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	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	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	Six Months Ended June 30, 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	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.

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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	Pro forma