EXPENSE	12,271	9,902

Income before Income Taxes	7,055	4,804
Income Tax Expense	2,191	1,396
NET INCOME	$4,864	$3,408
COMPREHENSIVE INCOME	$10,346	$5,331
Earnings Per Share and Diluted Earnings Per Share	$0.39	$0.31
Dividends Per Share	$0.14	$0.14

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
INTEREST INCOME		
Interest and Fees on Loans	$32,687	$26,033
Interest on Federal Funds Sold and Other Short-term Investments	131	36
Interest and Dividends on Securities:		
Taxable	6,430	4,927
Non-taxable	792	528
TOTAL INTEREST INCOME	40,040	31,524
INTEREST EXPENSE		
Interest on Deposits	6,641	5,298
Interest on FHLB Advances and Other Borrowings	2,028	2,662
TOTAL INTEREST EXPENSE	8,669	7,960
NET INTEREST INCOME	31,371	23,564
Provision for Loan Losses	2,600	2,500
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	28,771	21,064
NON-INTEREST INCOME		
Trust and Investment Product Fees	959	786
Service Charges on Deposit Accounts	2,015	2,021
Insurance Revenues	3,339	2,769
Company Owned Life Insurance	603	388
Interchange Fee Income	731	548
Other Operating Income	896	1,041
Net Gains on Sales of Loans	788	817
Net Gain on Securities	1,045	—
TOTAL NON-INTEREST INCOME	10,376	8,370
NON-INTEREST EXPENSE		
Salaries and Employee Benefits	14,123	10,837
Occupancy Expense	2,074	1,722
Furniture and Equipment Expense	1,622	1,252
FDIC Premiums	896	688
Data Processing Fees	1,500	724
Professional Fees	1,104	1,045
Advertising and Promotion	617	542
Supplies	371	441
Intangible Amortization	1,015	465
Other Operating Expenses	2,819	2,452
TOTAL NON-INTEREST EXPENSE	26,141	20,168

Income before Income Taxes	13,006	9,266
Income Tax Expense	3,497	2,607
NET INCOME	$9,509	$6,659
COMPREHENSIVE INCOME	$15,179	$9,481
Earnings Per Share and Diluted Earnings Per Share	$0.76	$0.60
Dividends Per Share	$0.28	$0.28

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$9,509	$6,659
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Amortization on Securities	888	278
Depreciation and Amortization	2,685	1,812
Loans Originated for Sale	(42,261)	(40,891)
Proceeds from Sales of Loans Held-for-Sale	48,802	36,646
Loss in Investment in Limited Partnership	8	33
Provision for Loan Losses	2,600	2,500
Gain on Sale of Loans, net	(788)	(817)
Gain on Securities, net	(1,045)	—
Gain on Sales of Other Real Estate and Repossessed Assets	(103)	(237)
Loss (Gain) on Disposition and Impairment of Premises and Equipment	13	(55)
Increase in Cash Surrender Value of Company Owned Life Insurance	(604)	(392)
Equity Based Compensation	307	200
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	6,017	2,218
Interest Payable and Other Liabilities	(2,211)	(202)
Net Cash from Operating Activities	23,817	7,752
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Maturity of Other Short-term Investments	3,882	—
Proceeds from Maturities, Calls, Redemptions of Securities Available-for-Sale	38,241	25,873
Redemption of Federal Reserve Bank Stock	694	—
Purchase of Securities Available-for-Sale	(141,180)	(69,406)
Proceeds from Maturities of Securities Held-to-Maturity	161	889
Proceeds from Redemption of Federal Home Loan Bank Stock	1,523	—
Purchase of Loans	—	(175)
Proceeds from Sales of Loans	893	3,711
Loans Made to Customers, net of Payments Received	25,773	472
Proceeds from Sales of Other Real Estate	2,641	1,889
Property and Equipment Expenditures	(2,359)	(652)
Proceeds from Sales of Property and Equipment	12	491
Acquire Bank Branches	—	855
Acquisition of American Community Bancorp, Inc.	55,780	—
Net Cash from Investing Activities	(13,939)	(36,053)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Deposits	131,374	30,090
Change in Short-term Borrowings	(44,202)	10,535
Repayments of Long-term Debt	(5,039)	(796)
Issuance of Common Stock	12	32

Dividends Paid	(3,521)	(3,105)
Net Cash from Financing Activities	78,624	36,756
Net Change in Cash and Cash Equivalents	88,502	8,455
Cash and Cash Equivalents at Beginning of Year	19,271	28,054
Cash and Cash Equivalents at End of Period	$107,773	$36,509
Cash Paid During the Period for		
Interest	$8,918	$7,858
Income Taxes	3,981	2,678
Supplemental Non Cash Disclosures (1)		
Loans Transferred to Other Real Estate	$1,608	$1,112

(1) See Note 9 for non-cash transactions included in the acquisition of American Community Bancorp, Inc.

See accompanying notes to consolidated financial statements.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(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 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. Certain prior year amounts have been reclassified to conform with current classifications. It is suggested that these consolidated financial statements and notes be read in conjunction with the financial statements and notes thereto in the German American Bancorp, Inc. December 31, 2010 Annual Report on Form 10-K.

Note 2 – Per Share Data

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

	Three Months Ended June 30,	
Earnings per Share:	2011	2010
Net Income	$ 4,864	$ 3,408
Weighted Average Shares Outstanding	12,592,324	11,103,095
Earnings per Share	$ 0.39	$ 0.31
Diluted Earnings per Share:		
Net Income	$ 4,864	$ 3,408
Weighted Average Shares Outstanding	12,592,324	11,103,095
Potentially Dilutive Shares, Net	5,555	5,065
Diluted Weighted Average Shares Outstanding	12,597,879	11,108,160
Diluted Earnings per Share	$ 0.39	$ 0.31

Stock options for 89,275 and 99,275 shares of common stock were not considered in computing diluted earnings per share for the quarters ended June 30, 2011 and 2010, respectively, because they were anti-dilutive.

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

	Six Months Ended June 30,	
Earnings per Share:	2011	2010
Net Income	$ 9,509	$ 6,659
Weighted Average Shares Outstanding	12,546,310	11,092,447
Earnings per Share	$ 0.76	$ 0.60
Diluted Earnings per Share:		

Net Income	$	9,509	$	6,659
Weighted Average Shares Outstanding		12,546,310		11,092,447
Potentially Dilutive Shares, Net		6,221		4,896
Diluted Weighted Average Shares Outstanding		12,552,531		11,097,343
Diluted Earnings per Share	$	0.76	$	0.60

Stock options for 89,275 and 99,275 shares of common stock were not considered in computing diluted earnings per share for the six months ended June 30, 2011 and 2010, respectively, because they were anti-dilutive.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(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 June 30, 2011 and December 31, 2010, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2011				
U.S. Treasury and Agency Securities	$ 21,844	$ 228	$ —	$ 22,072
Corporate Securities	1,009	1	—	1,010
Obligations of State and Political Subdivisions	45,237	2,035	(40)	47,232
Mortgage-backed Securities - Residential	399,819	14,571	(15)	414,375
Equity Securities	794	—	(97)	697
Total	$ 468,703	$ 16,835	$ (152)	$ 485,386
December 31, 2010				
U.S. Treasury and Agency Securities	$ —	$ —	$ —	$ —
Corporate Securities	—	—	—	—
Obligations of State and Political Subdivisions	31,483	813	(118)	32,178
Mortgage-backed Securities - Residential	304,935	7,614	(1,483)	311,066
Equity Securities	2,418	1,085	—	3,503
Total	$ 338,836	$ 9,512	$ (1,601)	$ 346,747

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 June 30, 2011 and December 31, 2010, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
June 30, 2011				
Obligations of State and Political Subdivisions	$ 1,444	$ 10	$ —	$ 1,454
December 31, 2010				
Obligations of State and Political Subdivisions	$ 1,604	$ 9	$ —	$ 1,613

The amortized cost and fair value of Securities at June 30, 2011 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.

	Amortized Cost	Fair Value
Securities Available-for-Sale:		
Due in one year or less	$ 1,409	$ 1,412
Due after one year through five years	22,836	23,305
Due after five years through ten years	14,482	14,898
Due after ten years	29,363	30,699
Mortgage-backed Securities - Residential	399,819	414,375
Equity Securities	794	697
Totals	$ 468,703	$ 485,386

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(unaudited, dollars in thousands except share and per share data)

Note 3 – Securities (continued)

	Carrying Amount	Fair Value
Securities Held-to-Maturity:		
Due in one year or less	$ 170	$ 170
Due after one year through five years	719	727
Due after five years through ten years	555	557
Due after ten years	—	—
Totals	$ 1,444	$ 1,454

Below is a summary of securities with unrealized losses as of June 30, 2011 and December 31, 2010, 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
At June 30, 2011:						
U.S. Treasury and Agency Securities	$ —	$ —	$ —	$ —	$ —	$ —
Corporate Securities	—	—	—	—	—	—
Obligations of State and Political Subdivisions	1,384	(40)	—	—	1,384	(40)
Mortgage-backed Securities - Residential	7,906	(15)	—	—	7,906	(15)
Equity Securities	697	(97)	—	—	697	(97)
Total	$ 9,987	$ (152)	$ —	$ —	$ 9,987	$ (152)

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
At December 31, 2010:						
U.S. Treasury and Agency Securities	$ —	$ —	$ —	$ —	$ —	$ —
Corporate Securities	—	—	—	—	—	—
Obligations of State and Political Subdivisions	5,175	(118)	—	—	5,175	(118)
Mortgage-backed Securities - Residential	70,123	(1,483)	—	—	70,123	(1,483)
Equity Securities	—	—	—	—	—	—
Total	$ 75,298	$ (1,601)	$ —	$ —	$ 75,298	$ (1,601)

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 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.

