

GERMAN AMERICAN BANCORP, INC.
Form 10-K
March 11, 2011

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2010

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, Box 810, Jasper, Indiana
(Address of Principal Executive Offices)

47546
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act	
Title of Each Class	Name of each exchange on which registered
Common Shares, no par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this

Form 10-K:

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

The aggregate market value of the registrant's common shares held by non-affiliates as of June 30, 2010 was approximately \$159,692,000. This calculation does not reflect a determination that persons are (or are not) affiliates for any other purpose.

As of March 1, 2011, there were outstanding 12,556,378 common shares, no par value, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of German American Bancorp, Inc., for the Annual Meeting of its Shareholders to be held May 19, 2011, to the extent stated herein, are incorporated by reference into Part III.

GERMAN AMERICAN BANCORP, INC.
 ANNUAL REPORT ON FORM 10-K
 For Fiscal Year Ended December 31, 2010

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Information included in or incorporated by reference in this Annual Report on Form 10-K, our other filings with the Securities and Exchange Commission and our press releases or other public statements, contain 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 1, “Business – Forward-Looking Statements and Associated Risks” and our discussion of risk factors in Item 1A, “Risk Factors” in this Annual Report on Form 10-K.

PART I

Item 1. Business.

General

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

Throughout this report, when we use the term “Company”, we will usually be referring to the business and affairs (financial and otherwise) of German American Bancorp, Inc. and its consolidated subsidiaries as a whole. Occasionally, we will refer to the term “parent company” or “holding company” when we mean to refer to only German American Bancorp, Inc and the term “Bank” when we mean to refer only to the Company’s bank subsidiary.

The Company’s lines of business include retail and commercial banking, mortgage banking, comprehensive financial planning, full service brokerage and trust administration, and a full range of personal and corporate insurance products. Financial and other information by segment is included in Note 14 – Segment Information of the Notes to the Consolidated Financial Statements included in Item 8 of this Report and is incorporated into this Item 1 by reference. Substantially all of the Company’s revenues are derived from customers located in, and substantially all of its assets are located in, the United States.

Subsidiaries

The Company’s principal operating subsidiaries are described in the following table:

Name	Type of Business	Principal Office Location
German American Bancorp	Commercial Bank	Jasper, IN
German American Insurance, Inc.	Multi-Line Insurance Agency	Jasper, IN
German American Financial Advisors & Trust Company	Trust, Brokerage, Financial Planning	Jasper, IN

Business Development

Since January 1, 2010, the Company has expanded into the Evansville, Indiana market by two acquisition transactions. First, the Company bought (effective May 7, 2010) two branches located in that market (one in Evansville, Indiana and the other in Newburgh, Indiana, in neighboring Warrick County) that formerly were owned by Farmers State Bank of Alto Pass IL (a bank headquartered in Alto Pass, Illinois). Pursuant to the Farmers branch purchase transaction, the Company acquired loans, real estate and other tangible assets that the Company valued as of

the acquisition date at approximately \$48.7 million (not including the values of certain intangible assets acquired in the purchase) and assumed net deposit liabilities of Farmers that the Company valued as of the acquisition date at approximately \$50.2 million and other liabilities valued by the Company at approximately \$66,000. For further information regarding the Farmers branch purchase transaction, see Note 16 (Business Combinations, Goodwill and Intangible Assets) in the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which Note 16 is incorporated into this Item 1 by reference.

Following the Farmers branch purchase transaction, the Company acquired by merger (effective January 1, 2011) American Community Bancorp, Inc., and its subsidiary, Bank of Evansville. Bank of Evansville provided a full range of commercial and consumer banking services in the Evansville, Indiana, area, from three banking offices located on the east, west and north sides of the city, each of which is now a branch office of the Bank. American Community reported on its balance sheet consolidated assets and deposits (unaudited) as of December 31, 2010 that totaled \$340.3 million and \$302.4 million, respectively. For further information regarding the American Community Bancorp, Inc., merger transaction, see Note 19 (Subsequent Events) in the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which Note 19 is incorporated into this Item 1 by reference.

The Company has in recent years focused on growing its base of operations in the Bloomington, Indiana, market, where construction is underway toward the opening of a new downtown financial services center in the summer of 2011. Further, the Company expects to continue to evaluate opportunities to expand its business through opening of new banking, insurance or trust, brokerage and financial planning offices, and through acquisitions of other banks, bank branches, portfolios of loans or other assets, and other financial-service-related businesses and assets in the future.

Office Locations

The Indiana map below illustrates the locations of the Company's 37 retail and commercial banking, insurance and investment offices as of March 1, 2011, including the three office locations acquired as a part of the American Community Bancorp, Inc. acquisition.

Competition

The industries in which the Company operates are highly competitive. The Bank competes for commercial and retail banking business within its core banking segment not only with financial institutions that have offices in the same counties but also with financial institutions that compete from other locations in Southern Indiana and elsewhere. Further, the Bank competes for loans and deposits not only with commercial banks but also with savings and loan associations, savings banks, credit unions, production credit associations, federal land banks, finance companies, credit card companies, personal loan companies, investment brokerage firms, insurance agencies, insurance companies, lease finance companies, money market funds, mortgage companies, and other non-depository financial intermediaries. There are numerous alternative providers (including national providers that advertise extensively via television and the Internet and that provide their services through direct mail, telephone and the Internet) for the insurance products and services offered by German American Insurance, Inc., and the trust, brokerage and financial planning products and services offered by German American Financial Advisors & Trust Company. Many of these competitors have substantially greater resources than the Company.

Employees

At March 1, 2011 the Company and its subsidiaries employed approximately 396 full-time equivalent employees. There are no collective bargaining agreements, and employee relations are considered to be good.

Regulation and Supervision

Overview

The Company is subject to regulation and supervision by the Board of Governors of the Federal Reserve System (“FRB”) under the Bank Holding Company Act of 1956, as amended (“BHC Act”), and is required to file with the FRB annual reports and such additional information as the FRB may require. The FRB may also make examinations or inspections of the Company. The Bank is under the supervision of and subject to examination by the Indiana Department of Financial Institutions (“DFI”), and the Federal Deposit Insurance Corporation (“FDIC”). Regulation and examination by banking regulatory agencies are primarily for the benefit of depositors rather than shareholders.

Under FRB policy and the Dodd-Frank Wall Street Reform and Consumer Protection Act a complex and wide-ranging statute that was enacted by Congress and signed into law during July 2010 (the “Dodd-Frank Act”), the Company is required to act as a source of financial and managerial strength to the Bank, and to commit resources to support the Bank, even in circumstances where the Company might not do so absent such a requirement. Under current federal law, the FRB may require a bank holding company to make capital injections into a troubled subsidiary bank. It may charge the bank holding company with engaging in unsafe and unsound practices if the bank holding company fails to commit resources to such a subsidiary bank or if it undertakes actions that the FRB believes might jeopardize the bank holding company’s ability to commit resources to such subsidiary bank.

With certain exceptions, the BHC Act prohibits a bank holding company from engaging in (or acquiring direct or indirect control of more than 5 percent of the voting shares of any company engaged in) nonbanking activities. One of the principal exceptions to this prohibition is for activities deemed by the FRB to be “closely related to banking.” Under current regulations, bank holding companies and their subsidiaries are permitted to engage in such banking-related business ventures as consumer finance; equipment leasing; credit life insurance; computer service bureau and software operations; mortgage banking; and securities brokerage.

Under the BHC Act, certain well-managed and well-capitalized bank holding companies may elect to be treated as a “financial holding company” and, as a result, be permitted to engage in a broader range of activities that are “financial in nature” and in activities that are determined to be incidental or complementary to activities that are financial in nature. These activities include underwriting; dealing in and making a market in securities; insurance underwriting, and merchant banking. Banks may also engage through financial subsidiaries in certain of the activities permitted for financial holding companies, subject to certain conditions. The Company has not elected to become a financial holding company and its subsidiary bank has not elected to form financial subsidiaries.

The Bank and the subsidiaries of the Bank may generally engage in activities that are permissible activities for state chartered banks under Indiana banking law, without regard to the limitations that might apply to such activities under the BHC Act if the Company were to engage directly in such activities at the parent company level or through parent company subsidiaries that were not also bank subsidiaries.

Indiana law and the BHC Act restrict certain types of expansion by the Company and its bank subsidiary. The Company and its subsidiaries may be required to apply for prior approval from (or give prior notice and an opportunity for review to) the FRB, the DFI, and/or other bank regulatory or other regulatory agencies, as a condition to the acquisition or establishment of new offices, or the acquisition (by merger or consolidation, purchase or otherwise) of the stock, business or properties of other banks or other companies.

The earnings of commercial banks and their holding companies are affected not only by general economic conditions but also by the policies of various governmental regulatory authorities. In particular, the FRB regulates money and credit conditions and interest rates in order to influence general economic conditions, primarily through open-market operations in U.S. Government securities, varying the discount rate on bank borrowings, and setting reserve requirements against bank deposits. These policies have a significant influence on overall growth and distribution of bank loans, investments and deposits, and affect interest rates charged on loans and earned on investments or paid for time and savings deposits. FRB monetary policies have had a significant effect on the operating results of commercial banks in the past and this is expected to continue in the future. The general effect, if any, of such policies upon the future business and earnings of the Company cannot accurately be predicted.

