

GERMAN AMERICAN BANCORP, INC.  
Form 10-Q  
August 07, 2008

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended June 30, 2008

Or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-11244

German American Bancorp, Inc  
(Exact name of registrant as specified in its charter)

Indiana  
(State or other jurisdiction of incorporation or organization)

35-1547518  
(I.R.S. Employer Identification No.)

711 Main Street, Jasper, Indiana 47546  
(Address of Principal Executive Offices and Zip Code)

Registrant's telephone number, including area code: (812) 482-1314

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

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

Large Accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES  NO

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

Class	Outstanding at August 1, 2008
Common Stock, no par value	11,029,869

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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 a discussion of our forward-looking statements and associated risks in 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 per share data)

	June 30, 2008	December 31, 2007
<b>ASSETS</b>		
Cash and Due from Banks	\$ 26,955	\$ 25,283
Federal Funds Sold and Other Short-term Investments	19,578	2,631
Cash and Cash Equivalents	46,533	27,914
Securities Available-for-Sale, at Fair Value	162,753	148,300
Securities Held-to-Maturity, at Cost (Fair value of \$4,103 and \$4,496 on June 30, 2008 and December 31, 2007, respectively)	4,060	4,464
Loans Held-for-Sale	9,080	5,697
Loans	879,544	870,643
Less: Unearned Income	(2,325)	(2,922)
Allowance for Loan Losses	(9,853)	(8,044)
Loans, Net	867,366	859,677
Stock in FHLB of Indianapolis and Other Restricted Stock, at Cost	10,621	10,621
Premises, Furniture and Equipment, Net	22,891	22,783
Other Real Estate	1,815	1,517
Goodwill	9,655	9,655
Intangible Assets	3,586	4,030
Company Owned Life Insurance	22,940	22,533
Accrued Interest Receivable and Other Assets	13,680	14,519
<b>TOTAL ASSETS</b>	<b>\$ 1,174,980</b>	<b>\$ 1,131,710</b>
<b>LIABILITIES</b>		
Non-interest-bearing Demand Deposits	\$ 154,029	\$ 136,212
Interest-bearing Demand, Savings, and Money Market Accounts	427,408	353,643
Time Deposits	342,280	387,566
Total Deposits	923,717	877,421
FHLB Advances and Other Borrowings	139,563	144,170
Accrued Interest Payable and Other Liabilities	13,496	13,003
<b>TOTAL LIABILITIES</b>	<b>1,076,776</b>	<b>1,034,594</b>
<b>SHAREHOLDERS' EQUITY</b>		
Preferred Stock, \$10 par value; 500,000 shares authorized, no shares issued	—	—
Common Stock, no par value, \$1 stated value; 20,000,000 shares authorized	11,030	11,029
Additional Paid-in Capital	68,409	68,408
Retained Earnings	19,436	16,681

Accumulated Other Comprehensive Income (Loss)	(671)	998
TOTAL SHAREHOLDERS' EQUITY	98,204	97,116
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,174,980	\$ 1,131,710
End of period shares issued and outstanding	11,029,869	11,029,484

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,	
	2008	2007
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$ 14,426	\$ 15,846
Interest on Federal Funds Sold and Other Short-term Investments	283	84
Interest and Dividends on Securities:		
Taxable	1,889	1,782
Non-taxable	180	246
<b>TOTAL INTEREST INCOME</b>	<b>16,778</b>	<b>17,958</b>
<b>INTEREST EXPENSE</b>		
Interest on Deposits	5,324	6,825
Interest on FHLB Advances and Other Borrowings	1,389	1,639
<b>TOTAL INTEREST EXPENSE</b>	<b>6,713</b>	<b>8,464</b>
<b>NET INTEREST INCOME</b>	<b>10,065</b>	<b>9,494</b>
Provision for Loan Losses	934	375
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>9,131</b>	<b>9,119</b>
<b>NON-INTEREST INCOME</b>		
Trust and Investment Product Fees	636	660
Service Charges on Deposit Accounts	1,245	1,114
Insurance Revenues	1,307	1,541
Other Operating Income	901	737
Net Gains on Sales of Loans and Related Assets	404	173
Net Gain on Securities	—	—
<b>TOTAL NON-INTEREST INCOME</b>	<b>4,493</b>	<b>4,225</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and Employee Benefits	5,118	5,554
Occupancy Expense	806	779
Furniture and Equipment Expense	592	569
Data Processing Fees	371	343
Professional Fees	441	350
Advertising and Promotion	293	178
Supplies	139	139
Other Operating Expenses	1,225	1,556
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>8,985</b>	<b>9,468</b>
Income before Income Taxes	4,639	3,876
Income Tax Expense	1,528	1,233
<b>NET INCOME</b>	<b>\$ 3,111</b>	<b>\$ 2,643</b>