The Company held a minority interest in American Community Bancorp, Inc., prior to the acquisition on January 1, 2011 (see Note 9 for further discussion). For the six months ended June 30, 2011, the Company recognized a gain of $1.045 million on the stock held of American Community Bancorp, Inc. as a result of the acquisition. No gains or losses were recognized during the three months ended June 30, 2011. No gains or losses were recognized during the quarter or six months ended June 30, 2010.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(unaudited, dollars in thousands except share and per share data)

Note 4 – Loans

Loans were comprised of the following classifications at June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010
Commercial:		
Commercial and Industrial Loans and Leases	$ 293,439	$ 218,443
Commercial Real Estate Loans	440,704	339,555
Agricultural Loans	152,229	165,166
Retail:		
Home Equity Loans	76,818	64,437
Consumer Loans	51,457	53,807
Residential Mortgage Loans	93,975	77,310
Subtotal	1,108,622	918,718
Less: Unearned Income	(1,875)	(1,482)
Allowance for Loan Losses	(14,780)	(13,317)
Loans, net	$ 1,091,967	$ 903,919

The following table presents the activity in the allowance for loan losses by portfolio class for the three months ending June 30, 2011:

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated	Total
June 30, 2011								
Beginning Balance	$ 3,820	$ 7,708	$ 654	$ 271	$ 432	$ 748	$ 540	$ 14,173
Provision for Loan Losses	650	315	79	(18)	—	115	159	1,300
Recoveries	3	11	—	1	27	15	—	57
Loans Charged-off	(181)	(337)	—	(41)	(59)	(132)	—	(750)
Ending Balance	$ 4,292	$ 7,697	$ 733	$ 213	$ 400	$ 746	$ 699	$ 14,780

The following table presents the activity in the allowance for loan losses by portfolio class for the six months ending June 30, 2011:

	Commercial and Industrial	Commercial	Agricultural	Home Equity	Consumer	Residential Mortgage

	Loans and Leases	Real Estate Loans	Loans	Loans	Loans	Loans	Unallocated	Total
June 30, 2011								
Beginning Balance	$ 3,713	$ 7,497	$ 750	$ 220	$ 362	$ 543	$ 232	$ 13,317
Provision for Loan Losses	755	887	(17)	86	84	338	467	2,600
Recoveries	6	103	—	3	59	15	—	186
Loans Charged-off	(182)	(790)	—	(96)	(105)	(150)	—	(1,323)
Ending Balance	$ 4,292	$ 7,697	$ 733	$ 213	$ 400	$ 746	$ 699	$ 14,780

The following table presents the activity in the allowance for loan losses for the three months ended June 30, 2010:

Beginning Balance	$10,713
Provision for Loan Losses	1,000
Loans Charged-off	(1,237)
Recoveries	337
Ending Balance	$10,813

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(unaudited, dollars in thousands except share and per share data)

NOTE 4 – Loans (continued)

The following table presents the activity in the allowance for loan losses for the six months ended June 30, 2010:

Beginning Balance	$11,016
Provision for Loan Losses	2,500
Loans Charged-off	(3,142)
Recoveries	439
Ending Balance	$10,813

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of June 30, 2011 and December 31, 2010:

	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
June 30, 2011								
Allowance for Loan Losses:								
Ending Allowance Balance								
Attributable to Loans:								
Individually Evaluated for Impairment	$ 4,634	$ 1,395	$ 3,239	$ —	$ —	$ —	$ —	$ —
Collectively Evaluated for Impairment	10,071	2,897	4,383	733	213	400	746	699
Acquired with Deteriorated Credit Quality	75	—	75	—	—	—	—	—
Total Ending Allowance Balance	$ 14,780	$ 4,292	$ 7,697	$ 733	$ 213	$ 400	$ 746	$ 699
Loans:								
Loans Individually Evaluated for Impairment	$ 15,577	$ 2,707	$ 12,870	$ —	$ —	$ —	$ —	$ —
Loans Collectively Evaluated for Impairment	1,081,233	288,785	415,515	154,226	77,078	51,459	94,170	—
Loans Acquired with Deteriorated Credit Quality	16,870	2,969	13,563	—	—	184	154	—
	$ 1,113,680	$ 294,461	$ 441,948	$ 154,226	$ 77,078	$ 51,643	$ 94,324	$ —

Total Ending Loans
Balance (1)

(1) Total recorded investment in loans includes $5,058 in accrued interest.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2011
(unaudited, dollars in thousands except share and per share data)

NOTE 4 – Loans (continued)

	Total	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Unallocated
December 31, 2010								
Allowance for Loan Losses:								
Ending Allowance Balance								
Attributable to Loans:								
Individually Evaluated for Impairment	$ 4,583	$ 1,387	$ 3,196	$ —	$ —	$ —	$ —	$ —
Collectively Evaluated for Impairment	8,734	2,326	4,301	750	220	362	543	232
Total Ending Allowance Balance	$ 13,317	$ 3,713	$ 7,497	$ 750	$ 220	$ 362	$ 543	$ 232
Loans:								
Loans Individually Evaluated for Impairment	$ 16,833	$ 3,421	$ 13,357	$ 55	$ —	$ —	$ —	$ —
Loans Collectively Evaluated for Impairment	907,525	215,840	327,413	167,933	64,652	54,048	77,639	—
Total Ending Loans Balance (1)	$ 924,358	$ 219,261	$ 340,770	$ 167,988	$ 64,652	$ 54,048	$ 77,639	$ —

(1) Total recorded investment in loans includes $5,640 in accrued interest.

The following table presents loans individually evaluated for impairment by class of loans as of and for the three month period ended June 30, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
June 30, 2011						
With No Related Allowance Recorded:						
Commercial and Industrial Loans and Leases	$117	$96	$ —	$730	$2	$2

Commercial Real Estate Loans	4,240	3,485	—	4,059	29	29
Agricultural Loans	—	—	—	20	6	6
With An Allowance Recorded:						
Commercial and Industrial Loans and Leases	2,597	2,638	1,395	3,961	4	4
Commercial Real Estate Loans	9,976	9,969	3,239	10,451	6	4
Agricultural Loans	—	—	—	—	—	—
Total	$16,930	$16,188	$ 4,634	$19,221	$47	$45

The following table presents loans individually evaluated for impairment by class of loans as of and for the six month period ended June 30, 2011:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Recognized
June 30, 2011						
With No Related Allowance Recorded:						
Commercial and Industrial Loans and Leases	$117	$96	$ —	$281	$3	$3
Commercial Real Estate Loans	4,240	3,485	—	2,388	32	32
Agricultural Loans	—	—	—	38	6	6
With An Allowance Recorded:						
Commercial and Industrial Loans and Leases	2,597	2,638	1,395	4,280	6	6
Commercial Real Estate Loans	9,976	9,969	3,239	11,181	36	34
Agricultural Loans	—	—	—	—	—	—
Total	$16,930	$16,188	$ 4,634	$18,168	$83	$81

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NOTE 4 – Loans (continued)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010:

	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With No Related Allowance Recorded:			
Commercial and Industrial Loans and Leases	$570	$585	$ —
Commercial Real Estate Loans	2,243	2,231	—
Agricultural Loans	55	55	—
With An Allowance Recorded:			
Commercial and Industrial Loans and Leases	2,779	2,836	1,387
Commercial Real Estate Loans	11,062	11,126	3,196
Agricultural Loans	—	—	—
Total	$16,709	$16,833	$ 4,583

The following table presents information for loans individually evaluated for impairment for the three month period ended June 30, 2010:

Average Balance of Individually Impaired Loans During Period	$7,556
Interest Income Recognized During Impairment	35
Interest Income Recognized on Cash Basis	35

The following table presents information for loans individually evaluated for impairment for the six month period ended June 30, 2010:

Average Balance of Individually Impaired Loans During Period	$7,769
Interest Income Recognized During Impairment	51
Interest Income Recognized on Cash Basis	51

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of June 30, 2011 and December 31, 2010:

	Non-Accrual		Loans Past Due Over 90 Days & Still Accruing	
	2011	2010	2011	2010
Commercial and Industrial Loans and Leases	$2,624	$514	$11	$547
Commercial Real Estate Loans	12,661	8,718	116	103
Agricultural Loans	—	55	—	—

Home Equity Loans	85	156	—	—
Consumer Loans	279	103	26	38
Residential Mortgage Loans	1,356	604	—	—
Total	$17,005	$10,150	$153	$688

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

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NOTE 4 – Loans (continued)

The following table presents the aging of the recorded investment in past due loans by class of loans as of June 30, 2011 and December 31, 2010:

	Total	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due
June 30, 2011						
Commercial and Industrial Loans and Leases	$294,461	$776	$51	$ 2,534	$3,361	$291,100
Commercial Real Estate Loans	441,948	1,128	468	8,994	10,590	431,358
Agricultural Loans	154,226	83	43	—	126	154,100
Home Equity Loans	77,078	178	83	85	346	76,732
Consumer Loans	51,643	266	95	263	624	51,019
Residential Mortgage Loans	94,324	2,115	298	1,356	3,769	90,555
Total (1)	$1,113,680	$4,546	$1,038	$ 13,232	$18,816	$1,094,864

(1) Total recorded investment in loans includes $5,058 in accrued interest.

	Total	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due
December 31, 2010						
Commercial and Industrial Loans and Leases	$219,261	$1,876	$782	$ 1,011	$3,669	$215,592
Commercial Real Estate Loans	340,770	149	700	5,843	6,692	334,078
Agricultural Loans	167,988	363	—	55	418	167,570
Home Equity Loans	64,652	132	12	156	300	64,352
Consumer Loans	54,048	604	95	108	807	53,241
Residential Mortgage Loans	77,639	2,112	580	604	3,296	74,343
Total (1)	$924,358	$5,236	$2,169	$ 7,777	$15,182	$909,176

(1) Total recorded investment in loans includes $5,640 in accrued interest.

Troubled Debt Restructurings:

The Company has allocated $201 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of June 30, 2011. The Company had allocated $173 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2010. The Company has not committed to lending any additional amounts as of June 30, 2011 and December 31, 2010 to customers with outstanding loans that are classified as troubled debt restructurings.

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company classifies loans as to credit risk by individually analyzing loans. This analysis includes commercial and industrial loans, commercial real estate loans, and agricultural loans with an outstanding balance greater than $100. This analysis is typically performed on at least an annual basis. The Company uses the following definitions for risk ratings:

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

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

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NOTE 4 – Loans (continued)

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans. Loans listed as not rated are either less than $100 or are included in groups of homogeneous loans. Based on the most recent analysis performed, the risk category of loans by class of loans is a follows:

	Pass	Special Mention	Substandard	Doubtful	Total
June 30, 2011					
Commercial and Industrial Loans and Leases	$257,551	$18,744	$ 18,166	$—	$294,461
Commercial Real Estate Loans	383,947	29,980	28,021	—	441,948
Agricultural Loans	148,242	3,399	2,585	—	154,226
Total	$789,740	$52,123	$ 48,772	$—	$890,635

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2010					
Commercial and Industrial Loans and Leases	$192,494	$14,782	$ 11,985	$—	$219,261
Commercial Real Estate Loans	295,863	27,304	17,603	—	340,770
Agricultural Loans	161,871	3,294	2,823	—	167,988
Total	$650,228	$45,380	$ 32,411	$—	$728,019

The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For home equity, consumer and residential mortgage loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following table presents the recorded investment in home equity, consumer and residential mortgage loans based on payment activity:

	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
June 30, 2011			
Performing	$ 76,993	$ 51,338	$ 92,968
Nonperforming	85	305	1,356
Total	$ 77,078	$ 51,643	$ 94,324

	Home Equity Loans	Consumer Loans	Residential Mortgage Loans
December 31, 2010			

Performing	$ 64,496	$ 53,907	$ 77,035
Nonperforming	156	141	604
Total	$ 64,652	$ 54,048	$ 77,639

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NOTE 4 – Loans (continued)

The following table presents financing receivable purchased and/or sold during the six months ended June 30, 2011 by portfolio class:

	Commercial and Industrial Loans and Leases	Commercial Real Estate Loans	Agricultural Loans	Home Equity Loans	Consumer Loans	Residential Mortgage Loans	Total
Purchases	$ 69,898	$ 111,629	$ —	$ 13,329	$ 1,169	$ 22,901	$ 218,926

The Company has purchased loans, for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is as follows:

		June 30, 2011
Commercial and Industrial Loans	$	2,969
Commercial Real Estate Loans		13,563
Home Equity Loans		—
Consumer Loans		184
Residential Mortgage Loans		154
Total	$	16,870
Carrying amount, Net of Allowance	$	16,795

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

		June 30, 2011
Balance at April 1, 2011	$	1,792
New Loans Purchased		—
Accretion of Income		(314)
Balance at June 30, 2011	$	1,478
Balance at January 1, 2011	$	—
New Loans Purchased		2,042
Accretion of Income		(564)
Balance at June 30, 2011	$	1,478

For those purchased loans disclosed above, the Company increased the allowance for loan losses by $75 during the three and six months ended June 30, 2011. No allowances for loan losses were reversed during the same periods.