Capital Requirements

The FRB has issued risk-based capital ratio and leverage ratio guidelines for bank holding companies. Under the guidelines and related policies, bank holding companies must maintain capital sufficient to meet both a risk-based asset ratio test and a leverage ratio test on a consolidated basis. The risk-based ratio is determined by allocating assets and specified off-balance sheet commitments into four weighted categories, with higher weighting assigned to categories perceived as representing greater risk. The risk-based ratio represents total capital divided by total risk-weighted assets. The leverage ratio is core capital divided by total assets adjusted as specified in the guidelines. The Bank is subject to substantially similar capital requirements.

Generally, under the applicable guidelines, a financial institution's capital is divided into two tiers. Institutions that must incorporate market risk exposure into their risk-based capital requirements may also have a third tier of capital in the form of restricted short-term subordinated debt. These tiers are:

- Tier 1, or core capital, includes total equity plus qualifying capital securities and minority interests, excluding unrealized gains and losses accumulated in other comprehensive income, and nonqualifying intangible and servicing assets.
- Tier 2, or supplementary capital, includes, among other things, cumulative and limited-life preferred stock, mandatory convertible securities, qualifying subordinated debt, and the allowance for credit losses, up to 1.25% of risk-weighted assets.
- Total Capital is Tier 1 plus Tier 2 capital.

The FRB and the other federal banking regulators require that all intangible assets (net of deferred tax), except originated or purchased mortgage servicing rights, nonmortgage servicing assets, and purchased credit card relationships, be deducted from Tier 1 capital. However, the total amount of these items included in capital cannot exceed 100% of its Tier 1 capital.

Under the risk-based guidelines to remain "adequately-capitalized," financial institutions are required to maintain a total risk-based ratio of 8%, with 4% being Tier 1 capital. The appropriate regulatory authority may set higher capital requirements when they believe an institution's circumstances warrant.

Under the leverage guidelines, financial institutions are required to maintain a Tier 1 leverage ratio of at least 3%. The minimum ratio is applicable only to financial institutions that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate risk exposure, and the highest regulatory rating. Financial institutions not meeting these criteria are required to maintain a minimum Tier 1 leverage ratio of 4%.

Failure to meet applicable capital guidelines could subject the financial institution to a variety of enforcement remedies available to the federal regulatory authorities. These include limitations on the ability to pay dividends, the issuance by the regulatory authority of a directive to increase capital, and the termination of deposit insurance by the FDIC. In addition, the financial institution could be subject to the measures described below under a regulatory program known as Prompt Corrective Action as applicable to Under-capitalized institutions.

The risk-based capital standards of the FRB and the FDIC specify that evaluations by the banking agencies of a bank's capital adequacy will include an assessment of the exposure to declines in the economic value of a bank's capital due to changes in interest rates. These banking agencies issued a joint policy statement on interest rate risk describing prudent methods for monitoring such risk that rely principally on internal measures of exposure and active oversight of risk management activities by senior management.

The Federal Deposit Insurance Corporation Improvements Act (enacted in 1991) (FDICIA) requires federal banking regulatory authorities to take regulatory enforcement actions known as Prompt Corrective Action with respect to depository institutions that do not meet minimum capital requirements. For these purposes, FDICIA establishes five capital tiers: Well-capitalized, Adequately-capitalized, Under-capitalized, Significantly under-capitalized, and Critically under-capitalized.

Throughout 2010, the Company's consolidated regulatory capital ratios and those of the Bank were in excess of the levels established for Well-capitalized institutions for purposes of the Prompt Corrective Action provisions under FDICIA. An institution is deemed to be Well-capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a Tier 1 leverage ratio of 5% or greater and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure. For a tabular presentation of our regulatory capital ratios and those of the Bank as of December 31, 2010, see Note 7 to the Company's consolidated financial statements that are presented in Item 8 of this Report, which Note 7 is incorporated herein by reference.

FDICIA generally prohibits a depository institution from making any capital distribution, including payment of a cash dividend or paying any management fee to its holding company, if the depository institution would become Under-capitalized after such payment. Under-capitalized institutions are also subject to growth limitations and are required by the appropriate federal banking agency to submit a capital restoration plan. If any depository institution subsidiary of a holding company is required to submit a capital restoration plan, the holding company would be required to provide a limited guarantee regarding compliance with the plan as a condition of approval of such plan.

Depending upon the severity of the under capitalization, the Under-capitalized institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become Adequately-capitalized, requirements to reduce total assets, cessation of receipt of deposits from correspondent banks, and restrictions on making any payment of principal or interest on their subordinated debt. Critically Under-capitalized institutions are subject to appointment of a receiver or conservator within 90 days of becoming so classified.

Under FDICIA, a depository institution that is not Well-capitalized is generally prohibited from accepting brokered deposits and offering interest rates on deposits higher than the prevailing rate in its market. Since the Bank is Well-capitalized, the FDICIA brokered deposit rule did not adversely affect its ability to accept brokered deposits. The Bank had no such brokered deposits at December 31, 2010. Further, a depository institution or its holding company that is not Well-capitalized will generally not be successful in seeking regulatory approvals that may be necessary in connection with any plan or agreement to expand its business, such as through the acquisition (by merger or consolidation, purchase or otherwise) of the stock, business or properties of other banks or other companies.

Under the Dodd-Frank Act, important changes will be implemented concerning the capital requirements for financial institutions. The Dodd-Frank Act requires U.S. regulators to reform the system under which the safety and soundness of banks and other financial institutions, individually and systemically, are regulated. That reform effort will include the regulation of capital and liquidity. International banking industry regulators have largely agreed upon significant changes in the regulation of capital required to be held by banks and their holding companies to support their businesses and these new international rules, known as Basel III, generally increase the capital required to be held and narrow the types of instruments which will qualify as providing appropriate capital and impose a new liquidity measurement. The Basel III requirements are complex and will be phased in over many years, and do not yet apply to U.S. banks or holding companies. Further, it is uncertain whether or to what extent the U.S. regulators will incorporate elements of Basel III into the reformed U.S. regulatory system. Nevertheless, many commentators expect that the U.S. reforms implemented in future years as directed by the Dodd-Frank Act will include an increase in capital requirements, and a narrowing of what qualifies as appropriate capital, and may impose a new liquidity measurement.

Restrictions on Bank Dividends or Loans to, or other Transactions with, the Parent Company, and on Parent Company Dividends

German American Bancorp, Inc., which is the publicly-held parent of the Bank (German American Bancorp), is a corporation that is separate and distinct from the Bank and its other subsidiaries. Most of the parent company's revenues historically have been comprised of dividends, fees, and interest paid to it by the Bank, and this is expected to continue in the future. There are, however, statutory limits under Indiana law on the amount of dividends that the Bank can pay to its parent company without regulatory approval. The Bank may not, without the approval of the DFI, pay a dividend in an amount greater than its undivided profits. In addition, the prior approval of the DFI is required for the payment of a dividend by an Indiana state-chartered bank if the total of all dividends declared in a calendar year would exceed the total of its net income for the year combined with its retained net income for the two preceding years, unless such a payment qualifies under certain exemptive criteria that exempt certain dividend payments by certain qualified banks from the prior approval requirement. At December 31, 2010, the Bank was eligible for payment of dividends under the exemptive criteria established by DFI policy for this purpose, and could have declared

and paid to the holding company \$30,700,000 of its undivided profits without approval by the DFI in accordance with such criteria. See Note 7 of the Notes to Consolidated Financial Statements included in Item 8 of this Report for further discussion.

In addition, the FRB and other bank regulatory agencies have issued policy statements or advisories that provide that insured banks and bank holding companies should generally only pay dividends out of current operating earnings.

In addition to these statutory restrictions, if, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice, such authority may require, after notice and hearing, that such bank cease and desist from such practice. Accordingly, if the Bank were to experience financial difficulties, it is possible that the applicable regulatory authority could determine that the Bank would be engaged in an unsafe or unsound practice if the Bank were to pay dividends and could prohibit the Bank from doing so, even if availability existed for dividends under the statutory formulae.

Further, the Bank is subject to affiliate transaction restrictions under federal laws, which limit certain transactions generally involving the transfer of funds by a subsidiary bank or its subsidiaries to its parent corporation or any nonbank subsidiary of its parent corporation, whether in the form of loans, extensions of credit, investments, or asset purchases, or otherwise undertaking certain obligations on behalf of such affiliates. Furthermore, covered transactions that are loans and extensions of credit must be secured within specified amounts. In addition, all covered transactions and other affiliate transactions must be conducted on terms and under circumstances that are substantially the same as such transactions with unaffiliated entities.

Extraordinary Government Programs

Since October of 2008, the federal government, through the United States Treasury, the Federal Reserve banking system administered by the FRB and the FDIC, have made a number of programs available to banks and other financial institutions in an effort to ensure a well-functioning U.S. financial system.

During 2009, the Company declined the opportunity to participate in the United States Treasury's Capital Purchase Program, part of the program commonly known as TARP.

The Company's banking subsidiary did, however elect to participate in the Temporary Liquidity Guarantee Program ("TLGP"), created by the FDIC. Established by final rule of the FDIC in November 2008, the TLGP provided two limited guarantee programs: One, the Debt Guarantee Program, guaranteed newly-issued senior unsecured debt, and another, the Transaction Account Guarantee program ("TAG") guaranteed certain non-interest-bearing transaction accounts at insured depository institutions. All insured depository institutions that offered non-interest-bearing transaction accounts had the option to participate in either program. The Company's bank subsidiary elected to participate in both parts of the TLGP, and, as a result, paid an annualized premium for that additional protection on the aggregate amount of its non-interest bearing transaction accounts guaranteed under the TAG. Subsequently, both parts of the TLGP were terminated in light of Section 343 of the Dodd-Frank Act, which amended the Federal Deposit Insurance Act to provide automatic unlimited deposit insurance coverage for noninterest-bearing transaction accounts at all insured banks beginning December 31, 2010, for a two-year period. As a result, the Company will not pay during 2011 the separate additional premium that it paid during 2010 with respect to noninterest-bearing transaction accounts.