<b>COMPREHENSIVE INCOME</b>	\$	279	\$	1,334
Earnings Per Share and Diluted Earnings Per Share	\$	0.28	\$	0.24
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 per share data)

	Six Months Ended June 30,	
	2008	2007
<b>INTEREST INCOME</b>		
Interest and Fees on Loans	\$ 29,885	\$ 30,913
Interest on Federal Funds Sold and Other Short-term Investments	469	204
Interest and Dividends on Securities:		
Taxable	3,884	3,652
Non-taxable	365	518
<b>TOTAL INTEREST INCOME</b>	<b>34,603</b>	<b>35,287</b>
<b>INTEREST EXPENSE</b>		
Interest on Deposits	11,511	13,255
Interest on FHLB Advances and Other Borrowings	2,908	3,163
<b>TOTAL INTEREST EXPENSE</b>	<b>14,419</b>	<b>16,418</b>
<b>NET INTEREST INCOME</b>	<b>20,184</b>	<b>18,869</b>
Provision for Loan Losses	2,278	2,303
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>17,906</b>	<b>16,566</b>
<b>NON-INTEREST INCOME</b>		
Trust and Investment Product Fees	1,223	1,341
Service Charges on Deposit Accounts	2,428	2,032
Insurance Revenues	3,210	3,045
Other Operating Income	1,651	1,426
Net Gains on Sales of Loans and Related Assets	728	333
Net Gain on Securities	285	—
<b>TOTAL NON-INTEREST INCOME</b>	<b>9,525</b>	<b>8,177</b>
<b>NON-INTEREST EXPENSE</b>		
Salaries and Employee Benefits	10,445	11,057
Occupancy Expense	1,660	1,541
Furniture and Equipment Expense	1,210	1,157
Data Processing Fees	777	699
Professional Fees	1,005	741
Advertising and Promotion	526	369
Supplies	274	289
Other Operating Expenses	2,436	3,091
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>18,333</b>	<b>18,944</b>
Income before Income Taxes	9,098	5,799
Income Tax Expense	2,967	1,677
<b>NET INCOME</b>	<b>\$ 6,131</b>	<b>\$ 4,122</b>

<b>COMPREHENSIVE INCOME</b>	\$	4,462	\$	3,015
Earnings Per Share and Diluted Earnings Per Share	\$	0.55	\$	0.37
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	
	2008	2007
	June 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 6,131	\$ 4,122
Adjustments to Reconcile Net Income to Net Cash from Operating Activities:		
Net Accretion on Securities	(582)	(179)
Depreciation and Amortization	1,676	1,626
Loans Originated for Sale	(64,062)	(28,466)
Proceeds from Sales of Loans Held-for-Sale	61,407	27,904
Loss in Investment in Limited Partnership	108	85
Provision for Loan Losses	2,278	2,303
Gain on Sale of Loans	(728)	(333)
Gain on Securities, Net	(285)	—
Loss / (Gain) on Sales of Other Real Estate and Repossessed Assets	18	(43)
Gain on Disposition and Impairment of Premises and Equipment	(19)	(2)
Increase in Cash Surrender Value of Company Owned Life Insurance	(407)	(393)
Equity Based Compensation	2	174
Change in Assets and Liabilities:		
Interest Receivable and Other Assets	1,623	1,932
Interest Payable and Other Liabilities	198	(74)
<b>Net Cash from Operating Activities</b>	<b>7,358</b>	<b>8,656</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Maturity of Other Short-term Investments	—	100
Proceeds from Maturities of Securities Available-for-Sale	38,092	22,385
Proceeds from Sales of Securities Available-for-Sale	16,130	—
Purchase of Securities Available-for-Sale	(70,370)	—
Proceeds from Maturities of Securities Held-to-Maturity	405	1,036
Purchase of Loans	(17,811)	(13,563)
Proceeds from Sales of Loans	1,048	450
Loans Made to Customers, Net of Payments Received	6,001	(45,240)
Proceeds from Sales of Other Real Estate	499	2,552
Property and Equipment Expenditures	(1,427)	(985)
Proceeds from Sales of Property and Equipment	58	—
<b>Net Cash from Investing Activities</b>	<b>(27,375)</b>	<b>(33,265)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Change in Deposits	46,326	44,519
Change in Short-term Borrowings	(26,078)	(19,778)
Advances of Long-term Debt	25,000	10,000
Repayments of Long-term Debt	(3,524)	(7,022)
Dividends Paid	(3,088)	(3,086)
<b>Net Cash from Financing Activities</b>	<b>38,636</b>	<b>24,633</b>