Contractually required payments receivable of loans purchased during the year:

Commercial and Industrial Loans	$4,542
Commercial Real Estate Loans	19,260
Home Equity Loans	28
Consumer Loans	217
Residential Mortgage Loans	458
Total	$24,505
Cash Flows Expected to be Collected at Acquisition	$19,695
Fair Value of Acquired Loans at Acquisition	17,653

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Note 5 – Segment Information

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

The core banking segment is comprised by the Company's banking subsidiary, German American Bancorp, which operated through 33 retail banking offices at June 30, 2011. Net interest income from loans and investments funded by deposits and borrowings is the primary revenue for the core-banking segment. The trust and investment advisory services segment's revenues are comprised primarily of fees generated by German American Financial Advisors & Trust Company. These fees are derived by providing trust, investment advisory, and brokerage services to its customers. The insurance segment primarily consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products from seven offices. Commissions derived from the sale of insurance products are the primary source of revenue for the insurance segment.

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

Three Months Ended June 30, 2011	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	$ 16,790	$ 5	$ 6	$ (537)	$ 16,264
Net Gains on Sales of Loans	379	—	—	—	379
Net Gain on Securities	—	—	—	—	—
Trust and Investment Product Fees	1	495	—	(1)	495
Insurance Revenues	19	2	1,282	(13)	1,290
Noncash Items:					
Provision for Loan Losses	1,300	—	—	—	1,300
Depreciation and Amortization	1,175	9	137	38	1,359
Income Tax Expense (Benefit)	2,626	(121)	15	(329)	2,191

Segment Profit (Loss)	5,403	(185)	(11)	(343)	4,864
Segment Assets at June 30, 2011	1,822,774	12,142	7,852	(25,096)	1,817,672

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Note 5 – Segment Information (continued)

Three Months Ended June 30, 2010	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	$12,356	$2	$9	$(452)	$ 11,915
Net Gains on Sales of Loans	499	—	—	—	499
Net Gain on Securities	—	—	—	—	—
Trust and Investment Product Fees	1	395	—	(1)	395
Insurance Revenues	17	1	1,072	(7)	1,083
Noncash Items:					
Provision for Loan Losses	1,000	—	—	—	1,000
Depreciation and Amortization	615	7	227	—	849
Income Tax Expense (Benefit)	1,883	(53)	(105)	(329)	1,396
Segment Profit (Loss)	3,874	(80)	(171)	(215)	3,408
Segment Assets at December 31, 2010	1,368,348	2,193	8,426	(3,079)	1,375,888

Six Months Ended June 30, 2011	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	$32,429	$7	$13	$(1,078)	$ 31,371
Net Gains on Sales of Loans	788	—	—	—	788
Net Gain on Securities	—	—	—	1,045	1,045
Trust and Investment Product Fees	2	959	—	(2)	959
Insurance Revenues	40	2	3,313	(16)	3,339
Noncash Items:					
Provision for Loan Losses	2,600	—	—	—	2,600
Depreciation and Amortization	2,320	17	273	75	2,685
Income Tax Expense (Benefit)	3,995	(147)	330	(681)	3,497
Segment Profit (Loss)	8,964	(223)	439	329	9,509
Segment Assets at June 30, 2011	1,822,774	12,142	7,852	(25,096)	1,817,672

Six Months Ended June 30, 2010	Core Banking	Trust and Investment Advisory Services	Insurance	Other	Consolidated Totals
Net Interest Income	$24,442	$4	$17	$(899)	$ 23,564
Net Gains on Sales of Loans	817	—	—	—	817
Net Gain on Securities	—	—	—	—	—
Trust and Investment Product Fees	2	786	—	(2)	786

Insurance Revenues	30	7	2,746	(14)	2,769
Noncash Items:					
Provision for Loan Losses	2,500	—	—	—	2,500
Depreciation and Amortization	1,335	13	464	—	1,812
Income Tax Expense (Benefit)	3,321	(104)	8	(618)	2,607
Segment Profit (Loss)	7,241	(157)	(10)	(415)	6,659
Segment Assets at December 31, 2010	1,368,348	2,193	8,426	(3,079)	1,375,888

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Note 6 – Stock Repurchase Plan

On April 26, 2001 the Company announced that its Board of Directors approved a stock repurchase program for up to 607,754 (as adjusted for subsequent stock dividends) of the outstanding Common Shares of the Company. Shares may be purchased from time to time in the open market and in large block privately negotiated transactions. The Company is not obligated to purchase any shares under the program, and the program may be discontinued at any time before the maximum number of shares specified by the program is purchased. As of June 30, 2011, the Company had purchased 334,965 (as adjusted for subsequent stock dividends) shares under the program. No shares were purchased under the plan during the six months ended June 30, 2011.

Note 7 – Equity Plans and Equity Based Compensation

The Company maintains three equity incentive plans under which stock options, restricted stock, and other equity incentive awards can be granted. At June 30, 2011, the Company has reserved 611,548 shares of Common Stock (as adjusted for subsequent stock dividends and subject to further customary anti-dilution adjustments) for the purpose of issuance pursuant to outstanding and future grants of options, restricted stock, and other equity awards to officers, directors and other employees of the Company.

For the six months ended June 30, 2011 and 2010, the Company granted no options, and accordingly, recorded no stock option expense related to option grants during the three and six months ended June 30, 2011 and 2010. The Company recorded no other stock compensation expense applicable to options during the quarter and six months ended June 30, 2011 and 2010 because all outstanding options were fully vested prior to 2007. In addition, there was no unrecognized option expense as all outstanding options were fully vested prior to June 30, 2011 and 2010.

During the periods presented, awards of long-term incentives were granted in the form of restricted stock, granted in tandem with cash credit entitlements. The incentive awards will typically be in the form of 50% restricted stock grants and 50% cash credit entitlements. The restricted stock grants and tandem cash credit entitlements are subject to forfeiture in the event that the recipient of the grant does not continue employment with the Company through December 15 of the year of grant, at which time they generally vest 100 percent. For measuring compensation costs, restricted stock awards are valued based upon the market value of the common shares on the date of grant. During the three and six months ended June 30, 2011, the Company granted awards of 1,266 and 37,467 shares of restricted stock, respectively. During the six months ended June 30, 2010, the Company granted awards of 24,178 shares of restricted stock. The Company granted no shares of restricted stock during the three months ended June 30, 2010.

The following table presents expense recorded for restricted stock and cash entitlements as well as the related tax effect for the periods presented:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010
Restricted Stock Expense	$ 154	$ 100
Cash Entitlement Expense	137	95
Tax Effect	(118)	(79)
Net of Tax	$ 173	$ 116

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Restricted Stock Expense	$ 308	$ 200
Cash Entitlement Expense	275	190
Tax Effect	(236)	(158)
Net of Tax	$ 347	$ 232

Unrecognized expense associated with the restricted stock grants and cash entitlements totaled $587 and $390 as of June 30, 2011 and 2010, respectively.

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Note 7 – Equity Plans and Equity Based Compensation (continued)

The Company maintains an Employee Stock Purchase Plan whereby eligible employees have the option to purchase the Company's common stock at a discount. The purchase price of the shares under this Plan has been set at 95% of the fair market value of the Company's common stock as of the last day of the plan year. The plan provides for the purchase of up to 500,000 shares of common stock, which the Company may obtain by purchases on the open market or from private sources, or by issuing authorized but unissued common shares. Funding for the purchase of common stock is from employee and Company contributions.

The Employee Stock Purchase Plan is not considered compensatory. There was no expense recorded for the employee stock purchase plan during the three and six months ended June 30, 2011 and 2010, nor was there any unrecognized compensation expense as of June 30, 2011 and 2010 for the Employee Stock Purchase Plan.

Note 8 – Fair Value

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Impaired Loans: Values for collateral dependent loans are generally based on appraisals obtained from licensed real estate appraisers and in certain circumstances consideration of offers obtained to purchase properties prior to foreclosure. Appraisals for commercial real estate generally use three methods to derive value: cost, sales or market comparison and income approach. The cost method bases value in the cost to replace the current property. Value of market comparison approach evaluates the sales price of similar properties in the same market area. The income approach considers net operating income generated by the property and an investors required return. Adjustments are routinely made in the appraisal process to adjust for differences between the comparable sale and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate: Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate (ORE) are measured at the lower of carrying amount or fair value, less costs to sell. Fair values are generally based on third party appraisals of the property utilizing similar techniques as discussed above for Impaired Loans, resulting in a Level 3 classification. In cases where the carrying amount exceeds the fair value, less costs to sell, impairment loss is recognized.

Loans Held-for-Sale: The fair values of loans held for sale are determined by using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

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Note 8 – Fair Value (continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at June 30, 2011 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury and Agency Securities	$ 22,072	$ —	$ 22,072	$ —
Corporate Securities	1,010	—	1,010	—
Obligations of State and Political Subdivisions	47,232	—	47,232	—
Mortgage-backed Securities-Residential	414,375	—	414,375	—
Equity Securities	697	344	—	353
Loans Held-for-Sale	6,097	—	6,097	—

		Fair Value Measurements at December 31, 2010 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury and Agency Securities	$ —	$ —	$ —	$ —
Corporate Securities	—	—	—	—
Obligations of State and Political Subdivisions	32,178	—	32,178	—
Mortgage-backed Securities-Residential	311,066	—	311,066	—
Equity Securities	3,503	3,150	—	353
Loans Held-for-Sale	11,850	—	11,850	—

There were no significant transfers between Level 1 and Level 2 during the three and six months ended June 30, 2011.

The table below presents a reconciliation and income statement classification of gains and losses for equity securities that do not have readily determinable fair values and are evaluated for impairment on a periodic basis. These assets were measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2011 and 2010:

Equity Securities

Three Months Ended June 30:	2011	2010
Balance of Recurring Level 3 Assets at April 1	$353	$353
Sale of Securities	—	—
Other-than-temporary Impairment Charges Recognized through Net Income	—	—
Ending Balance, June 30	$353	$353

	Equity Securities	
Six Months Ended June 30:	2011	2010
Balance of Recurring Level 3 Assets at January 1	$353	$353
Sale of Securities	—	—
Other-than-temporary Impairment Charges Recognized through Net Income	—	—
Ending Balance, June 30	$353	$353

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Note 8 – Fair Value (continued)

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements at June 30, 2011 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans with Specific Allocations				
Commercial and Industrial Loans	$ 1,243	$ —	$ —	$ 1,243
Commercial Real Estate Loans	$ 6,727	$ —	$ —	$ 6,727
Other Real Estate				
Commercial Real Estate	$ —	$ —	$ —	$ —
Residential	$ —	$ —	$ —	$ —

		Fair Value Measurements at December 31, 2010 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans with Specific Allocations				
Commercial and Industrial Loans	$ 1,451	$ —	$ —	$ 1,451
Commercial Real Estate Loans	$ 7,868	$ —	$ —	$ 7,868
Other Real Estate				
Commercial Real Estate	$ 400	$ —	$ —	$ 400
Residential	$ 60	$ —	$ —	$ 60

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $12,604 with a valuation allowance of $4,634, resulting in an additional provision for loan losses of $411 and $925 for the three and six months ended June 30, 2011, respectively. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $13,902 with a valuation allowance of $4,583, resulting in an additional provision for loan losses of $4,036 for the year ended December 31, 2010.