Other Aspects of the Dodd-Frank Act

The Dodd-Frank Act (in addition to the regulatory changes discussed elsewhere in this "Regulation and Supervision" discussion and below under "Federal Deposit Insurance Premiums and Assessments") established the Consumer Financial Protection Bureau, which will have extensive regulatory and enforcement powers over consumer financial products and services, and the Financial Stability Oversight Council, which has oversight authority for monitoring and regulating systemic risk. In addition, the Dodd-Frank Act alters the authority and duties of the federal banking and securities regulatory agencies, implements certain corporate governance requirements for all public companies including financial institutions with regard to executive compensation, proxy access by shareholders, and certain whistleblower provisions, and restricts certain proprietary trading and hedge fund and private equity activities of banks and their affiliates. The Dodd-Frank Act also requires the issuance of many implementing regulations that will take effect over several years, making it difficult to anticipate the overall impact to us, our customers, or the financial industry more generally. For instance, the FRB is directed by the Dodd-Frank Act to adopt regulations that will limit the amount of interchange fees that can be charged to a consumer in an electronic debit card transaction to the "reasonable and proportionate" incremental cost of the transaction. Although banks under \$10 billion in asset size (like the Bank) are exempt from this interchange fee limit, the Bank contracts with large debit card processors with which management of the Bank will have relatively weak bargaining power. It is possible these processors, as a result of the Act, will earn lower revenues, leaving less revenue per transaction for the Company. The FRB has until July 2011 to complete its regulations with respect to the interchange fee limits. While the overall impact of the Dodd-Frank Act on the banking industry in general, and on the Company and the Bank in particular, cannot be predicted with any degree of certainty, we believe that the Company and the Bank are likely to be negatively impacted by the Dodd-Frank Act primarily in the areas of capital requirements, restrictions on fees, and other charges to customers.

Certain Other Laws and Regulations

In November 2009, the FRB amended its Regulation E under the Electronic Fund Transfer Act to prohibit banks from charging overdraft fees for ATM or point-of-sale debit card transactions that overdrew the account unless the customer opt-in to the discretionary overdraft service and to require banks to explain the terms of their overdraft services and their fees for the services. Compliance with this Regulation E amendment was required by July 1, 2010.

The Community Reinvestment Act of 1977, or the CRA, requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility. The applicable federal regulators regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution's records of meeting the credit needs of its community. During its last examination, a rating of "satisfactory" was received by the Bank.

In accordance with the Gramm-Leach-Bliley Financial Modernization Act of 1999, or the GLB Act, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. The privacy provisions of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

A major focus of governmental policy on financial institutions over the past decade has been combating money laundering and terrorist financing. The USA PATRIOT Act of 2001, or the USA Patriot Act, substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department has issued a number of regulations that apply various requirements of the USA Patriot Act to financial institutions such as the Bank. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution.

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the "OFAC" rules based on their administration by the U.S. Treasury Department Office of Foreign Assets Control ("OFAC"). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Federal Deposit Insurance Premiums and Assessments

The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund, or the DIF, of the FDIC and are subject to deposit insurance premiums and assessments to maintain the DIF. Like every other insured institution, the Bank's deposit insurance premium assessment rate depends on the capital category and supervisory category to which it is assigned. The FDIC has authority to raise or lower assessment rates on insured banks in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments.

In addition, the Deposit Insurance Fund Act of 1996 authorizes the Financing Corporation ("FICO") to impose assessments on all DIF assessable deposits in order to service the interest on FICO's bond obligations. The amount assessed each FDIC-insured institution is in addition to the amount, if any, paid for deposit insurance under the FDIC's risk-related assessment rate schedule. FICO assessment rates may be adjusted quarterly to reflect a change in assessment base. These assessments will continue until the FICO bonds mature in 2019.

With the enactment of the Dodd-Frank Act, major changes were introduced to the FDIC deposit insurance system. The Dodd-Frank Act permanently increased the basic FDIC insurance coverage for deposit accounts to a maximum amount of \$250,000. Further, under the Dodd-Frank Act, (1) the minimum "designated reserve ratio" for the DIF (a measure of the adequacy of the DIF's reserves) was increased to 1.35 percent (from the former minimum of

1.15 percent, thereby almost certainly requiring that the FDIC increase assessments on the banking industry to obtain the additional reserves for the DIF) and the upper limit on the designated reserve ratio (which was formerly capped at 1.5 percent and therefore operated as a cap on the size of the DIF) was removed; (2) the DIF reserve ratio was required to reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016, as formerly required); (3) the FDIC was required, in setting future assessments, to “offset the effect of [requiring that the reserve ratio reach 1.35 percent by September 30, 2020 rather than 1.15 percent by the end of 2016] on insured depository institutions with total consolidated assets of less than \$10,000,000,000”; and (4) the FDIC was required to amend its regulations to redefine the assessment base used for calculating deposit insurance assessments from a deposit-based formula to a formula that, with some possible exceptions, would assess insured institutions on the basis of an assessment base that would equal average consolidated total assets minus average tangible equity.

On February 7, 2011, the FDIC adopted regulations effective for the 2011 second quarter assessment based on June 30, 2011 figures, and payable in September 2011, to, among other things, modify the definition of an institution's deposit insurance assessment base as required by the Dodd-Frank Act; to change certain assessment rate adjustments; and to revise the deposit insurance assessment rate schedules in light of the new assessment base and altered adjustments. The new initial base assessment rates under these new regulations range from 5 to 9 basis points for banks in the least risky category (determined by the FDIC primarily on the basis of bank capital levels and supervisory evaluations) to 35 basis points for banks deemed by the FDIC to be in the most risky category. We are currently evaluating the effect of these new regulations, but we presently do not expect the 2011 FDIC assessment impact on our results of operations to be materially higher than for 2010 (disregarding the assessments that we will likely incur during 2011 as a result of the growth in our assets over 2010 levels as a result of the Bank of Evansville acquisition effective January 1, 2011). However, any increase in the risk category of the Bank, and any industry-wide adjustments to the base assessment rates or special FDIC assessments, could result in a material increase in our expense for federal deposit insurance.

Internet Address; Internet Availability of SEC Reports

The Company's Internet address is www.germanamerican.com.

The Company makes available, free of charge through the Shareholder Information section of its Internet website, a link to the Internet website of the Securities and Exchange Commission (SEC) by which the public may view the Company's annual report on Form 10-K, its quarterly reports on Form 10-Q, its current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after those reports are filed with or furnished to the SEC.

Forward-Looking Statements and Associated Risks

The Company from time to time in its oral and written communications makes statements relating to its expectations regarding the future. These types of statements are considered "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can include statements about the Company's net interest income or net interest margin; adequacy of allowance for loan losses, and the quality of the Company's loans, investment securities and other assets; simulations of changes in interest rates; litigation results; dividend policy; acquisitions or mergers; estimated cost savings, plans and objectives for future operations; and expectations about the Company's financial and business performance and other business matters as well as economic and market conditions and trends. All statements other than statements of historical fact included in this report, including statements regarding our financial position, business strategy and the plans and objectives of our management for future operations, are forward-looking statements. When used in this report, words such as "anticipate", "believe", "estimate", "expect", "intend", and similar expressions, as they relate to us or our management, identify forward-looking statements.

Such forward-looking statements are based on the beliefs of our management, as well as assumptions made by and information currently available to our management, and are subject to risks, uncertainties, and other factors.

Actual results may differ materially and adversely from the expectations of the Company that are expressed or implied by any forward-looking statement. The discussions in Item 1A, "Risk Factors," and in Item 7 of this Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations," list some of the factors that could cause the Company's actual results to vary materially from those expressed or implied by any forward-looking statements. Other risks, uncertainties, and factors that could cause the Company's actual results to vary materially from those expressed or implied by any forward-looking statement include but not limited to:

- the unknown future direction of interest rates and the timing and magnitude of any changes in interest rates;
 - changes in competitive conditions;
- the introduction, withdrawal, success and timing of asset/liability management strategies or of mergers and acquisitions and other business initiatives and strategies;
 - changes in customer borrowing, repayment, investment and deposit practices;
 - changes in fiscal, monetary and tax policies;
 - changes in financial and capital markets;

- continued deterioration in general economic conditions, either nationally or locally, resulting in, among other things, credit quality deterioration;
- capital management activities, including possible future sales of new securities, or possible repurchases or redemptions by the Company of outstanding debt or equity securities;
- risks of expansion through acquisitions and mergers, such as unexpected credit quality problems of the acquired loans or other assets, unexpected attrition of the customer base of the acquired institution or branches, and difficulties in integration of the acquired operations;
 - factors driving impairment charges on investments;
 - the impact, extent and timing of technological changes;
- litigation liabilities, including related costs, expenses, settlements and judgments, or the outcome of matters before regulatory agencies, whether pending or commencing in the future;
 - actions of the Federal Reserve Board;
 - changes in accounting principles and interpretations;
- potential increases of federal deposit insurance premium expense, and possible future special assessments of FDIC premiums, either industry wide or specific to the Company's banking subsidiary;
- actions of the regulatory authorities under the Dodd-Frank Act and the Federal Deposit Insurance Act and other possible legislative and regulatory actions and reforms; and
- the continued availability of earnings and excess capital sufficient for the lawful and prudent declaration and payment of cash dividends.