<b>Net Change in Cash and Cash Equivalents</b>		18,619		24
Cash and Cash Equivalents at Beginning of Year		27,914		29,695
Cash and Cash Equivalents at End of Period	\$	46,533	\$	29,719

See accompanying notes to consolidated financial statements.

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**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(unaudited, dollars in thousands except 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. 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, 2007 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:

	<b>Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
Earnings per Share:		
Net Income	\$ 3,111	\$ 2,643
Weighted Average Shares Outstanding	11,029,484	11,008,562
Earnings per Share	\$ 0.28	\$ 0.24
Diluted Earnings per Share:		
Net Income	\$ 3,111	\$ 2,643
Weighted Average Shares Outstanding	11,029,484	11,008,562
Potentially Dilutive Shares, Net	51	13,912
Diluted Weighted Average Shares Outstanding	11,029,535	11,022,474
Diluted Earnings per Share	\$ 0.28	\$ 0.24

Stock options for 249,396 and 257,063 shares of common stock were not considered in computing diluted earnings per share for the quarter ended June 30, 2008 and 2007, respectively, because they were anti-dilutive.

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
Earnings per Share:		
Net Income	\$ 6,131	\$ 4,122
Weighted Average Shares Outstanding	11,029,484	11,008,562
Earnings per Share	\$ 0.55	\$ 0.37
Diluted Earnings per Share:		
Net Income	\$ 6,131	\$ 4,122

Weighted Average Shares Outstanding	11,029,484	11,008,562
Potentially Dilutive Shares, Net	101	11,722
Diluted Weighted Average Shares Outstanding	11,029,585	11,020,284
Diluted Earnings per Share	\$ 0.55	\$ 0.37

Stock options for 236,025 and 257,063 shares of common stock were not considered in computing diluted earnings per share for the six months ended June 30, 2008 and 2007, respectively, because they were anti-dilutive.

**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(unaudited, dollars in thousands except 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, 2008 and December 31, 2007, were as follows:

Securities Available-for-Sale:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>June 30, 2008</b>				
U.S. Treasury and Agency Securities	\$ 498	\$ 5	\$ —	503
Obligations of State and Political Subdivisions	9,924	210	—	10,134
Mortgage-backed Securities	148,587	316	(1,996)	146,907
Equity Securities	4,557	652	—	5,209
<b>Total</b>	<b>\$ 163,566</b>	<b>\$ 1,183</b>	<b>\$ (1,996)</b>	<b>\$ 162,753</b>
<b>December 31, 2007</b>				
U.S. Treasury and Agency Securities	\$ 25,306	\$ 433	\$ —	25,739
Obligations of State and Political Subdivisions	11,387	216	(1)	11,602
Mortgage-backed Securities	105,302	608	(421)	105,489
Equity Securities	4,557	913	—	5,470
<b>Total</b>	<b>\$ 146,552</b>	<b>\$ 2,170</b>	<b>\$ (422)</b>	<b>\$ 148,300</b>

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.