Other Real Estate is measured at the lower of carrying or fair value less costs to sell. No charge to earnings was included in the three and six months ended June 30, 2011. Other Real Estate which is measured at the lower of carrying or fair value less costs to sell had a carrying amount of $460 at December 31, 2010.

The estimated fair values of the Company's financial instruments not previously presented are provided in the table below. Not all of the Company's assets and liabilities are considered financial instruments, and therefore are not included in the table. Because no active market exists for a significant portion of the Company's financial instruments, fair value estimates were based on subjective judgments, and therefore cannot be determined with precision.

GERMAN AMERICAN BANCORP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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Note 8 – Fair Value (continued)

	June 30, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash and Short-term Investments	$107,773	$107,773	$19,271	$19,271
Securities Held-to-Maturity	1,444	1,454	1,604	1,613
FHLB Stock and Other Restricted Stock	8,340	N/A	9,207	N/A
Loans, Net	1,083,997	1,082,433	894,600	894,463
Accrued Interest Receivable	7,024	7,024	6,687	6,687
Financial Liabilities:				
Demand, Savings, and Money Market Deposits	(1,125,928)	(1,125,928)	(725,736)	(725,736)
Time Deposits	(395,321)	(396,100)	(361,550)	(363,274)
Short-term Borrowings	(28,499)	(28,499)	(72,701)	(72,701)
Long-term Debt	(90,758)	(94,979)	(81,016)	(86,714)
Accrued Interest Payable	(2,031)	(2,031)	(2,281)	(2,281)
Unrecognized Financial Instruments:				
Commitments to Extend Credit	—	—	—	—
Standby Letters of Credit	—	—	—	—
Commitments to Sell Loans	—	—	—	—

The fair value for cash and short-term investments and accrued interest receivable is estimated to be equal to their carrying value. The fair values of securities held to maturity are based on quoted market prices or dealer quotes, if available, or by using quoted market prices for similar instruments. The fair value of loans are estimated by discounting future cash flows using the current rates at which similar loans would be made for the average remaining maturities. It was not practicable to determine the fair value of FHLB stock and other restricted stock due to restrictions placed on its transferability. The fair value of demand deposits, savings accounts, money market deposits, short-term borrowings and accrued interest payable is the amount payable on demand at the reporting date. The fair value of fixed-maturity time deposits and long-term borrowings are estimated using the rates currently offered on these instruments for similar remaining maturities. Commitments to extend credit and standby letters of credit are generally short-term or variable rate with minimal fees charged. These instruments have no carrying value, and the fair value is not significant. The fair value of commitments to sell loans is the cost or benefit of settling the commitments with the counter-party at the reporting date. At June 30, 2011 and December 31, 2010, none of the Company’s commitments to sell loans were mandatory, and there is no cost or benefit to settle these commitments.

Note 9 – Mergers and Acquisition Activity

Effective January 1, 2011, the Company acquired American Community Bancorp, Inc., and its subsidiaries, including the Bank of Evansville, pursuant to an Agreement and Plan of Reorganization dated October 4, 2010, as amended. The acquisition was accomplished by the merger of American Community into the German American Bancorp, Inc., immediately followed by the merger of Bank of Evansville into German American Bancorp, Inc.’s bank subsidiary (German American Bancorp). The Bank of Evansville operated three banking offices in Evansville, Indiana. American Community’s consolidated assets and equity (unaudited) as of December 31, 2010 totaled $340.3

million and $18.4 million, respectively, and its consolidated net income (loss) (unaudited) totaled ($632) for the year ended December 31, 2010. The acquired assets and liabilities were recorded at fair value at the date of acquisition and were reflected in the June 30, 2011 financial statements as such.

In accordance with ASC 805, the Company has expensed approximately $493 of direct acquisition costs and recorded $9.3 million of goodwill and $3.7 million of intangible assets. The intangible assets are related to core deposits and are being amortized on an accelerated basis over 6 years. For tax purposes, goodwill totaling $9.3 million is non-deductible. The following table summarizes the fair value of the total consideration transferred as a part of the American Community acquisition as well as the fair value of identifiable assets acquired and liabilities assumed as of the effective date of the transaction.

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Note 9 – Mergers and Acquisition Activity (continued)

January 1, 2011

Consideration	
Cash for Options & Warrants and Fractional Shares	$2,042
Equity Instruments	29,344
Fair Value of Total Consideration Transferred	$31,386
Recognized Amounts of Identifiable Assets Acquired and Liabilities Assumed:	
Cash	$6,621
Federal Funds Sold and Other Short-term Investments	51,201
Interest-bearing Time Deposits with Banks	12,284
Securities	29,441
Loans	218,926
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	1,350
Premises, Furniture & Equipment	9,397
Other Real Estate	1,155
Core Deposit Intangible	3,678
Company Owned Life Insurance	3,334
Accrued Interest Receivable & Other Assets	5,011
Deposits	(302,742)
FHLB Advances and Other Borrowings	(14,762)
Accrued Interest Payable and Other Liabilities	(2,843)
Total Identifiable Net Assets	$22,051
Goodwill	$9,335

Under the terms of the merger agreement, the Company issued approximately 1,449,000 shares of its common stock to the former shareholders of American Community. Each American Community common shareholder of record at the effective time of the merger became entitled to receive 0.725 shares of common stock of the Company for each of their former shares of American Community common stock.

The Company at the effective time of the merger owned 199,939 shares of American Community's outstanding common stock (approximately 9.1% of American Community's common shares then outstanding). All of these shares were cancelled at the effective time of the merger and were not exchanged for shares of the Company in the merger.

In connection with the closing of the merger, American Community paid to its shareholders of record at the close of business on December 15, 2010, a special cash dividend of $2.00 per American Community share (an aggregate of $3,997 to shareholders other than the Company) and the Company paid (or accrued an obligation to pay in 2011) approximately $2,038 to persons who held in-the-money options and warrants to purchase American Community common stock (all of which rights were cancelled at the effective time and were not assumed by the Company).

This acquisition was consistent with the Company’s strategy to build a regional presence in Southern Indiana. The acquisition offers the Company the opportunity to increase profitability by introducing existing products and services to the acquired customer base as well as add new customers in the expanded region.

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Note 9 – Mergers and Acquisition Activity (continued)

The following table presents unaudited pro forma information as if the acquisition had occurred on January 1, 2010 after giving effect to certain adjustments. The unaudited pro forma information for the three months and six months ended June 30, 2010, includes adjustments for interest income on loans and securities acquired, amortization of intangibles arising from the transaction, interest expense on deposits and borrowings acquired, and the related income tax effects. The unaudited pro forma financial information is not necessarily indicative of the results of operations that would have occurred had the transaction been effected on the assumed date.

	Pro forma Three Months Ended 6/30/2011	Pro forma Three Months Ended 6/30/2010
Net Interest Income	$ 16,264	$ 15,254
Non-interest Income	4,362	4,004
Total Revenue	20,626	19,258
Provision for Loan Losses Expense	1,300	1,000
Non-interest Expense	11,985	12,190
Income Before Income Taxes	7,341	6,068
Income Tax Expense	2,304	1,165
Net Income	5,037	4,903
Earnings Per Share and Diluted Earnings Per Share	$ 0.40	$ 0.39

	Pro forma Six Months Ended 6/30/2011	Pro forma Six Months Ended 6/30/2010
Net Interest Income	$ 31,371	$ 29,926
Non-interest Income	9,331	8,735
Total Revenue	40,702	38,661
Provision for Loan Losses Expense	2,600	2,500
Non-interest Expense	24,598	24,474
Income Before Income Taxes	13,504	11,687
Income Tax Expense	4,108	2,671
Net Income	9,396	9,016
Earnings Per Share and Diluted Earnings Per Share	$ 0.75	$ 0.72

The above pro forma financial information includes approximately $885 and $1,355 of net income and $2,852 and $5,386 of total revenue related to the operations of the Bank of Evansville during the three and six months ended June 30, 2011, respectively. The above pro forma financial information related to 2011 excludes one-time non-recurring acquisition/integration costs and revenue. The excluded one-time costs totaled $286 and $1,543 on a pre-tax basis during the three and six months ended June 30, 2011. The excluded one-time revenue totaled $0 and $1,045 for the three and six months ended June 30, 2011. The above pro forma financial information excludes the American Community Bancorp, Inc. provision for loan loss recognized during the three and six months ended June 30, 2010. Under acquisition accounting treatment, loans are recorded at fair value which includes a credit risk component, and therefore the provision for loan loss recognized during the three and six months ended June 30, 2010 was presumed to not be necessary.

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Note 10 – New Accounting Pronouncements

The FASB issued ASU 2011-01 - Receivables (Topic 310) – Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update 2010-20. The FASB issued this guidance to address concerns that the introduction of the new disclosure requirements of ASC 310-10-50-31 through 50-34 (i.e. ASU 2010-20) for troubled debt restructurings in one reporting period followed by a change in the definition of what constitutes a troubled debt restructuring (see ASU 2011-02 below) shortly thereafter would be burdensome. This newly issued guidance provided that such disclosures would be deferred until the effective date of ASU 2011-02 which is discussed in further detail immediately below.

In April 2011, the FASB issued new guidance impacting ASU No. 2011-02 - Receivables (Topic 310) – A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This new guidance was issued to improve financial reporting by creating greater consistency in the way GAAP is applied for various types of debt restructurings. This guidance clarifies which loan modifications constitute troubled debt restructurings (TDRs). It is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. Although, this new guidance does not amend the accounting for troubled debt restructurings, it is expected that application of the clarifications contained in this guidance will result in more modifications being considered troubled debt restructurings.

In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. The provisions of this ASU clarify the guidance on a creditor's evaluation of whether it has granted a concession and whether a debtor is experiencing financial difficulties. With regard to determining whether a concession has been granted, this new guidance clarifies that creditors are precluded from using the effective interest method to determine whether a concession has been granted.

In the absence of using the effective interest method, a creditor must now focus on other considerations such as the value of the underlying collateral, evaluation of other collateral or guarantees, the debtor's ability to access other funds at market rates, interest rate increases and whether the restructuring results in a delay in payment that is insignificant. In addition, the new guidance provides "a not all inclusive" list of six indicators for creditors to consider when determining if a debtor is experiencing financial difficulties which can be found in 310-40-15-20.

For the Company, the new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. Management continues to evaluate the impact of this standard on the Company's consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GERMAN AMERICAN BANCORP, INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

German American Bancorp, Inc. is a financial services holding company based in Jasper, Indiana. The Company's Common Stock is traded on NASDAQ's Global Select Market, under the symbol GABC. The principal subsidiary of German American Bancorp, Inc. is its banking subsidiary, German American Bancorp, which operates through 33 retail banking offices in twelve contiguous Southern Indiana counties. German American Bancorp owns a trust, brokerage, and financial planning subsidiary, which operates from its banking offices, and a full line property and casualty insurance agency with seven insurance agency offices throughout its market area.

Throughout this Management's Discussion and Analysis, as elsewhere in this report, when we use the term "Company," we will usually be referring to the business and affairs (financial and otherwise) of the Company and its subsidiaries and affiliates as a whole. Occasionally, we will refer to the term "parent company" or "holding company" when we mean to refer to only German American Bancorp, Inc.