Such statements reflect our views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements. It is intended that these forward-looking statements speak only as of the date they are made. We do not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect future events or circumstances or to reflect the occurrence of unanticipated events.

Item 1A. Risk Factors.

While we have a history of profitability and operate with capital that exceeds the requirements of bank regulatory agencies, the financial services industry in which we operate was adversely affected by the severe recession that commenced in 2008, and our industry is continuing to be affected by continuing weak economic conditions throughout the United States. The following describes some of the principal risks and uncertainties to which our industry in general, and we and our assets and businesses specifically, are subject; other risks are briefly identified in our cautionary statement that is included under the heading "Forward-Looking Statements and Associated Risks" in Part I, Item 1, "Business." Although we seek ways to manage these risks and uncertainties and to develop programs to control those that we can, we ultimately cannot predict the future. Future results may differ materially from past results, and from our expectations and plans.

Risks Related to the Financial Services Industry

Our FDIC insurance premiums may increase, and special assessments could be made, which might negatively impact our results of operations.

Continuing high levels of insured institution failures, as well as the continuing weak economic conditions in the United States, have significantly increased losses to the Deposit Insurance Fund of the FDIC. Further, the basic amount of deposit insurance per increase was permanently increased by the Dodd-Frank Act, and the Dodd-Frank Act mandates the FDIC to increase the level of its reserves for future losses in its Deposit Insurance Fund. Since the Deposit Insurance Fund is funded by premiums and assessments paid by insured banks, our FDIC insurance premium expense has increased in recent years, and may continue to increase depending upon the FDIC's actual loss experience, changes in our Bank's financial condition or capital strength, and future conditions in the banking industry.

Banks will be burdened by implementation of the Dodd-Frank Act but the impact on banks will be uneven and uncertain.

Although it is difficult to predict the extent to which the Dodd-Frank Act or the resulting rules and regulations will impact our business, compliance with these new laws and regulations will result in additional costs for banks, which could be significant. Further, the Dodd-Frank Act may adversely affect banks in the areas of capital requirements, and restrictions on permissible customer fees (including electronic bank debit card interchange fees) and other charges to customers. While we believe that the burdens of the Dodd-Frank Act will fall more heavily on large banks than on smaller community banking organizations like the Company, we expect that the Company will also feel these burdens to some degree.

Changes in regulations may over the coming years increase the amount of capital that banks must maintain which could hurt our profitability and have other adverse effects.

Although these changes will likely not be decided upon or implemented for a number of years, the Dodd-Frank Act has mandated the FRB to reform the system under which the safety and soundness of banks and other financial institutions, individually and systemically, are regulated. That reform effort will include the regulation of capital and liquidity. If a significant tightening of U.S. capital requirements is made by the FRB as a result of this reform effort and if that tightening significantly affects America's smaller community banks as well as the large "money center banks," one effect might be to increase our cost of capital, which in turn might have adverse impacts on the profitability of many of our products, the types of products we could offer profitably, our overall profitability, and our overall growth opportunities, among other things. Other potential effects could include less ability to pay cash dividends and repurchase our common shares, higher dilution of common shareholders, and a higher risk that we might fall below regulatory capital thresholds in an adverse economic cycle.

We operate in a highly regulated environment and changes in laws and regulations to which we are subject may adversely affect our results of operations.

The banking industry in which we operate is subject to extensive regulation and supervision under federal and state laws and regulations. The restrictions imposed by such laws and regulations limit the manner in which we conduct our business, undertake new investments and activities and obtain financing. These regulations are designed primarily for the protection of the deposit insurance funds and consumers and not to benefit our shareholders. Financial institution regulation has been the subject of significant legislation in recent years, including the Dodd-Frank Act, and may be the subject of further significant legislation, none of which is in our control. Significant new laws or changes in, or repeals of, existing laws (including changes in federal or state laws affecting corporate taxpayers generally or financial institutions specifically) could have a material adverse effect on our business, financial condition, results of operations or liquidity. Further, federal monetary policy, particularly as implemented through the Federal Reserve System, significantly affects credit conditions, and any unfavorable change in these conditions could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Risks Related to Our Operations and Business and Financial Strategies

Continuing economic weakness could negatively affect us.

Our performance could be negatively affected to the extent that continuing further weaknesses in business and economic conditions have direct or indirect material adverse impacts on us, or on our customers or on the financial institutions with whom we deal as counterparties to financial transactions. These conditions could result in one or more of the following:

- a decrease in the demand for loans and other products and services offered by us;
- a decrease in customer savings generally and in the demand for savings and investment products offered by us; and
- an increase in the number of customers and counterparties who become delinquent, file for protection under bankruptcy laws, or default on their loans or other obligations to us.

Continued weakness or further deterioration in the economy, real estate markets or unemployment rates, particularly in the Southern Indiana markets in which we operate, might place downward pressure on the credit worthiness of our Bank's customers and their inclinations to borrow. A continued or worsening disruption and volatility could negatively impact customers' ability to obtain new loans or to repay existing loans, diminish the values of any collateral securing such loans and could cause increases in the number of the Company's customers experiencing financial distress and in the levels of the Company's delinquencies, non-performing loans and other problem assets, charge-offs and provision for credit losses, all of which could materially adversely affect our financial condition and results of operations. The underwriting and credit monitoring policies and procedures that we have adopted cannot eliminate the risk that we might incur losses on account of factors relating to the economy like those identified above, and those losses could have a material adverse effect on our business, financial condition, results of operations and cash flows.

If our actual loan losses exceed our estimates, our earnings and financial condition will be impacted.

A significant source of risk for any bank or other enterprise that lends money arises from the possibility that losses will be sustained because borrowers, guarantors and related parties may fail (because of financial difficulties or other reasons) to perform in accordance with the terms of their loan agreements. In our case, we originate many loans that are secured, but some loans are unsecured depending on the nature of the loan. With respect to secured loans, the collateral securing the repayment of these loans includes a wide variety of real and personal property that may be insufficient to cover the obligations owed under such loans, due to adverse changes in collateral values caused by changes in prevailing economic, environmental and other conditions, including declines in the value of real estate and other external events.

We could be adversely affected by changes in interest rates.

Our earnings and cash flows are largely dependent upon our net interest income. Interest rates are highly sensitive to many factors that are beyond our control, including general economic conditions, demand for loans, securities and deposits, and policies of various governmental and regulatory agencies and, in particular, the monetary policies of the FRB. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, results of operations, and cash flows.

Our success is tied to the economic vitality of our Southern Indiana markets.

We conduct business from offices that are exclusively located in twelve contiguous counties of Southern Indiana, from which substantially all of our customer base is drawn. Because of the geographic concentration of our operations and customer base, our results depend largely upon economic conditions in this area. If current levels of market disruption and volatility worsen in our primary service areas, the quality of our loan portfolio, and the demand for our products and services, could be adversely affected, and this could have a material adverse effect on our business, financial condition, results of operations or liquidity.

We face substantial competition.

The banking and financial services business in our markets is highly competitive. We compete with much larger regional, national, and international competitors, including competitors that have no (or only a limited number of) offices physically located within our markets. In addition, new banks could be organized in our market area which might bid aggressively for new business to capture market share in these markets. Developments increasing the nature or level of our competition, or decreasing the effectiveness by which we compete, could have a material adverse effect on our business, financial condition, results of operations or liquidity. See also Part I, Item 1, of this Report, “Business – Competition,” and “Business – Regulation and Supervision.”

The manner in which we report our financial condition and results of operations may be affected by accounting changes.

Our financial condition and results of operations that are presented in our consolidated financial statements, accompanying notes to the consolidated financial statements, and selected financial data appearing in this report, are, to a large degree, dependent upon our accounting policies. The selection of and application of these policies involve estimates, judgments and uncertainties that are subject to change, and the effect of any change in estimates or judgments that might be caused by future developments or resolution of uncertainties could be materially adverse to

our reported financial condition and results of operations. In addition, authorities that prescribe accounting principles and standards for public companies from time to time change those principles or standards or adopt formal or informal interpretations of existing principles or standards. Such changes or interpretations (to the extent applicable to us) could result in changes that would be materially adverse to our reported financial condition and results of operations.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition.

Liquidity is essential to our business. An inability to raise funds through deposits, borrowings, the sale of securities or loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Although we have historically been able to replace maturing deposits and borrowings as necessary, we might not be able to replace such funds in the future if, among other things, our results of operations or financial condition or the results of operations or financial condition of our lenders or market conditions were to change.

The value of securities in our investment securities portfolio may be negatively affected by continued disruptions in securities markets.

Prices and volumes of transactions in the nation's securities markets can be affected suddenly by economic crises, such as that experienced in the United States and internationally in 2008, or by other national or international crises, such as national disasters, acts of war or terrorism, changes in commodities markets, or instability in foreign governments. Disruptions in securities markets may detrimentally affect the value of securities that we hold in our investment portfolio, such as through reduced valuations due to the perception of heightened credit and liquidity risks. There can be no assurance that declines in market value associated with these disruptions will not result in other than temporary impairments of these assets, which would lead to accounting charges that could have a material adverse effect on our net income and capital levels.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount due us.