The carrying amount, unrecognized gains and losses and fair value of Securities Held-to-Maturity at June 30, 2008 and December 31, 2007, were as follows:

Securities Held-to-Maturity:	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
<b>June 30, 2008</b>				
Obligations of State and Political Subdivisions	\$ 4,060	\$ 43	\$ —	4,103
<b>December 31, 2007</b>				
Obligations of State and Political Subdivisions	\$ 4,464	\$ 32	\$ —	4,496

Below is a summary of securities with unrealized losses as of June 30, 2008 and December 31, 2007, presented by length of time the securities have been in a continuous unrealized loss position:

<b>At June 30, 2008:</b>	<b>Less than 12 Months</b>		<b>12 Months or More</b>		<b>Total</b>	
	<b>Fair</b>	<b>Unrealized</b>	<b>Fair</b>	<b>Unrealized</b>	<b>Fair</b>	<b>Unrealized</b>
	<b>Value</b>	<b>Loss</b>	<b>Value</b>	<b>Loss</b>	<b>Value</b>	<b>Loss</b>
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	—	—	—	—	—	—
Mortgage-backed Securities	117,447	(1,989)	799	(7)	118,246	(1,996)
Equity Securities	—	—	—	—	—	—
<b>Total</b>	<b>\$ 117,447</b>	<b>\$ (1,989)</b>	<b>\$ 799</b>	<b>\$ (7)</b>	<b>\$ 118,246</b>	<b>\$ (1,996)</b>

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**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2008**  
(unaudited, dollars in thousands except per share data)

**Note 3 - Securities (continued)**

At December 31, 2007:	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and Agency Securities	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Obligations of State and Political Subdivisions	—	—	230	(1)	230	(1)
Mortgage-backed Securities	1,544	(1)	56,647	(420)	58,191	(421)
Equity Securities	—	—	—	—	—	—
<b>Total</b>	<b>\$ 1,544</b>	<b>\$ (1)</b>	<b>\$ 56,877</b>	<b>\$ (421)</b>	<b>\$ 58,421</b>	<b>\$ (422)</b>

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 the length of time and extent that fair value has been less than cost, the financial condition and near term prospects of the issuer, and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. The Company has the intent and ability to hold these securities for the foreseeable future, 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 performing as expected with no disruption in cash flows.

**Note 4 - Loans**

Total loans, as presented on the balance sheet, are comprised of the following classifications:

	June 30, 2008	December 31, 2007
Commercial and Industrial Loans	\$ 492,997	\$ 457,033
Residential Mortgage Loans	106,660	116,908
Consumer Loans	125,540	131,110
Agricultural Loans	154,347	165,592
<b>Total Loans</b>	<b>\$ 879,544</b>	<b>\$ 870,643</b>
Less: Unearned Income	(2,325)	(2,922)
Allowance for Loan Losses	(9,853)	(8,044)
<b>Loans, Net</b>	<b>\$ 867,366</b>	<b>\$ 859,677</b>

## Information Regarding Impaired Loans:

Impaired Loans with No Allowance for Loan Losses Allocated	\$ 1,224	\$ 1,919
Impaired Loans with Allowance for Loan Losses Allocated	5,725	2,384
<b>Amount of Allowance Allocated to Impaired Loans</b>	<b>2,393</b>	<b>399</b>

**Note 5 - Allowance for Loan Losses**

A summary of the activity in the Allowance for Loan Losses follows:

	<b>June 30, 2008</b>	<b>June 30, 2007</b>
Balance as of January 1	\$ 8,044	\$ 7,129
Provision for Loan Losses	2,278	2,303
Recoveries of Prior Loan Losses	248	191
Loan Losses Charged to the Allowance	(717)	(1,847)
Balance as of June 30	\$ 9,853	\$ 7,776

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**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2008**  
**(unaudited, dollars in thousands except per share data)**

**Note 6 - 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 affiliate banks' local markets.

The core banking segment is comprised by the Company's banking subsidiary, German American Bancorp, which operates through six community banking affiliates with 28 retail banking offices. 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 ("GAFA"). These fees are derived by providing trust, investment advisory, and brokerage services to its customers. The insurance segment consists of German American Insurance, Inc., which provides a full line of personal and corporate insurance products as agent under six distinctive insurance agency names from six offices; and German American Reinsurance Company, Ltd. ("GARC"), which reinsures credit insurance products sold by the Company's affiliate banks. 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, 2008**