This section presents an analysis of the consolidated financial condition of the Company as of June 30, 2011 and December 31, 2010 and the consolidated results of operations for the three and six months ended June 30, 2011 and 2010. This discussion should be read in conjunction with the consolidated financial statements and other financial data presented elsewhere herein and with the financial statements and other financial data, as well as the Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's December 31, 2010 Annual Report on Form 10-K.

MANAGEMENT OVERVIEW

This updated discussion should be read in conjunction with the Management Overview that was included in our Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's December 31, 2010 Annual Report on Form 10-K and in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011.

During the second quarter and first half of 2011, the Company achieved record level earnings. The Company's second quarter net income totaled $4,864,000, or $0.39 per share, representing an increase of approximately 43%, from the $3,408,000, or $0.31 per share, recorded during the same quarter last year. On a year-to-date basis, 2011 earnings improved to $9,509,000 or $0.76 per share, as compared to $6,659,000, or $0.60 per share for the first six months of 2010. The improvement in year-to-date earnings represented an increase of approximately 43%. The strong second quarter and year-to-date 2011 performance was inclusive of the acquisition of American Community Bancorp, Inc., and its banking subsidiary, the Bank of Evansville, effective as of January 1, 2011.

The Company's second quarter and first half of 2011 earnings were positively impacted by a $4,349,000 and $7,807,000, respectively, increase in the level of net interest income as compared to the same periods of 2010. The current year net interest income improvement was largely the result of a higher level of earning assets driven by growth in the Company's deposit base, the American Community acquisition, and to a lesser extent the acquisition of two branches effective May 7, 2010. The Company experienced strong deposit growth during the quarter and first half of 2011 with approximately $317 million of deposits from the American Community transaction and $117 million of organic growth from the Company's existing branch network since year-end 2010. On an annualized basis, the $117 million in organic deposit growth represented a 22% increase from the Company's year-end balances.

Revenue from non-interest income sources was also a positive contributor to second quarter and first half of 2011 earnings as compared to the same period of 2010. Second quarter and year-to-date non-interest income in 2011 increased by $571,000 or 15% and $2,006,000 or 24%, respectively, over that recorded in the same periods of 2010.

Somewhat offsetting this enhanced revenue, the Company's total non-interest expenses increased by approximately $2,369,000 or 24% and $5,973,000 or 30% during the three and six months ended June 30, 2011 as compared with the same periods of 2010. Much of these increases were attributable to expenses associated with acquisition of American Community Bancorp, Inc., and its banking subsidiary, Bank of Evansville, and the continuing operations of the Bank of Evansville during the first half of 2011, and to a lesser extent the acquisition of two branches effective May 7, 2010.

Management continues to focus on integrating the operations acquired from Bank of Evansville and on expanding its customer base both in banking and nonbanking (insurance, investment, and trust) lines of business, both in Evansville and elsewhere throughout its geographic footprint. In April 2011, the Company enhanced its trust business staff with the recruitment of a team of six experienced trust professionals from the Evansville market who will focus on growing our trust presence in this important new market area. Additionally, the Company successfully completed the conversion of the Bank of Evansville's customer information files to its core processing system during April 2011. The Company expects that this conversion will facilitate our marketing of our products and services within the Evansville market under the German American name and brand.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The financial condition and results of operations for German American Bancorp, Inc. presented in the Consolidated Financial Statements, accompanying Notes to the Consolidated Financial Statements, and selected financial data appearing elsewhere within this Report, are, to a large degree, dependent upon the Company's accounting policies. The selection of and application of these policies involve estimates, judgments, and uncertainties that are subject to change. The critical accounting policies and estimates that the Company has determined to be the most susceptible to change in the near term relate to the determination of the allowance for loan losses, the valuation of securities available for sale, and the valuation allowance on deferred tax assets.

Allowance for Loan Losses

The Company maintains an allowance for loan losses to cover probable incurred credit losses at the balance sheet date. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. A provision for loan losses is charged to operations based on management's periodic evaluation of the necessary allowance balance. Evaluations are conducted at least quarterly and more often if deemed necessary. The ultimate recovery of all loans is susceptible to future market factors beyond the Company's control.

The Company has an established process to determine the adequacy of the allowance for loan losses. The determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on other classified loans and pools of homogeneous loans, and consideration of past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors, all of which may be susceptible to significant change. The allowance consists of two components of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover losses inherent in the loan portfolio.

Commercial and agricultural loans are subject to a standardized grading process administered by an internal loan review function. The need for specific reserves is considered for credits when graded substandard or when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or, (d) other reasons where the ultimate collectibility of the loan is in question, or the loan characteristics require special monitoring. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired. 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 those graded substandard and 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.

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 a three-year historical average for loan losses for these portfolios, judgmentally adjusted for economic factors and portfolio trends.

Due to the imprecise nature of estimating the allowance for loan losses, the Company's allowance for loan losses includes a minor unallocated component. The unallocated component of the allowance for loan losses incorporates the Company's judgmental determination of inherent losses that may not be fully reflected in other allocations, including factors such as economic uncertainties, lending staff quality, industry trends impacting specific portfolio segments, and broad portfolio quality trends. Therefore, the ratio of allocated to unallocated components within the total allowance may fluctuate from period to period.

Securities Valuation

Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported separately in accumulated other comprehensive income (loss), net of tax. The Company obtains market values from a third party on a monthly basis in order to adjust the securities to fair value. Equity securities that do not have readily determinable fair values are carried at cost. Additionally, when securities are deemed to be other than temporarily impaired, a charge will be recorded through earnings; therefore, future changes in the fair value of securities could have a significant impact on the Company's operating results. In determining whether a market value decline is other than temporary, management considers the reason for the decline, the extent of the decline, the duration of the decline and whether the Company intends to sell or believes it will be required to sell the securities prior to recovery. As of June 30, 2011, gross unrealized losses on the securities available-for-sale portfolio totaled approximately $152,000 and gross unrealized gains totaled approximately $16,835,000. As of June 30, 2011, held-to-maturity securities had a gross unrecognized gain of approximately $10,000.

Income Tax Expense

Income tax expense involves estimates related to the valuation allowance on deferred tax assets and loss contingencies related to exposure from tax examinations.

A valuation allowance reduces deferred tax assets to the amount management believes is more likely than not to be realized. In evaluating the realization of deferred tax assets, management considers the likelihood that sufficient taxable income of appropriate character will be generated within carryback and carryforward periods, including consideration of available tax planning strategies. Tax related loss contingencies, including assessments arising from tax examinations and tax strategies, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. In considering the likelihood of loss, management considers the nature of the contingency, the progress of any examination or related protest or appeal, the views of legal counsel and other advisors, experience of the Company or other enterprises in similar matters, if any, and management's intended response to any assessment.

RESULTS OF OPERATIONS

Net Income:

Net income for the quarter ended June 30, 2011 totaled $4,864,000, or $0.39 per share, an increase of $1,456,000 or 43% from the quarter ended June 30, 2010 net income of $3,408,000, or $0.31 per share. Net income for the six months ended June 30, 2011 totaled $9,509,000 or $0.76 share, an increase of $2,850,000 or 43% from the six months ended June 30, 2010 net income of $6,659,000, or $0.60 per share.

Net Interest Income:

Net interest income is the Company's single largest source of earnings, and represents the difference between interest and fees realized on earning assets, less interest paid on deposits and borrowed funds. Several factors contribute to the determination of net interest income and net interest margin, including the volume and mix of earning assets, interest rates, and income taxes. Many factors affecting net interest income are subject to control by management policies and actions. Factors beyond the control of management include the general level of credit and deposit demand, Federal Reserve Board monetary policy, and changes in tax laws.

The following table summarizes net interest income (on a tax-equivalent basis). For tax-equivalent adjustments, an effective tax rate of 35% was used for all periods presented (1).

Average Balance Sheet
(Tax-equivalent basis / dollars in thousands)

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
Assets						
Federal Funds Sold and Other Short-term Investments	$ 86,689	$ 66	0.30 %	$ 52,008	$ 27	0.21 %
Securities:						
Taxable	442,883	3,586	3.24 %	248,889	2,462	3.96 %
Non-taxable	44,155	650	5.89 %	26,080	390	5.98 %
Total Loans and Leases (2)	1,107,014	16,506	5.98 %	901,856	13,264	5.90 %
Total Interest Earning Assets	1,680,741	20,808	4.96 %	1,228,833	16,143	5.27 %
Other Assets	137,280			97,246		
Less: Allowance for Loan Losses	(14,687)			(11,232)		
Total Assets	$ 1,803,334			$ 1,314,847		
Liabilities and Shareholders' Equity						
Interest-bearing Demand, Savings and Money Market Deposits	$ 881,955	$ 1,239	0.56 %	$ 512,680	$ 461	0.36 %
Time Deposits	391,181	2,009	2.06 %	353,577	2,225	2.52 %
FHLB Advances and Other Borrowings	114,290	1,009	3.54 %	154,884	1,340	3.47 %
Total Interest-bearing Liabilities	1,387,426	4,257	1.23 %	1,021,141	4,026	1.58 %
Demand Deposit Accounts	248,055			163,227		
Other Liabilities	13,685			12,678		
Total Liabilities	1,649,166			1,197,046		
Shareholders' Equity	154,168			117,801		
Total Liabilities and Shareholders' Equity	$ 1,803,334			$ 1,314,847		
Cost of Funds			1.01 %			1.32 %
Net Interest Income		$ 16,551			$ 12,117	
Net Interest Margin			3.95 %			3.95 %

(1)Effective tax rates were determined as though interest earned on the Company's investments in municipal bonds and loans was fully taxable.

(2) Loans held-for-sale and non-accruing loans have been included in average loans.

Net interest income increased $4,349,000 or 37% (an increase of $4,434,000 or 37% on a tax-equivalent basis) for the quarter ended June 30, 2011 compared with the same quarter of 2010. The net interest margin represents tax-equivalent net interest income expressed as a percentage of average earning assets. The tax equivalent net interest margin was 3.95% for both the second quarter of 2011 and second quarter 2010. The yield on earning assets totaled 4.96% during the quarter ended June 30, 2011 compared to 5.27% in the same period of 2010 while the cost of funds (expressed as a percentage of average earning assets) totaled 1.01% during the quarter ended June 30, 2011 compared to 1.32% in the same period of 2010. The increased level of net interest income during the second quarter of 2011 compared with the second quarter 2010 was primarily attributable to an increased level average earning assets.

Average earning assets increased by approximately $451.9 million for the three months ended June 30, 2011 compared with the same period of 2010. Average loans outstanding increased by $205.2 million or 23% during the three months ended June 30, 2011 compared with the second quarter of 2010. The increase in average loans was largely attributable to the American Community acquisition as of January 1, 2011 and the acquisition of two branch offices in the second quarter of 2010. Average federal funds sold and other short-term investments increased by $34.7 million during the second quarter 2011 compared with the same quarter of 2010. The average securities portfolio increased approximately $212.1 million or 77% in the three months ended June 30, 2011 compared with the second quarter of 2010. The key driver of the increased federal funds sold position and securities portfolio was an increased level of average core deposits (core deposits defined as demand deposits - both interest and non-interest bearing, savings, money market and time deposits in denominations of less than $100,000). The increase in average core deposits totaled $475.4 million during the second quarter 2011 compared with the second quarter 2010. The acquisition of the American Community and the branch acquisition completed in the second quarter of 2010 contributed approximately $309.5 million of the average core deposit growth while organic growth from the Company's existing branch network contributed approximately $165.9 of the average core deposit growth.