We are dependent on key personnel and the loss of one or more of those key personnel could harm our business.

Competition for qualified employees and personnel in the financial services industry (including banking personnel, trust and investments personnel, and insurance personnel) is intense and there are a limited number of qualified persons with knowledge of and experience in our local Southern Indiana markets. Our success depends to a significant degree upon our ability to attract and retain qualified loan origination executives, sales executives for our trust and investment products and services, and sales executives for our insurance products and services. We also depend upon the continued contributions of our management personnel, and in particular upon the abilities of our senior executive management, and the loss of the services of one or more of them could harm our business.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations, cash flows and financial condition.

We are subject to security and operational risks relating to our use of technology that could damage our reputation and our business.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management,

general ledger, deposit, loan and other systems. The occurrence of any failures, interruptions or security breaches of information systems used to process customer transactions could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

We are exposed to risk of environmental liabilities with respect to properties to which we take title.

In the course of our business, we may own or foreclose and take title to real estate, and could be subject to environmental liabilities with respect to these properties (including liabilities for property damage, personal injury, investigation and clean-up costs incurred by these parties in connection with environmental contamination), or may be required to investigate or clean up hazardous or toxic substances, or chemical releases at a property.

Any acquisitions of banks, bank branches, or loans or other financial service assets pose risks to us.

In the last twelve months, we expanded into the Evansville, Indiana market by buying two branches of another bank, and then by acquiring by merger Bank of Evansville and its three banking locations effective January 1, 2011. We may continue to buy banks, bank branches and other financial-service-related businesses and assets in the future. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the acquired assets, operations or company;
- exposure to potential asset quality issues of the acquired assets, operations or company;
- environmental liability with acquired real estate collateral or other real estate;
- difficulty and expense of integrating the operations, systems and personnel of the acquired assets, operations or company;
- potential disruption to our ongoing business, including diversion of our management's time and attention;
- the possible loss of key employees and customers of the acquired operations or company;
- difficulty in estimating the value of the acquired assets, operations or company; and
- potential changes in banking or tax laws or regulations that may affect the acquired assets, operations or company.

We may not be successful in overcoming these risks or any other problems encountered in connection with mergers or acquisitions.

Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of the Company's tangible book value per common share or net income per common share (or both) may occur in connection with any future transaction. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

We may participate in FDIC-assisted acquisitions, which could present additional risks to our financial condition.

We may make opportunistic whole or partial acquisitions of troubled financial institutions in transactions facilitated by the FDIC. In addition to the risks frequently associated with acquisitions, an acquisition of a troubled financial institution may involve a greater risk that the acquired assets underperform compared to our expectations. Because these acquisitions are structured in a manner that would not allow us the time normally associated with preparing for and evaluating an acquisition, including preparing for integration of an acquired institution, we may face additional risks including, among other things, the loss of customers, strain on management resources related to collection and management of problem loans and problems related to integration of personnel and operating systems. Additionally, while the FDIC may agree to assume certain losses in transactions that it facilitates, there can be no assurances that we would not be required to raise additional capital as a condition to, or as a result of, participation in an FDIC-assisted transaction. Any such transactions and related issuances of stock may have dilutive effect on earnings per share and share ownership.

Item 1B. Unresolved Staff Comments. None.

Item 2. Properties.

The Company's executive offices are located in the main office building of the Bank at 711 Main Street, Jasper, Indiana. The main office building, which is owned by the Bank and also serves as the main office of the Company's other subsidiaries, contains approximately 23,600 square feet of office space. The Bank and the Company's other subsidiaries also conduct their operations from 37 other locations in Southern Indiana of which 30 are owned by the Company and seven are leased from third parties.

Item 3. Legal Proceedings.

There are no material pending legal proceedings, other than routine litigation incidental to the business of the Company's subsidiaries, to which the Company or any of its subsidiaries is a party or of which any of their property is the subject.

Item 4. Removed and Reserved.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market and Dividend Information

German American Bancorp, Inc.'s stock is traded on NASDAQ's Global Select Market under the symbol GABC. The quarterly high and low closing prices for the Company's common stock as reported by NASDAQ and quarterly cash dividends declared and paid are set forth in the table below.

	2010		Cash Dividend	2009		Cash Dividend
	High	Low		High	Low	
Fourth Quarter	\$ 18.81	\$ 16.68	\$ 0.140	\$ 17.31	\$ 14.24	\$ 0.140
Third Quarter	\$ 17.31	\$ 15.01	\$ 0.140	\$ 18.33	\$ 14.25	\$ 0.140
Second Quarter	\$ 17.03	\$ 14.68	\$ 0.140	\$ 16.04	\$ 11.33	\$ 0.140
First Quarter	\$ 16.18	\$ 14.18	\$ 0.140	\$ 12.50	\$ 10.40	\$ 0.140
			\$ 0.560			\$ 0.560

The Common Stock was held of record by approximately 3,602 shareholders at March 1, 2011.

Cash dividends paid to the Company's shareholders are primarily funded from dividends received by the parent company from its bank subsidiary. The declaration and payment of future dividends will depend upon the earnings and financial condition of the Company and its subsidiaries, general economic conditions, compliance with regulatory requirements affecting the ability of the bank subsidiary and the Company to declare dividends, (for further discussion of such requirements, see Item 1, "Business - Regulation and Supervision - Restrictions on Bank Dividends or Loans to, or other Transactions with, the Parent Company and Parent Company Dividends"), and other factors.

Transfer Agent:	Computershare Priority Processing	Shareholder Information and	Terri A. Eckerle German American Bancorp, Inc.
	250 Royall St Canton, MA 02021 Contact: Shareholder Relations (800) 884-4225	Corporate Office:	P. O. Box 810 Jasper, Indiana 47547-0810 (812) 482-1314 (800) 482-1314

Stock Performance Graph

The following graph compares the Company's five-year cumulative total returns with those of the Russell 2000 Stock Index, Russell Microcap Stock Index, and the Indiana Bank Peer Group. The Indiana Bank Peer Group (which is a custom peer group identified by Company management) includes all Indiana-based commercial bank holding companies (excluding companies owning thrift institutions that are not regulated as bank holding companies) that have been in existence as commercial bank holding companies throughout the five-year period ended December 31, 2010, the stocks of which have been traded on an established securities market (NYSE, AMEX, NASDAQ) throughout that five-year period. The companies comprising the Indiana Bank Peer Group for purposes of the December 2010 comparison were: 1st Source Corp., Community Bank Shares of IN, First Financial Corp., First Merchants Corp., Integra Bank Corp., Lakeland Financial Corp., MainSource Financial Group, Old National Bancorp, Indiana Community Bancorp, Horizon Bancorp, Monroe Bancorp, and Tower Financial Corp. The returns of each

company in the Indiana Bank Peer Group have been weighted to reflect the company's market capitalization. The Russell 2000 Stock Index, which is designed to measure the performance of the small-cap segment of the U.S. equity universe, is a subset of the Russell 3000 Index (which measures the performance of the largest 3,000 U.S. companies) that includes approximately 2,000 of the smallest securities in that index based on a combination of their market cap and current index membership, and is annually reconstituted at the end of each June. The Russell Microcap Stock Index is an index representing the smallest 1,000 securities in the small-cap Russell 2000 Index plus the next 1,000 securities, which is also annually reconstituted at the end of each June. The Company's stock is currently included in the Russell 2000 Index and Russell Microcap Index.

Stock Repurchase Program Information

The following table sets forth information regarding the Company's purchases of its common shares during each of the three months ended December 31, 2010.

Period	Total Number Of Shares (or Units) Purchased	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs (1)
October 2010	—	—	—	272,789
November 2010	—	—	—	272,789
December 2010	—	—	—	272,789

(1) On April 26, 2001, the Company announced that its Board of Directors had approved a stock repurchase program for up to 607,754 of its outstanding common shares, of which the Company had purchased 334,965 common shares through December 31, 2010 (both such numbers adjusted for subsequent stock dividends). The Board of Directors established no expiration date for this program. The Company purchased no shares under this program during the quarter ended December 31, 2010.

Item 6. Selected Financial Data.

The following selected data should be read in conjunction with the consolidated financial statements and related notes that are included in Item 8 of this Report, and “Management's Discussion and Analysis of Financial Condition and Results of Operations,” which is included in Item 7 of this Report (dollars in thousands, except per share data). Year-to-year financial information comparability is affected by the acquisition accounting treatment for mergers and acquisitions, including but not limited to the Company’s acquisitions of two branches of another bank in May 2010 (see Note 16 of the Notes to Consolidated Financial Statements included in Item 8 of this report).