	<b>Core Banking</b>	<b>Trust and Investment Advisory Services</b>	<b>Insurance</b>	<b>Other</b>	<b>Consolidated Totals</b>
Net Interest Income	\$ 10,205	\$ 19	\$ 18	\$ (177)	\$ 10,065
Net Gains on Sales of Loans and Related Assets	404	—	—	—	404
Net Gain on Securities	—	—	—	—	—
Trust and Investment Product Fees	2	635	—	(1)	636
Insurance Revenues	21	4	1,300	(18)	1,307
Noncash Item:					
Provision for Loan Losses	934	—	—	—	934
Depreciation and Amortization	631	7	204	—	842
Income Tax Expense	1,611	79	54	(216)	1,528
Segment Profit / (Loss)	3,142	115	98	(244)	3,111

Segment Assets	1,165,563	2,206	9,551	(2,340)	1,174,980
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**GERMAN AMERICAN BANCORP, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2008**  
(unaudited, dollars in thousands except per share data)

**Note 6 - Segment Information (continued)****Three Months Ended  
June 30, 2007**

	<b>Core Banking</b>	<b>Trust and Investment Advisory Services</b>	<b>Insurance</b>	<b>Other</b>	<b>Consolidated Total</b>
Net Interest Income	\$ 9,752	\$ 21	\$ 29	\$ (308)	\$ 9,494
Net Gains on Sales of Loans and Related Assets	173	—	—	—	173
Net Gain on Securities	—	—	—	—	—
Trust and Investment Product Fees	1	685	—	(26)	660
Insurance Revenues	22	17	1,522	(20)	1,541
<b>Noncash Item:</b>					
Provision for Loan Losses	375	—	—	—	375
Depreciation and Amortization	612	5	196	—	813
Income Tax Expense	1,350	75	111	(303)	1,233
Segment Profit / (Loss)	2,744	114	167	(382)	2,643
Segment Assets	1,109,581	2,186	9,639	499	1,121,905

**Six Months Ended  
June 30, 2008**

	<b>Core Banking</b>	<b>Trust and Investment Advisory Services</b>	<b>Insurance</b>	<b>Other</b>	<b>Consolidated Totals</b>
Net Interest Income	\$ 20,600	\$ 51	\$ 38	\$ (505)	\$ 20,184
Net Gains on Sales of Loans and Related Assets	728	—	—	—	728
Net Gain on Securities	285	—	—	—	285
Trust and Investment Product Fees	3	1,246	—	(26)	1,223
Insurance Revenues	40	6	3,200	(36)	3,210
<b>Noncash Item:</b>					
Provision for Loan Losses	2,278	—	—	—	2,278
Depreciation and Amortization	1,254	14	408	—	1,676
Income Tax Expense	3,026	143	297	(499)	2,967
Segment Profit / (Loss)	5,971	213	494	(547)	6,131
Segment Assets	1,165,563	2,206	9,551	(2,340)	1,174,980

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**Note 6 - Segment Information (continued)**

<b>Six Months Ended June 30, 2007</b>	<b>Core Banking</b>	<b>Trust and Investment Advisory Services</b>	<b>Insurance</b>	<b>Other</b>	<b>Consolidated Totals</b>
Net Interest Income	\$ 19,351	\$ 42	\$ 58	\$ (582)	\$ 18,869
Net Gains on Sales of Loans and Related Assets	333	—	—	—	333
Net Gain on Securities	—	—	—	—	—
Trust and Investment Product Fees	2	1,392	—	(53)	1,341
Insurance Revenues	62	20	3,002	(39)	3,045
Noncash Item:					
Provision for Loan Losses	2,303	—	—	—	2,303
Depreciation and Amortization	1,225	10	391	—	1,626
Income Tax Expense	1,875	166	192	(556)	1,677
Segment Profit / (Loss)	4,282	253	285	(698)	4,122
Segment Assets	1,109,581	2,186	9,639	499	1,121,905

**Note 7 - 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 are purchased. As of June 30, 2008, 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, 2008.