The following table summarizes net interest income (on a tax-equivalent basis). For tax-equivalent adjustments, an effective tax rate of 35% was used for all periods presented (1).

Average Balance Sheet
(Tax-equivalent basis / dollars in thousands)

	Six Months Ended June 30, 2011			Six Months Ended June 30, 2010		
	Principal Balance	Income / Expense	Yield / Rate	Principal Balance	Income / Expense	Yield / Rate
Assets						
Federal Funds Sold and Other Short-term Investments	$ 98,393	$ 131	0.27 %	$ 38,706	$ 36	0.19 %
Securities:						
Taxable	399,509	6,430	3.22 %	243,579	4,927	4.05 %
Non-taxable	41,940	1,218	5.81 %	26,334	800	6.07 %
Total Loans and Leases (2)	1,110,642	32,809	5.95 %	889,810	26,170	5.93 %
Total Interest Earning Assets	1,650,484	40,588	4.95 %	1,198,429	31,933	5.36 %
Other Assets	140,575			96,884		
Less: Allowance for Loan Losses	(14,230)			(11,270)		
Total Assets	$ 1,776,829			$ 1,284,043		
Liabilities and Shareholders' Equity						
Interest-bearing Demand, Savings and Money Market Deposits	$ 843,662	$ 2,505	0.60 %	$ 494,564	$ 887	0.36 %
Time Deposits	395,806	4,136	2.11 %	348,063	4,411	2.56 %
FHLB Advances and Other Borrowings	122,588	2,028	3.34 %	153,111	2,662	3.51 %
Total Interest-bearing Liabilities	1,362,056	8,669	1.28 %	995,738	7,960	1.61 %
Demand Deposit Accounts	245,851			158,748		
Other Liabilities	13,814			13,032		
Total Liabilities	1,621,721			1,167,518		
Shareholders' Equity	155,108			116,525		
Total Liabilities and Shareholders' Equity	$ 1,776,829			$ 1,284,043		
Cost of Funds			1.06 %			1.34 %
Net Interest Income		$ 31,919			$ 23,973	
Net Interest Margin			3.89 %			4.02 %

(1) Effective tax rates were determined as though interest earned on the Company's investments in municipal bonds and loans was fully taxable.
(2) Loans held-for-sale and non-accruing loans have been included in average loans.

Net interest income increased $7,807,000 or 33% (an increase of $7,946,000 or 33% on a tax-equivalent basis) for the six months ended June 30, 2011 compared with the same period of 2010. The tax equivalent net interest margin was

3.89% for the first six months of 2011 compared with 4.02% for the same period of 2010. The yield on earning assets totaled 4.95% during the six months ended June 30, 2011 compared to 5.36% in the same period of 2010 while the cost of funds (expressed as a percentage of average earning assets) totaled 1.06% during the six months ended June 30, 2011 compared to 1.34% in the same period of 2010. The increased level of net interest income during the first six months of 2011 compared with the same period of 2010 was primarily attributable to an increased level of average earning assets. The decline in the net interest margin expressed as a percentage was largely the result of the Company carrying a higher level of federal funds sold and other short-term investments during the first half of 2011 compared with the first half of 2010 and an increased securities portfolio driven by an increase in the Company's core deposit base. This increase was the result of the acquisition of the American Community and growth from the Company's existing branch network.

Average earning assets increased by approximately $452.1 million or 38% for the six months ended June 30, 2011 compared with the same period of 2010. Average loans outstanding increased by $220.8 million or 25% during the six months ended June 30, 2011 compared with the first half of 2010. The increase in average loans was largely attributable to the American Community acquisition as of January 1, 2011 and the acquisition of two branch offices in the second quarter of 2010. Average federal funds sold and other short-term investments increased by $59.7 million during the first half of 2011 compared with the same period of 2010. The average securities portfolio increased approximately $171.5 million or 64% in the six months ended June 30, 2011 compared with the first half of 2010. The key driver of the increased federal funds sold position and securities portfolio was an increased level of average core deposits (core deposits defined as demand deposits - both interest and non-interest bearing, savings, money market and time deposits in denominations of less than $100,000). The increase in average core deposits totaled $464.0 million during the six months ended June 30, 2011 compared with the same period of 2010. The acquisition of the American Community and the branch acquisition completed in the second quarter of 2010 contributed approximately $317.4 million of the average core deposit growth while organic growth from the Company's existing branch network contributed approximately $146.6 of the average core deposit growth.

Provision for Loan Losses:

The Company provides for loan losses through regular provisions to the allowance for loan losses. The provision is affected by net charge-offs on loans and changes in specific and general allocations of the allowance. The provision for loan losses totaled $1,300,000 during the quarter ended June 30, 2011, an increase of $300,000 or 30% compared to the provision of $1,000,000 during the quarter ended June 30, 2010. The provision for loan losses totaled $2,600,000 during the six months ended June 30, 2011, an increase of $100,000 or 4% compared to the provision of $2,500,000 during the six months ended June 30, 2010.

During the second quarter of 2011, the annualized provision for loan losses represented 0.47% of average loans outstanding compared with 0.44% on an annualized basis of average loans outstanding during the second quarter of 2010. Net charge-offs totaled $693,000 or 0.25% on an annualized basis of average loans outstanding during the three months ended June 30, 2011, compared with $900,000 or 0.40% on an annualized basis of average loans outstanding during the same period of 2010.

During the six months ended June 30, 2011, the annualized provision for loan losses represented 0.47% of average loans outstanding compared with 0.56% on an annualized basis of average loans outstanding during the first half of 2010. Net charge-offs totaled $1,137,000 or 0.20% on an annualized basis of average loans outstanding during the six months ended June 30, 2011, compared with $2,703,000 or 0.61% on an annualized basis of average loans outstanding during the same period of 2010.

The provision for loan losses made during the quarter ended and six months ended June 30, 2011 was made at a level deemed necessary by management to absorb estimated, probable incurred losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for loan losses is completed quarterly by management, the results of which are used to determine provision for loan losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors.

Non-interest Income:

During the quarter ended June 30, 2011, non-interest income totaled $4,362,000, an increase of $571,000 or 15% compared with the second quarter of 2010.

Non-interest Income ($ in thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Change from Prior Period Amount Change	Change from Prior Period Percent Change
Trust and Investment Product Fees	$ 495	$ 395	$ 100	25 %
Service Charges on Deposit Accounts	1,074	1,075	(1)	—
Insurance Revenues	1,290	1,083	207	19
Company Owned Life Insurance	250	186	64	34
Interchange Fee Income	378	292	86	29
Other Operating Income	496	261	235	90
Subtotal	3,983	3,292	691	21
Net Gains on Sales of Loans	379	499	(120)	(24)
Net Gain on Securities	—	—	—	—
Total Non-interest Income	$ 4,362	$ 3,791	$ 571	15

Trust and investment product fees increased $100,000 or 25% during the three months ended June 30, 2011 compared with the same period of 2010. The increase was primarily attributable to increased retail brokerage revenues. Insurance revenues during the second quarter of 2011 increased $207,000 or approximately 19% compared to the second quarter of 2010. The increase was broad based across several segments of the Company's insurance lines including commercial, personal and accident and health lines and is due in part to an administrative change in the accounting for direct bill customers during the second quarter of 2010 to better reconcile with the Company's agency management system.

Net interchange revenues related to debit cards increased approximately 29% during the second quarter of 2011 compared with the second quarter of 2010. This increase was attributable to increased customer utilization and the American Community acquisition. Other operating income increased $235,000 or 90% during the quarter ended June 30, 2011 compared with the second quarter of 2010. The increase was related to net gains on sale of other real estate during second quarter of 2011 compared with a net loss on the sale of other real estate during the quarter ended June 30, 2010.

During the second quarter of 2011, the net gain on sale of residential loans decreased approximately 24% from the gain recognized in the second quarter of 2010. Loans sold during the three months ended June 30, 2011 totaled $16.9 million compared to $18.0 million during the same period of 2010.

Non-interest Income ($ in thousands)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Change from Prior Period Amount Change	Change from Prior Period Percent Change
Trust and Investment Product Fees	$ 959	$ 786	$ 173	22 %
Service Charges on Deposit Accounts	2,015	2,021	(6)	—
Insurance Revenues	3,339	2,769	570	21
Company Owned Life Insurance	603	388	215	55
Interchange Fee Income	731	548	183	33
Other Operating Income	896	1,041	(145)	(14)
Subtotal	8,543	7,553	990	13
Net Gains on Sales of Loans	788	817	(29)	(4)
Net Gain on Securities	1,045	—	1,045	n/m (1)
Total Non-interest Income	$ 10,376	$ 8,370	$ 2,006	24

(1) = not meaningful

Trust and investment product fees increased 22% during the six months ended June 30, 2011 compared with the same period of 2010. The increase was primarily attributable to increased retail brokerage revenues. Insurance revenues increased approximately 21% during the six months ended June 30, 2011 as compared to the first half of 2010 primarily as a result of increased contingency revenue. Contingency revenue totaled $872,000 in the first half of 2011 compared with contingency revenue of $363,000 in the first half of 2010. Company owned life insurance revenue increased $215,000 or 55% during the six months ended June 30, 2011 as compared with the same period of the prior year. The increase was primarily attributable to a 1035 exchange transaction on a portion of the Company's portfolio that was completed during the first quarter 2011 and to the American Community acquisition.

Net interchange revenues related to debit cards increased approximately 33% during the first half of 2011 compared with the six months ended June 30, 2010. This increase was attributable to increased customer utilization and the American Community acquisition. The Company realized a net gain on securities of $1,045,000 during the first quarter of 2011 related to the acquisition accounting treatment of the existing equity ownership position the Company held in American Community at the time of acquisition.

Non-interest Expense:

During the quarter ended June 30, 2011, non-interest expense totaled $12,271,000, an increase of $2,369,000 or 24% compared with the second quarter of 2010. During the second quarter of 2011, non-interest expense attributable to the Bank of Evansville operations and the operations of the two other branches acquired during 2010 totaled approximately $1,789,000 compared with approximately $282,000 in the second quarter of 2010. Other acquisition accounting items related to the acquisition of American Community totaled $616,000, including approximately $286,000 of non-recurring expense items.

Non-interest Expense ($ in thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Change from Prior Period Amount Change	Change from Prior Period Percent Change

Salaries and Employee Benefits	$ 6,722	$ 5,288	$ 1,434	27 %
Occupancy, Furniture and Equipment Expense	1,841	1,435	406	28
FDIC Premiums	382	336	46	14
Data Processing Fees	395	365	30	8
Professional Fees	499	524	(25)	(5)
Advertising and Promotion	314	273	41	15
Intangible Amortization	498	247	251	102
Other Operating Expenses	1,620	1,434	186	13
Total Non-interest Expense	$ 12,271	$ 9,902	$ 2,369	24

Salaries and benefits increased approximately 27% during the quarter ended June 30, 2011 compared with the second quarter of 2010. The increase was attributable to the additional staffing as a result of the acquisition of American Community and the branch acquisition completed during the second quarter 2010 along with additional staffing within both the Company's existing banking and non-banking business units.