	2010	2009	2008	2007	2006
Summary of Operations:					
Interest Income	\$ 64,193	\$ 63,736	\$ 67,845	\$ 72,261	\$ 63,594
Interest Expense	15,522	19,223	26,908	33,646	27,398
Net Interest Income	48,671	44,513	40,937	38,615	36,196
Provision for Loan Losses					
Provision for Loan Losses	5,225	3,750	3,990	3,591	925
Net Interest Income after Provision					
For Loan Losses	43,446	40,763	36,947	35,024	35,271
Non-interest Income	16,943	15,859	18,210	15,704	15,993
Non-interest Expense	41,361	40,391	36,716	37,221	37,059
Income before Income Taxes					
Taxes	19,028	16,231	18,441	13,507	14,205
Income Tax Expense	5,623	4,013	5,638	4,102	3,984
Net Income	\$ 13,405	\$ 12,218	\$ 12,803	\$ 9,405	\$ 10,221
Year-end Balances:					
Total Assets	\$ 1,375,888	\$ 1,242,965	\$ 1,190,828	\$ 1,131,710	\$ 1,093,424
Total Loans, Net of Unearned Income					
Total Loans, Net of Unearned Income	917,236	877,822	890,436	867,721	796,259
Total Deposits	1,087,286	969,643	941,750	877,421	867,618
Total Long-term Debt	81,016	113,320	105,608	86,786	68,333
Total Shareholders' Equity					
Total Shareholders' Equity	121,534	113,549	105,174	97,116	92,391
Average Balances:					
Total Assets	\$ 1,330,540	\$ 1,230,596	\$ 1,174,583	\$ 1,114,140	\$ 1,029,838
Total Loans, Net of Unearned Income					
Total Loans, Net of Unearned Income	906,127	891,322	880,630	840,849	715,260
Total Deposits	1,046,295	963,928	922,137	889,736	814,440
Total Shareholders' Equity					
Total Shareholders' Equity	119,867	109,887	99,711	93,677	88,451
Per Share Data (1):					
Net Income	\$ 1.21	\$ 1.10	\$ 1.16	\$ 0.85	\$ 0.93
Cash Dividends	0.56	0.56	0.56	0.56	0.56
Book Value at Year-end					
Book Value at Year-end	10.94	10.25	9.54	8.81	8.39

**Other Data at
Year-end:**

Number of Shareholders	3,194	3,364	3,684	3,647	3,438
Number of Employees	359	332	348	371	397
Weighted Average Number of Shares (1)	11,098,836	11,065,917	11,029,519	11,009,536	10,994,739

Selected Performance
Ratios:

Return on Assets	1.01	%	0.99	%	1.09	%	0.84	%	0.99	%
Return on Equity	11.18	%	11.12	%	12.84	%	10.04	%	11.56	%
Equity to Assets	8.83	%	9.14	%	8.83	%	8.58	%	8.45	%
Dividend Payout	46.36	%	50.71	%	48.25	%	65.65	%	60.29	%
Net Charge-offs to Average Loans	0.32	%	0.25	%	0.29	%	0.32	%	0.50	%
Allowance for Loan Losses to Loans	1.45	%	1.25	%	1.07	%	0.93	%	0.90	%
Net Interest Margin	3.98	%	3.95	%	3.82	%	3.83	%	3.96	%

(1) Share and Per Share Data excludes the dilutive effect of stock options.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

INTRODUCTION

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

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

This Management's Discussion and Analysis includes an analysis of the major components of the Company's operations for the years 2008 through 2010 and its financial condition as of December 31, 2010 and 2009. This information should be read in conjunction with the accompanying consolidated financial statements and footnotes contained elsewhere in this report and with the description of business included in Item 1 of this Report (including the cautionary disclosure regarding "Forward Looking Statements and Associated Risks"). Financial and other information by segment is included in Note 14 to the Company's consolidated financial statements included in Item 8 of this Report and is incorporated into this Item 7 by reference.

On January 1, 2011 (as discussed by Note 19, Subsequent Events, of the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which Note 19 is incorporated herein by reference), the Company completed its acquisition of American Community Bancorp, Inc., and its subsidiaries, including Bank of Evansville. This transaction has materially increased the levels of the Company's total assets, liabilities, shareholders equity, income and expense over the corresponding pre-acquisition levels as of December 31, 2010 and for the fiscal year then ended. American Community Bancorp'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) totaled (\$632,000) for year-ended December 31, 2010. This transaction will be accounted for in the Company's future financial statements (for any period ended on or after January 1, 2011) under the acquisition method of accounting. Under the acquisition method, the purchase price will be allocated to identifiable assets and assumed liabilities based on their fair values. Any excess will be accounted for as goodwill. Intangible assets with definite lives will be amortized over their estimated useful lives. Goodwill and intangible assets determined to have indefinite lives will not be amortized, but will be tested for impairment at least annually (more frequently if certain indicators are present). In the event that management of the Company determines that the value of goodwill or intangible assets has become impaired, an impairment charge will be recorded in the fiscal quarter in which such determination is made. Costs related to this acquisition that were incurred by the Company during 2010 were expensed by the Company during 2010, and costs related to the merger that were incurred in 2011 will be recorded in 2011.

The statements of management's expectations and goals concerning the Company's future operations and performance that are set forth in the following Management Overview and in other sections of this Item 7 are forward-looking statements, and readers are cautioned that these forward-looking statements are based on assumptions and are subject

to risks, uncertainties, and other factors. Actual results may differ materially from the expectations of the Company that is expressed or implied by any forward-looking statement. This Item 7, as well as the discussions in Item 1 (“Business”) entitled “Forward-Looking Statements and Associated Risks” and in Item 1A (“Risk Factors”) (which discussions are incorporated in this Item 7 by reference) list some of the factors that could cause the Company's actual results to vary materially from those expressed or implied by any such forward-looking statements.

MANAGEMENT OVERVIEW

The Company's 2010 net income totaled \$13.4 million, or \$1.21 per share, which was a record level of earnings for the Company and represented a 10% increase over the Company's 2009 net income of \$12.2 million, or \$1.10 per share. The Company's return on average equity for 2010 was 11.2%, representing the sixth consecutive year the Company has achieved a double-digit return on equity.

The record 2010 performance was driven by an improvement in the level of the Company's core operating results, derived from increased revenues in both net interest income and non-interest income. The Company's 2010 net interest income increased by \$4.2 million while its non-interest income reflected a \$1.1 million improvement from the levels reported in 2009. The higher level of net interest income was the result of both an 8% increase in the level of the Company's average earning assets, and a widening of the Company's tax-equivalent net interest margin to 3.98% up from 3.95% in 2009. The increased non-interest income was largely attributable to an approximately \$400 thousand increase in the gain from the sale of secondary market residential mortgage loans, and a \$511 thousand increase in gains on the sale of other real estate.

Management intends to strive to continue to maintain the Company's strong financial condition by, among other things:

- emphasizing the growth of low-cost transaction account deposits (see "SOURCES OF FUNDS" below for historical information as to the Company's deposit mix),
 - maintaining a targeted concentration of at least 75% of its loan portfolio balances in loans and other extensions of credit to commercial borrowers (categorized in our financial statements as Commercial and Industrial Loans, Commercial Real Estate Loans, and Agricultural Loans) (see "USES OF FUNDS – LOANS" below for historical information concerning loan portfolio composition), and
- focusing on the maintenance of strong asset quality (see "RISK MANAGEMENT – NON-PERFORMING ASSETS" below for historical information concerning certain asset quality ratios).

Management is also committed to managing the Company's operating efficiency by seeking wherever possible to optimize its existing branch network, justify existing product and service offerings, standardize its back-office operations, and maximize staff productivity.

As discussed elsewhere in this report, the Company has entered the Evansville, Indiana market since January 1, 2010, through two separate acquisition transactions and now operates five branches in that market. For further information, see Item 1, "Business – Business Development", and Note 16 (Business Combinations, Goodwill and Intangible Assets) and Note 19 (Subsequent Events) in the Notes to the Consolidated Financial Statements included in Item 8 of this Report. The Company plans to open a new financial services center in downtown Bloomington, Indiana in the summer of 2011. Management expects to continue to evaluate opportunities to expand the Company's business through opening of other new banking, insurance or trust, brokerage and financial planning offices, and through acquisitions of other banks, bank branches, portfolios of loans or other assets, and other financial-service-related businesses and assets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

ALLOWANCE FOR LOAN LOSSES

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

The Company has an established process to determine the adequacy of the allowance for loan losses. The determination of the allowance is inherently subjective, as it requires significant estimates, including the amounts and

timing of expected future cash flows on impaired loans, estimated losses on other classified loans and pools of homogeneous loans, and consideration of past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors, all of which may be susceptible to significant change. The allowance consists of two components of allocations, specific and general. These two components represent the total allowance for loan losses deemed adequate to cover losses inherent in the loan portfolio.

Commercial and agricultural loans are subject to a standardized grading process administered by an internal loan review function. The need for specific reserves is considered for credits when graded substandard or special mention, or when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or, (d) other reasons where the ultimate collectibility of the loan is in question, or the loan characteristics require special monitoring. Specific allowances are established in cases where management has identified significant conditions or circumstances related to an individual credit that we believe indicates the loan is impaired. Specific allocations on impaired loans are determined by comparing the loan balance to the present value of expected cash flows or expected collateral proceeds. Allocations are also applied to categories of loans not considered individually impaired but for which the rate of loss is expected to be greater than historical averages, including those graded substandard or special mention and non-performing consumer or residential real estate loans. Such allocations are based on past loss experience and information about specific borrower situations and estimated collateral values.

General allocations are made for other pools of loans, including non-classified loans, homogeneous portfolios of consumer and residential real estate loans, and loans within certain industry categories believed to present unique risk of loss. General allocations of the allowance are primarily made based on a three-year historical average for loan losses for these portfolios, judgmentally adjusted for economic factors and portfolio trends.

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

SECURITIES VALUATION

Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported separately in accumulated other comprehensive income (loss), net of tax. The Company obtains market values from a third party on a monthly basis in order to adjust the securities to fair value. Equity securities that do not have readily determinable fair values are carried at cost. Additionally, when securities are deemed to be other than temporarily impaired a charge will be recorded through earnings; therefore, future changes in the fair value of securities could have a significant impact on the Company's operating results. In determining whether a market value decline is other than temporary, management considers the reason for the decline, the extent of the decline, the duration of the decline and whether the Company intends to sell or believes it will be required to sell the securities prior to recovery. As of December 31, 2010, gross unrealized losses on the securities available-for-sale portfolio totaled approximately \$1,601,000 and gross unrealized gains totaled approximately \$9,512,000. As of December 31, 2010, held-to-maturity securities had a gross unrecognized gain of approximately \$9,000.