**Note 8 - Equity Plans and Equity Based Compensation**

The Company maintains two equity incentive plans under which stock options, restricted stock, and other equity incentive awards can be granted. At June 30, 2008, the Company has reserved 620,144 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, 2008 and 2007 there were no stock options granted. There was no option expense during the three or six month periods ended June 30, 2008 and 2007. In addition, there was no unrecognized option expense as all outstanding options were fully vested prior to June 30, 2008 and 2007.

During the quarter and six months ended June 30, 2008, the Company granted awards of 385 shares of restricted stock. During the quarter and six months ended June 30, 2007, the Company granted awards of 350 shares and 21,400 shares of restricted stock. The expense recorded for the restricted stock grants totaled \$1, net of an income tax benefit

of \$1, during the three and six months ended June 30, 2008, respectively. The expense recorded for the restricted stock grants totaled \$50, net of an income tax benefit of \$33, and \$83, net of an income tax benefit of \$55, during the three and six months ended June 30, 2007, respectively. Unrecognized expense associated with the restricted stock grants totaled \$3 and \$140 as of June 30, 2008 and 2007, respectively.

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 plan year for the Employee Stock Purchase Plan runs from August 17 through August 16 of the subsequent year. For years prior to the plan year beginning August 17, 2007, the purchase price of the shares were determined annually and in the range from 85% to 100% of the fair market value of such stock at either the beginning or end of the plan year. For the plan year beginning August 17, 2007, the purchase price of the shares under this Plan is 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 542,420 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.

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**Note 8 - Equity Plans and Equity Based Compensation (continued)**

Based on the above referenced setting of the purchase price at 95% of the fair market value of the Company's common stock for the 2007/2008 plan year, the Employee Stock Purchase Plan will not be considered compensatory and no expense will be recorded during the 2007/2008 plan year. The expense recorded for the Employee Stock Purchase Plan totaled \$11 net of an income tax benefit of \$7, and \$22, net of an income tax benefit of \$14, during the three and six months ended June 30, 2007, respectively. Unrecognized compensation expense as of June 30, 2007 totaled \$12 for the Employee Stock Purchase Plan.

**Note 9 - Employee Benefit Plans**

The Company acquired through previous bank mergers a noncontributory defined benefit pension plan with benefits based on years of service and compensation prior to retirement. The benefits under the plan were suspended in 1998. The following tables represent the components of net periodic benefit cost for the periods presented:

	<b>Three Months Ended</b>		
	<b>June 30,</b>		
	<b>2008</b>	<b>2007</b>	
Service Cost	\$	—	\$ —
Interest Cost		10	10
Expected Return on Assets		(3)	(3)
Amortization of Transition Amount		—	(1)
Amortization of Prior Service Cost		(1)	(1)
Recognition of Net (Gain)/Loss		5	7
Net Periodic Benefit Cost	\$	11	\$ 12
Loss on Settlements and Curtailments		None	45

	<b>Six Months Ended</b>		
	<b>June 30,</b>		
	<b>2008</b>	<b>2007</b>	
Service Cost	\$	—	\$ —
Interest Cost		19	19
Expected Return on Assets		(6)	(6)
Amortization of Transition Amount		—	(1)
Amortization of Prior Service Cost		(2)	(2)
Recognition of Net (Gain)/Loss		10	14
Net Periodic Benefit Cost	\$	21	\$ 24
Loss on Settlements and Curtailments		None	45

The Company previously disclosed in its financial statements for the year ended December 31, 2007, that it expected to contribute \$97 to the pension plan during the fiscal year ending December 31, 2008. As of June 30, 2008, the Company had contributed \$37 to the pension plan.

**Note 10 - New Accounting Pronouncements**



In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. The standard is effective for fiscal years beginning after November 15, 2007. Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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.

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**Note 10 - New Accounting Pronouncements (continued)**

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 fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

Assets and Liabilities Measured on a Recurring Basis

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

	June 30, 2008	Fair Value Measurements at June 30, 2008 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for Sale Securities	\$ 162,753	\$ 3,116	\$ 157,544	\$ 2,093

Equity securities that do not have readily determinable fair values are carried at cost and are evaluated for impairment on a periodic basis. Equity securities carried at cost and included in the table above totaled \$2,093 at June 30, 2008. There were no changes in fair value for these equity securities during the first six months of 2008.

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, 2008 Using
	Quoted Prices in Active Markets for
	Significant Other