The increase in occupancy, furniture and equipment expense was also primarily related to the acquisition and the costs associated with acquisition of American Community and the two branch acquisition completed during the second quarter 2010.

Intangible amortization increased $251,000 or 102% during the second quarter of 2011 compared with the second quarter of 2010. The increase was primarily related to amortization of core deposit intangible resulting from the acquisition of American Community. Other operating expense increased $186,000 or 13% during the second quarter of 2011 compared with the second quarter of 2010 resulting primarily from the acquisition of American Community.

During the six months ended June 30, 2011, non-interest expense totaled $26,141,000, an increase of $5,973,000 or 30% compared with the six months ended June 30, 2010. During the first half of 2011, non-interest expense attributable to the Bank of Evansville operations and the operations of the two other branches acquired during the second quarter of 2010 totaled approximately $3,777,000 compared with approximately $282,000 in the first half of 2010. Other acquisition accounting items related to the acquisition of American Community totaled $2,220,000, including approximately $1,543,000 of non-recurring expense items.

Non-interest Expense ($ in thousands)	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010	Change from Prior Period Amount Change	Change from Prior Period Percent Change
Salaries and Employee Benefits	$ 14,123	$ 10,837	$ 3,286	30 %
Occupancy, Furniture and Equipment Expense	3,696	2,974	722	24
FDIC Premiums	896	688	208	30
Data Processing Fees	1,500	724	776	107
Professional Fees	1,104	1,045	59	6
Advertising and Promotion	617	542	75	14
Intangible Amortization	1,015	465	550	118
Other Operating Expenses	3,190	2,893	297	10
Total Non-interest Expense	$ 26,141	$ 20,168	$ 5,973	30

Salaries and benefits increased approximately 30% during the six months ended June 30, 2011 compared with the same period of 2010. The increase was attributable to the additional staffing as a result of the acquisition of American Community and the branch acquisition completed during the second quarter 2010. Recurring salary and benefit costs associated with these acquisitions totaled approximately $1,978,000 during the first half of 2011 compared with $111,000 during the first half of 2010. In addition, the first half of 2011 included approximately $875,000 of merger related salary and benefit costs.

The increase in occupancy, furniture and equipment expense was also primarily related to the acquisition and the costs associated with acquisition of American Community and the two branch acquisition completed during the second quarter 2010. The Company's FDIC deposit insurance assessments increased 30% in the first half of 2011 compared with the first half of 2010. The increase was largely related to the increase in the size of the Company resulting from the acquisition of American Community and to a lesser degree an increased deposit base resulting from organic deposit growth unrelated to the acquisition partially mitigated by the change in the deposit insurance assessment calculation that resulted from the Dodd Frank Act.

Data processing fees increased approximately $776,000 or 107% during the six months ended June 30, 2011 compared with the same period of 2010. The increase was largely related to running the Company's existing core processing system and the Bank of Evansville's core processing system during the first quarter of 2011 and other merger related costs associated with the acquisition of American Community. The customers of the Bank of Evansville were moved to the Company's core processing system during April 2011.

Intangible amortization increased $550,000 or 118% during the first half of 2011 compared with the first half of 2010. The increase was primarily related to amortization of core deposit intangible resulting from the acquisition of American Community and to a lesser extent the amortization of the core deposit intangible resulting from the acquisition of two branches in May 2010.

Income Taxes:

The Company's effective income tax rate was 31.1% and 29.1% during the three months ended June 30, 2011 and 2010. The Company's effective income tax rate approximated 26.9% and 28.1% during the six months ended June 30, 2011 and 2010. The effective tax rate in all periods presented was lower than the blended statutory rate of 40.5% resulting primarily from the Company's tax-exempt investment income on securities, loans and company owned life insurance, income tax credits generated from investments in a new markets tax credit project, and income generated by subsidiaries domiciled in a state with no state or local income tax. Further lowering the effective tax rate during the first half of 2011 was the non-taxability of the $1.045 million gain on securities related to the acquisition accounting treatment of the existing equity ownership position the Company held in American Community at the time of acquisition.

FINANCIAL CONDITION

Total assets at June 30, 2011 increased $441.8 million to $1.818 billion compared with $1.376 billion in total assets at December 31, 2010. Cash and cash equivalents increased $88.5 million to $107.8 million at June 30, 2011 compared with $19.3 million at year-end 2010. Securities available-for-sale increased $138.7 million to $485.4 million at June 30, 2011 compared with $346.7 million at year-end 2010. The increase in cash and cash equivalents and securities available-for-sale was primarily attributable to organic growth in the Company's deposit portfolio and to the acquisition of American Community.

Premises, furniture and equipment (net), at June 30, 2011 increased $9.9 million to $35.9 million compared with $26.0 million of such assets at December 31, 2010. This increase was primarily attributable to the purchase of premises, furniture and equipment, with a fair value of approximately $9.4 million, as part of the acquisition of the Bank of Evansville and its three branch office locations.

Goodwill increased $9.3 million to $19.2 million at June 30, 2011 and other intangible assets increased $2.6 million to $5.3 million at June 30, 2011 as compared with year end 2010. These increases were the result of acquisition accounting related to the acquisition of American Community.

Total loans outstanding increased approximately $189.9 million at June 30, 2011 compared with year-end 2010. The loans acquired from American Community were the predominant factor in the increased loan portfolio. The Company's loan portfolio as constituted at December 31, 2010 (prior to the acquisition of American Community) declined by approximately $14.1 million which was largely attributable to a seasonal decline in the agricultural loan portfolio.

End of Period Loan Balances: ($ in thousands)	June 30, 2011	December 31, 2010	Current Period Change
Commercial and Industrial Loans	$ 293,439	$ 218,443	$ 74,996
Commercial Real Estate Loans	440,704	339,555	101,149
Agricultural Loans	152,229	165,166	(12,937)
Home Equity and Consumer Loans	128,275	118,244	10,031
Residential Mortgage Loans	93,975	77,310	16,665
Total Loans	$ 1,108,622	$ 918,718	$ 189,904

The Company's allowance for loan losses totaled $14.8 million at June 30, 2011 representing an increase of $1,463,000 or 22% on an annualized basis from year-end 2010. The allowance for loan losses represented 1.34% of period-end loans at June 30, 2011 compared with 1.45% at December 31, 2010. The decline in the allowance for loan loss as a percent of total loans was the result of the acquisition accounting treatment for allowance for loan losses attributable to the acquisition of American Community. Under acquisition accounting treatment, loans are recorded at fair value which includes a credit risk component, and therefore the allowance on loans acquired is not carried over from the seller. As of June 30, 2011, the Company held a discount on acquired loans of $7.6 million which includes loans acquired in the American Community acquisition and loans acquired in a branch acquisition completed in the second quarter of 2010.

Total deposits at June 30, 2011 increased $434.0 million to $1.521 billion compared with year-end 2010 total deposits. The deposits relative to American Community totaled $316.6 million at June 30, 2011. Deposits from the Company's branch bank network as constituted on December 31, 2010 (prior to the American Community acquisition) increased $117.4 million or approximately 22% on an annualized basis during the first half of 2011.

End of Period Deposit Balances: ($ in thousands)	June 30, 2011	December 31, 2010	Current Period Change
Non-interest-bearing Demand Deposits	$ 248,979	$ 184,204	$ 64,775
Interest-bearing Demand, Savings, & Money Market Accounts	876,949	541,532	335,417
Time Deposits < $100,000	285,691	272,963	12,728
Time Deposits of $100,000 or more & Brokered Deposits	109,630	88,587	21,043
Total Deposits	$ 1,521,249	$ 1,087,286	$ 433,963

Non-performing Assets:

The following is an analysis of the Company's non-performing assets at June 30, 2011 and December 31, 2010 (dollars in thousands):

	June 30, 2011	December 31, 2010
Non-accrual Loans	$ 17,005	$ 10,150
Past Due Loans (90 days or more)	150	671
Restructured Loans	430	396
Total Non-performing Loans	17,585	11,217
Other Real Estate	2,317	2,095
Total Non-performing Assets	$ 19,902	$ 13,312
Non-performing Loans to Total Loans	1.59 %	1.22 %
Allowance for Loan Loss to Non-performing Loans	84.05 %	118.72 %

Non-performing assets totaled $19.9 million at June 30, 2011 compared to $13.3 million of non-performing assets at December 31, 2010. Non-performing assets represented 1.09% of total assets at June 30, 2011 compared to 0.97% at year-end 2010. Non-performing loans totaled $17.6 million at June 30, 2011 compared to $11.2 million of non-performing loans at December 31, 2010. Non-performing loans represented 1.59% of total outstanding loans at June 30, 2011 compared with 1.22% of total loans outstanding at year-end 2010. The increase in non-performing loans attributable to the acquisition of American Community totaled $1.2 million at June 30, 2011. The remainder of the increase was attributable to two commercial credit relationships. One relationship was acquired as a part of the branch acquisition the Company completed during the second quarter of 2010. This credit is related to the operation of two restaurants and totaled $3.9 million at June 30, 2011. The second relationship is a commercial real estate participation loan secured by a convenience store that totaled $2.4 million at June 30, 2011.

Capital Resources:

Federal banking regulations provide guidelines for determining the capital adequacy of bank holding companies and banks. These guidelines provide for a more narrow definition of core capital and assign a measure of risk to the various categories of assets. The Company is required to maintain minimum levels of capital in proportion to total risk-weighted assets and off-balance sheet exposures such as loan commitments and standby letters of credit.

Tier 1, or core capital, consists of shareholders' equity plus certain amounts of instruments commonly referred to as trust preferred securities, less goodwill, core deposit intangibles, other identifiable intangibles and certain deferred tax assets defined by bank regulations. Tier 2 capital currently consists of the amount of the allowance for loan losses which does not exceed a defined maximum allowance limit of 1.25 percent of gross risk adjusted assets and certain amounts of subordinated debenture obligations. Total capital is the sum of Tier 1 and Tier 2 capital.

The minimum requirements under these standards are generally at least a 4.0 percent leverage ratio, which is Tier 1 capital divided by defined "total assets"; 4.0 percent Tier 1 capital to risk-adjusted assets; and, an 8.0 percent total capital to risk-adjusted assets ratios. Under these guidelines, the Company, on a consolidated basis, and its subsidiary bank, have capital ratios that exceed the regulatory minimums.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) requires federal regulatory agencies to define capital tiers. These are: well-capitalized, adequately-capitalized, under-capitalized, significantly under-capitalized, and critically under-capitalized. Under these regulations, a "well-capitalized" entity must achieve a Tier 1 risk-based capital ratio of at least 6.0 percent; a total capital ratio of at least 10.0 percent; and, a leverage ratio of at least 5.0 percent, and not be under a capital directive. The Company's subsidiary bank was categorized as well-capitalized as of June 30, 2011.

At June 30, 2011, management was not under such a capital directive, nor was it aware of any current recommendations by banking regulatory authorities which, if they were to be implemented, would have or are reasonably likely to have, a material effect on the Company's liquidity, capital resources or operations.