INCOME TAX EXPENSE

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

A valuation allowance reduces deferred tax assets to the amount management believes is more likely than not to be realized. In evaluating the realization of deferred tax assets, management considers the likelihood that sufficient taxable income of appropriate character will be generated within carryback and carryforward periods, including consideration of available tax planning strategies. Tax related loss contingencies, including assessments arising from tax examinations and tax strategies, are recorded as liabilities when the likelihood of loss is probable and an amount or

range of loss can be reasonably estimated. In considering the likelihood of loss, management considers the nature of the contingency, the progress of any examination or related protest or appeal, the views of legal counsel and other advisors, experience of the Company or other enterprises in similar matters, if any, and management's intended response to any assessment.

RESULTS OF OPERATIONS

NET INCOME

Net income increased \$1,187,000 or 10% to \$13,405,000 or \$1.21 per share in 2010 compared to \$12,218,000 or \$1.10 per share in 2009. The increase in earnings during 2010 compared with 2009 was largely the result of higher net interest income, increased non-interest revenues partially mitigated by an increased provision for loan loss and modestly higher levels of non-interest expense.

Net income declined \$585,000 or 5% to \$12,218,000 or \$1.10 per share in 2009 compared to \$12,803,000 or \$1.16 per share in 2008. The decline in earnings during 2009 compared with 2008 was largely the result of lower non-interest revenues and higher levels of non-interest expense partially mitigated by an increase in net interest income.

NET INTEREST INCOME

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

Net interest income and net interest income on a tax equivalent basis increased \$4,158,000 or 9% for the year ended December 31, 2010 compared with the year ended 2009. The increase in net interest income was primarily attributable to an increased level of average earning assets and a modestly expanded net interest margin in 2010 compared with 2009. The tax equivalent net interest margin for 2010 was 3.98% compared to 3.95% for 2009. The yield on earning assets totaled 5.23% during 2010 compared to 5.62% in 2009 while the cost of funds (expressed as a percentage of average earning assets) totaled 1.25% during 2010 compared to 1.67% in 2009.

Average earning assets increased by approximately \$93.5 million or 8% during 2010 compared with 2009. Average loans outstanding increased by \$14.8 million or 2% during 2010 compared with 2009. The remainder of the increase in average earning assets was primarily related to an increased securities portfolio in 2010. The key driver of the increased securities portfolio and overall increased average earnings assets was a higher level of average core deposits (core deposits defined as demand deposits - both interest and non-interest bearing, savings, money market and time deposits in denominations of less than \$100,000). During 2010 average core deposits increased \$86.5 million or 10%, compared to 2009.

The increase in average loans and average core deposits during 2010 compared to 2009 was positively impacted by the acquisition of the two Evansville area (Indiana) branches on May 7, 2010 described by Note 16 of the Notes to Consolidated Financial Statements that are included in Item 8 of this Report. On an annual average basis, loans and core deposits related to the acquired branches totaled approximately \$29.2 million during 2010.

The expansion of the Company's net interest income and net interest margin during 2010 compared with 2009 was aided by utilization of interest rate floors on adjustable rate commercial and industrial, commercial real estate and agricultural loans. As of December 31, 2010 the Company's commercial and agricultural loan portfolios totaled \$723.2 million of which approximately 73% were adjustable rate loans. Of these adjustable rate loans, approximately 87% contain interest rate floors which range predominantly from 4% to 7%. At year-end 2010, approximately \$310.5 million of these loans were at their contractual floor.

Also contributing to the expansion of the Company's net interest income and net interest margin during 2010 compared with 2009 has been the relative liability sensitive nature of the Company's balance sheet. The Company was able to effectively lower interest rates on both its interest-bearing non-maturity deposits while continuing to expand its core deposit base. In addition, the Company has been able to lower its cost of time deposits in a time of historically low interest rates while holding its level of deposits relatively stable.

Net interest income increased \$3,576,000 or 9% (an increase of \$3,798,000 or 9% on a tax-equivalent basis) for the year ended December 31, 2009 compared with the year ended 2008. The increase in net interest income was primarily attributable to an increased level of average earning assets and an expanded net interest margin in 2009 compared with 2008. The tax equivalent net interest margin for 2009 was 3.95% compared to 3.82% for 2008. The yield on earning assets totaled 5.62% during 2009 compared to 6.30% in 2008 while the cost of funds (expressed as a percentage of average earning assets) totaled 1.67% during 2009 compared to 2.48% in 2008.

Average earning assets increased by approximately \$61.9 million or 6% during 2009 compared with 2008. Average loans outstanding increased by \$10.7 million or 1% during 2009 compared with 2008. The remainder of the increase in average earning assets was primarily related to an increased securities portfolio in 2009 driven by a higher level of average core deposits. During 2009 average core deposits increased \$53.5 million or 7%, compared to 2008.

The following table summarizes net interest income (on a tax-equivalent basis) for each of the past three years. For tax-equivalent adjustments, an effective tax rate of 34% was used for all years presented (1).

Average Balance Sheet

(Tax-equivalent basis, dollars in thousands)

	Twelve Months Ended December 31, 2010			Twelve Months Ended December 31, 2009			Twelve Months Ended December 31, 2008		
	Principal Balance	Income /Yield / Expense Rate		Principal Balance	Income /Yield / Expense Rate		Principal Balance	Income /Yield / Expense Rate	
ASSETS									
Federal Funds Sold and Other Short-term Investments	\$41,020	\$76	0.19%	\$41,085	\$106	0.26%	\$35,064	\$593	1.69%
Securities:									
Taxable	268,170	9,812	3.66%	192,074	8,660	4.51%	152,710	8,007	5.24%
Non-taxable	26,584	1,575	5.92%	23,920	1,614	6.75%	18,061	1,164	6.44%
Total Loans and Leases (2)	906,127	53,540	5.91%	891,322	54,166	6.08%	880,630	58,669	6.66%
TOTAL INTEREST EARNING ASSETS	1,241,901	65,003	5.23%	1,148,401	64,546	5.62%	1,086,465	68,433	6.30%
Other Assets	100,124			92,699			97,275		
Less: Allowance for Loan Losses	(11,485)			(10,504)			(9,157)		
TOTAL ASSETS	\$1,330,540			\$1,230,596			\$1,174,583		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing									
Demand Deposits	\$281,355	\$953	0.34%	\$245,811	\$1,710	0.70%	\$212,467	\$3,439	1.62%
Savings Deposits	237,610	735	0.31%	227,403	1,531	0.67%	209,593	3,407	1.63%
Time Deposits	354,239	8,873	2.50%	341,041	10,254	3.01%	359,115	14,366	4.00%
FHLB Advances and Other Borrowings	150,737	4,961	3.29%	143,332	5,728	4.00%	138,888	5,696	4.10%
TOTAL INTEREST-BEARING LIABILITIES	1,023,941	15,522	1.52%	957,587	19,223	2.01%	920,063	26,908	2.92%
Demand Deposit Accounts	173,091			149,673			140,962		
Other Liabilities	13,641			13,449			13,847		
TOTAL LIABILITIES	1,210,673			1,120,709			1,074,872		

Shareholders' Equity	119,867	109,887	99,711	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$1,330,540	\$1,230,596	\$1,174,583	
COST OF FUNDS		1.25%	1.67%	2.48%
NET INTEREST INCOME	\$49,481	\$45,323	\$41,525	
NET INTEREST MARGIN		3.98%	3.95%	3.82%

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

(2) Loans held-for-sale and non-accruing loans have been included in average loans. Interest income on loans includes loan fees of \$909, \$545, and \$127 for 2010, 2009, and 2008, respectively.

The following table sets forth for the periods indicated a summary of the changes in interest income and interest expense resulting from changes in volume and changes in rates:

Net Interest Income – Rate / Volume Analysis
(Tax-Equivalent basis, dollars in thousands)

	2010 compared to 2009			2009 compared to 2008		
	Increase / (Decrease) Due to (1)			Increase / (Decrease) Due to (1)		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income:						
Federal Funds Sold and Other						
Short-term Investments	\$—	\$(30)	\$(30)	\$87	\$(574)	\$(487)
Taxable Securities	2,993	(1,841)	1,152	1,876	(1,223)	653
Non-taxable Securities	169	(208)	(39)	393	57	450
Loans and Leases	890	(1,516)	(626)	705	(5,208)	(4,503)
Total Interest Income	4,052	(3,595)	457	3,061	(6,948)	(3,887)
Interest Expense:						
Savings and Interest-bearing						
Demand	288	(1,841)	(1,553)	747	(4,352)	(3,605)
Time Deposits	384	(1,765)	(1,381)	(693)	(3,419)	(4,112)
FHLB Advances and Other						
Borrowings	284	(1,051)	(767)	180	(148)	32
Total Interest Expense	956	(4,657)	(3,701)	234	(7,919)	(7,685)
Net Interest Income	\$3,096	\$1,062	\$4,158	\$2,827	\$971	\$3,798

(1)The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

See the Company's Average Balance Sheet and the discussions headed USES OF FUNDS, SOURCES OF FUNDS, and "RISK MANAGEMENT – Liquidity and Interest Rate Risk Management" for further information on the Company's net interest income, net interest margin, and interest rate sensitivity position.