The table below presents the Company's consolidated capital ratios under regulatory guidelines:

	Minimum for Capital Adequacy Purposes		At June 30, 2011		At December 31, 2010	
Leverage Ratio	4.00	%	7.34	%	7.61	%
Tier 1 Capital to Risk-adjusted Assets	4.00	%	10.47	%	10.37	%
Total Capital to Risk-adjusted Assets	8.00	%	13.54	%	14.18	%

As of June 30, 2011, shareholders' equity increased by $38.6 million to $160.1 million compared with $121.5 million at year-end 2010. The increase in shareholders' equity was largely attributable to the issuance of the Company's common shares in the acquisition of American Community. Approximately 1,449,000 shares were issued to American Community shareholders resulting in an increase to shareholders' equity of $26.7 million. The increase in shareholders' equity was also attributable to an increase of $6.0 million in retained earnings. Shareholders' equity represented 8.8% of total assets at both June 30, 2011 and December 31, 2010. Shareholders' equity included $24.5 million of goodwill and other intangible assets at June 30, 2011 compared to $12.5 million of goodwill and other intangible assets at December 31, 2010.

Effective January 1, 2011, and as a result of the acquisition of American Community, German American assumed long-term debt obligations of American Community and Bank of Evansville including two junior subordinated debentures issued by American Community in the aggregate unpaid principal amount of approximately $8.3 million. The junior subordinated debentures were issued to certain statutory trusts established by American Community (in support of related issuances of trust preferred securities issued by those trusts) and both mature in single installments of principal payable in 2035, and bear interest payable on a quarterly basis at a floating rate, adjustable quarterly based on the 90-day LIBOR plus a specified percentage. These junior subordinated debenture obligations are now obligations of German American's parent company.

Liquidity:

The Consolidated Statement of Cash Flows details the elements of changes in the Company's consolidated cash and cash equivalents. Total cash and cash equivalents increased $88.5 million during the six months ended June 30, 2011 ending at $107.8 million. During the six months ended June 30, 2011, operating activities resulted in net cash inflows of $23.8 million. Investing activities resulted in net cash outflows of $13.9 million during the six months ended June 30, 2011. Financing activities resulted in net cash inflows for the six months ended June 30, 2011 of $78.6

million. The net inflows from financing activities was primarily the result of increased deposits partially offset by a reduction of short-term borrowings in the form of repurchase agreements with deposit customers and overnight variable rate borrowings from the Federal Home Loan Bank.

The parent company is a corporation separate and distinct from its bank and other subsidiaries. The Company uses funds at the parent company level to pay dividends to its shareholders, to acquire or make other investments in other businesses or their securities or assets, to repurchase its stock from time to time, and for other general corporate purposes including debt service. The parent company does not have access at the parent-company level to the deposits and certain other sources of funds that are available to its bank subsidiary to support its operations. Instead, the parent company has historically derived most of its revenues from dividends paid to the parent company by its bank subsidiary. The Company's banking subsidiary is subject to statutory restrictions on its ability to pay dividends to the parent company. The parent company has in recent years supplemented the dividends received from its subsidiaries with borrowings. As of June 30, 2011, the parent company had approximately $16.5 million of cash and cash equivalents available to meet its cash flow needs.

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS

The Company from time to time in its oral and written communications makes statements relating to its expectations regarding the future including in this report its statements in “Management Overview” (above in this Item 2) concerning its expectations for expanding its customer base in both banking and non-banking lines of business including in its Evansville market. These types of statements are considered “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. The Company may include forward-looking statements in filings with the Securities and Exchange Commission (“SEC”), such as this Form 10-Q, in other written materials, and in oral statements made by senior management to analysts, investors, representatives of the media, and others. Such forward looking statements can include statements about the Company’s net interest income or net interest margin; its adequacy of allowance for loan losses, levels of provisions for loan losses, and the quality of the Company’s loans and other assets; simulations of changes in interest rates; expected results from mergers with or acquisitions of other businesses; litigation results; tax estimates and recognition; dividend policy; parent company cash resources and cash requirements, and parent company capital resources; estimated cost savings, plans and objectives for future operations; and expectations about the Company’s financial and business performance and other business matters as well as economic and market conditions and trends. They often can be identified by the use of words like “expect,” “may,” “will,” “would,” “could,” “should,” “intend,” “project,” “estimate,” “believe” or “anticipate,” or similar expressions.

Forward-looking statements speak only as of the date they are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward-looking statement is made.

Readers are cautioned that, by their nature, all forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially and adversely from the expectations of the Company that are expressed or implied by any forward-looking statement. The discussions in this Item 2 list some of the factors that could cause the Company's actual results to vary materially from those expressed or implied by any forward-looking statements. Other risks, uncertainties, and factors that could cause the Company’s actual results to vary materially from those expressed or implied by any forward-looking statement include the unknown future direction of interest rates and the timing and magnitude of any changes in interest rates; changes in competitive conditions; the introduction, withdrawal, success and timing of asset/liability management strategies or of mergers and acquisitions and other business initiatives and strategies; changes in customer borrowing, repayment, investment and deposit practices; changes in fiscal, monetary and tax policies; changes in financial and capital markets; deterioration in general economic conditions, either nationally or locally, resulting in, among other things, credit quality deterioration; capital management activities, including possible future sales of new securities, or possible repurchases or redemptions by the Company of outstanding debt or equity securities; risks of expansion through acquisitions and mergers, such as unexpected credit quality problems of the acquired loans or other assets, unexpected attrition of the customer base of the acquired institution or branches, and difficulties in integration of the acquired operations; factors driving impairment charges on investments; the impact, extent and timing of technological changes; litigation liabilities, including related costs, expenses, settlements and judgments, or the outcome of matters before regulatory agencies, whether pending or commencing in the future; actions of the Federal Reserve Board; changes in accounting principles and interpretations; potential increases of federal deposit insurance premium expense, and possible future special assessments of FDIC premiums, either industry wide or specific to the Company’s banking subsidiary; actions of the regulatory authorities under the Dodd-Frank Wall Street Reform and Consumer Protection Act and the Federal Deposit Insurance Act and other possible legislative and regulatory actions and reforms; and the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends. Such statements reflect our views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements.

Investors should consider these risks, uncertainties, and other factors, in addition to those mentioned by the Company in its Annual Report on Form 10-K for its fiscal year ended December 31, 2010, and other SEC filings from time to time, when considering any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk is reviewed on a regular basis by the Asset/Liability Committee and Boards of Directors of the parent company and its subsidiary bank. Primary market risks which impact the Company's operations are liquidity risk and interest rate risk.

The liquidity of the parent company is dependent upon the receipt of dividends from its subsidiary bank, which is subject to certain regulatory limitations. The Bank's source of funding is predominately core deposits, maturities of securities, repayments of loan principal and interest, federal funds purchased, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank.

The Company monitors interest rate risk by the use of computer simulation modeling to estimate the potential impact on its net interest income under various interest rate scenarios, and by estimating its static interest rate sensitivity position. Another method by which the Company's interest rate risk position can be estimated is by computing estimated changes in its net portfolio value ("NPV"). This method estimates interest rate risk exposure from movements in interest rates by using interest rate sensitivity analysis to determine the change in the NPV of discounted cash flows from assets and liabilities.

NPV represents the market value of portfolio equity and is equal to the estimated market value of assets minus the estimated market value of liabilities. Computations are based on a number of assumptions, including the relative levels of market interest rates and prepayments in mortgage loans and certain types of investments. These computations do not contemplate any actions management may undertake in response to changes in interest rates, and should not be relied upon as indicative of actual results. In addition, certain shortcomings are inherent in the method of computing NPV. Should interest rates remain or decrease below current levels, the proportion of adjustable rate loans could decrease in future periods due to refinancing activity. In the event of an interest rate change, prepayment levels would likely be different from those assumed in the table. Lastly, the ability of many borrowers to repay their adjustable rate debt may decline during a rising interest rate environment.

The table below provides an assessment of the risk to NPV in the event of a sudden and sustained 2% increase and decrease in prevailing interest rates (dollars in thousands).

Interest Rate Sensitivity as of June 30, 2011

Changes in rates	Net Portfolio Value: $ Amount	Net Portfolio Value: % Change	Net Portfolio Value as a % of Present Value of Assets: NPV Ratio	Net Portfolio Value as a % of Present Value of Assets: Change
+2%	156,066	(17.88)%	8.97 %	(151)b.p.
Base	190,037	—	10.48 %	—
-2%	148,804	(21.70)%	8.11 %	(237)b.p.

This Item 3 includes forward-looking statements. See "Forward-looking Statements" included in Part I, Item 2 of this Report for a discussion of certain factors that could cause the Company's actual exposure to market risk to vary materially from that expressed or implied above. These factors include possible changes in economic conditions; interest rate fluctuations, competitive product and pricing pressures within the Company's markets; and equity and fixed income market fluctuations. Actual experience may also vary materially to the extent that the Company's assumptions described above prove to be inaccurate.

Item 4. Controls and Procedures

As of June 30, 2011, the Company carried out an evaluation, under the supervision and with the participation of its principal executive officer and principal financial officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were as of that date effective in timely alerting them to material information required to be included in the Company's periodic reports filed with the Securities and Exchange Commission. There are inherent limitations to the effectiveness of systems of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective systems of disclosure controls and procedures can provide only reasonable assurances of achieving their control objectives.

There was no change in the Company's internal control over financial reporting that occurred during the Company's second fiscal quarter of 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(e) The following table sets forth information regarding the Company's purchases of its common shares during each of the three months ended June 30, 2011.

Period	Total Number Of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs (1)
4/1/11 – 4/30/11	—	—	—	272,789
5/1/11 – 5/31/11	—	—	—	272,789
6/1/11 – 6/30/11	—	—	—	272,789
	—	—	—	

(1) On April 26, 2001, the Company announced that its Board of Directors had approved a stock repurchase program for up to 607,754 of its outstanding common shares, of which the Company had purchased 334,965 common shares through June 30, 2011 (both such numbers adjusted for subsequent stock dividends). The Board of Directors established no expiration date for this program. The Company purchased no shares under this program during the three months ended June 30, 2011.

Item 6. Exhibits

The exhibits described by the Exhibit Index immediately following the Signature Page of this Report are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	GERMAN AMERICAN BANCORP, INC.
Date: August 5, 2011	By/s/Mark A. Schroeder Mark A. Schroeder Chairman of the Board and Chief Executive Officer
Date: August 5, 2011	By/s/Bradley M. Rust Bradley M. Rust Executive Vice President and Chief Financial Officer

INDEX OF EXHIBITS

Exhibit No.	Description
3.1	Restatement of the Articles of Incorporation of German American Bancorp, Inc. (filed June 29, 2011, with the Indiana Secretary of State). The copy of this exhibit filed as exhibit 3.1 to the Registrant's Current Report on Form 8-K filed July 1, 2011, is incorporated herein by reference.
10.1*	Description of Director Compensation Arrangements for the 12-month period ending at the 2012 Annual Reorganization Meeting of the Board of Directors.*
31.1	Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman of the Board and Chief Executive Officer.
31.2	Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer.
32.1	Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman of the Board and Chief Executive Officer.
32.2	Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer.
101**	The following materials from German American Bancorp, Inc.'s Form 10-Q Report for the quarterly period ended June 30, 2011, formatted in XBRL: (i) the Consolidated Balance Sheet, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statement of Cash Flows, and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text.

*Exhibits that describe or evidence all management contracts or compensatory plans or arrangements required to be filed as exhibits to this Report are indicated by an asterisk.

**Exhibits that are furnished, not filed.