PROVISION FOR LOAN LOSSES

The Company provides for loan losses through regular provisions to the allowance for loan losses. The provision is affected by net charge-offs on loans and changes in specific and general allocations required on the allowance for loan losses. Provisions for loan losses totaled \$5,225,000, \$3,750,000, and \$3,990,000 in 2010, 2009, and 2008, respectively.

The level of provision for loan losses increased by \$1,475,000 or 39% during 2010 compared with 2009. The increase in provision during 2010 compared with 2009 was largely the result of a higher level of net charge-offs and an upward trend in the Company's level of non-performing loans and impaired loans. During 2010, the provision for loan losses totaled 0.58% of average outstanding loans while net charge-offs represented 0.32% of average outstanding loans. As a result, the Company's allowance for loan losses increased to 1.45% of total loans at year-end 2010 compared with 1.25% at year-end 2009.

The level of provision for loan losses declined by \$240,000 or 6% during 2009 compared with 2008. The decline in provision during 2009 compared with 2008 was largely the result of a lower level of net charge-offs and a relatively

stable level of non-performing loans. During 2009, the provision for loan losses totaled 0.42% of average outstanding loans while net charge-offs represented 0.25% of average outstanding loans. As a result, the Company's allowance for loan losses increased to 1.25% of total loans at year-end 2009 compared with 1.07% at year-end 2008.

Provisions for loan losses in all periods were made at a level deemed necessary by management to absorb estimated, probable incurred losses in the loan portfolio. A detailed evaluation of the adequacy of the allowance for loan losses is completed quarterly by management, the results of which are used to determine provisions for loan losses. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other qualitative factors. Refer also to the sections entitled **CRITICAL ACCOUNTING POLICIES AND ESTIMATES** and "RISK MANAGEMENT – Lending and Loan Administration" for further discussion of the provision and allowance for loan losses.

NON-INTEREST INCOME

During 2010, Non-interest Income increased \$1,084,000 or 7% compared with 2009 and during 2009 decreased \$2,351,000 or 13% compared with 2008.

Non-interest Income (dollars in thousands)	Years Ended December 31,			% Change From Prior Year	
	2010	2009	2008	2010	2009
Trust and Investment Product Fees	\$ 1,582	\$ 1,617	\$ 2,288	(2)%	(29)%
Service Charges on Deposit Accounts	4,065	4,395	4,920	(8)	(11)
Insurance Revenues	5,347	5,296	6,306	1	(16)
Company Owned Life Insurance	806	1,104	791	(27)	40
Interchange Fee Income	1,243	969	909	28	7
Other Operating Income	1,740	1,141	1,503	52	(24)
Subtotal	14,783	14,522	16,717	2	(13)
Net Gains on Sales of Loans	2,160	1,760	1,399	23	26
Net Gain (Loss) on Securities	—	(423)	94	n/m (1)	n/m (1)
TOTAL NON-INTEREST INCOME	\$ 16,943	\$ 15,859	\$ 18,210	7	(13)

(1) n/m = not meaningful

Trust and Investment Product Fees totaled \$1,582,000 during the year ended December 31, 2010 representing a relatively stable level compared with 2009, following a decline of \$671,000 or 29% during 2009 as compared to 2008. The stabilization during 2010 was driven by improvement in overall market conditions and a corresponding improvement in the level of retail brokerage commissions. During 2009, the decline in brokerage commission revenue was largely attributable to continued difficult market conditions, changes in customers' investment preferences, and internal reorganizations which included a change in the Company's broker dealer relationship for retail investment products.

Service Charges on Deposit Accounts totaled \$4,065,000 during the year ended December 31, 2010 representing a decline of 8% compared with 2009 due in large part to less customer utilization of the Company's overdraft protection program and to a lesser degree changes implemented in the program during the third quarter of 2010 related to Regulation E. During 2009, Service Charges on Deposit Accounts declined 11% over 2008 attributable to less customer utilization of the Company's overdraft protection program.

During the year ended December 31, 2010, Insurance Revenues remained relatively stable totaling \$5,347,000, an increase of \$51,000 or 1%, over 2009 levels. During the year ended December 31, 2009, Insurance Revenues totaled \$5,296,000 representing a decline of \$1,010,000 or 16% compared to 2008. The decline was largely attributable to decreases in contingency revenue and lower levels of commercial insurance revenues in the Company's property and casualty insurance subsidiary.

Company owned life insurance income declined by \$298,000 or 27% during 2010 compared with 2009 following an increase of \$313,000 or 40% during 2009 compared with 2008. During both years the variance was attributable to death benefits received from life insurance policies during 2009.

Net interchange revenues related to debit cards increased approximately \$274,000 or 28% during 2010 compared with 2009. This increase was primarily attributable to a vendor processing conversion during 2010 and increased customer utilization. Other operating income increased \$873,000 or 41% during the year ended December 31, 2010 compared with the year ended December 31, 2009. This increase was due primarily to a net gain on the sale of other real estate during 2010 compared with a net loss during 2009 (representing an approximately \$511,000 difference year over

year).

During the year ended December 31, 2010, the net gain on sales of residential loans totaled \$2,160,000, an increase of \$400,000 or 23%, over the gain of \$1,760,000 during 2009. Strong residential mortgage loan sales and improved pricing on those loans sold and those loans held for sale produced the increased gains on sale. The net gain of sales of residential loans increased \$361,000 or 26% during 2009 compared with 2008 due largely to higher levels of residential loan sales during 2009 compared with 2008. Loan sales for 2010, 2009, and 2008 totaled \$119.3 million, \$143.6 million, and \$108.0 million, respectively.

During 2010, the Company recorded no gain or loss on securities. During 2009, the Company recognized a net loss on securities of \$423,000 related to the recognition of other-than-temporary impairment charges on the Company's portfolio of non-controlling investments in other banking organizations. The Company recognized a net gain on securities of \$94,000 during the year ended December 31, 2008.

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NON-INTEREST EXPENSE

During the year ended December 31, 2010, Non-interest Expense totaled \$41,361,000, an increase of \$970,000 or 2% from the year ended 2009. During 2009, Non-interest Expense increased \$3,675,000 or 10% as compared with 2008.

Non-interest Expense (dollars in thousands)	Years Ended December 31,			% Change From Prior Year	
	2010	2009	2008	2010	2009
Salaries and Employee Benefits	\$ 22,070	\$ 21,961	\$ 20,786	0 %	6 %
Occupancy, Furniture and Equipment Expense	6,083	6,035	5,677	1	6
FDIC Premiums	1,455	1,863	209	(22)	791
Data Processing Fees	1,411	1,368	1,493	3	(8)
Professional Fees	2,285	1,740	1,670	31	4
Advertising and Promotion	1,255	993	1,078	26	(8)
Supplies	755	528	570	43	(7)
Intangible Amortization	898	909	889	(1)	2
Other Operating Expenses	5,149	4,994	4,344	3	15
TOTAL NON-INTEREST EXPENSE	\$ 41,361	\$ 40,391	\$ 36,716	2	10

Salaries and Employee Benefits totaled \$22,070,000 during the year ended December 31, 2010 representing less than a 1% increase compared with the year ended December 31, 2009. Salaries and Employee Benefits totaled \$21,961,000 during 2009 representing an increase of \$1,175,000 or 6% from 2008. The increase in 2009 was attributable to increased costs associated with the Company's partially self-insured health insurance plan.

Occupancy, Furniture and Equipment Expense totaled \$6,083,000 during the year ended December 31, 2010 representing an increase of \$48,000 or just under 1% from the year ended 2009. Occupancy, Furniture and Equipment Expense increased \$358,000 or 6% during 2009 compared with 2008 largely attributable to depreciation expense associated with renovations to existing branch facilities and upgrades to and purchases of information technology systems.

The Company's FDIC deposit insurance assessments totaled \$1,455,000 representing a decrease of \$408,000 or 22% during the year-ended December 31, 2010 compared with 2009. This followed an increase of \$1,654,000 or 791% in 2009 compared with 2008. The significant increase in 2009 resulted from an industry-wide increase in quarterly assessments as the FDIC began to recapitalize the deposit insurance fund, in addition to an industry wide special assessment in the second quarter of 2009 of approximately \$550,000 which represented 5 basis points of the Company's subsidiary bank's total assets less Tier 1 Capital. During 2010, the elevated quarterly assessments continued, but there was no industry wide special assessment as there was in 2009.

Professional fees totaled \$2,285,000, an increase of \$545,000 or 31%, during the year ended December 31, 2010 compared with 2009 primarily as a result of professional fees incurred during 2010 that were associated with the acquisition of American Community Bancorp, Inc. effective January 1, 2011 and the acquisition of two branch offices during the second quarter of 2010. Professional fees increased \$70,000 or 4% during 2009 compared with 2008.

Advertising and promotion totaled \$1,255,000, an increased \$262,000 or 26%, in the year ended December 31, 2010 compared with 2009 largely as a result of the Company's common identity initiative and the acquisition of two branch offices in a new market for the Company during the second quarter of 2010. Advertising and promotion declined approximately 8% during 2009 compared with 2008.

Supplies expense totaled \$755,000, an increased \$227,000 or 43%, in the year ended December 31, 2010 compared with 2009 largely as a result of the Company's common identity initiative. Supplies expense declined approximately 7% during 2009 compared with 2008.

Other operating expense totaled \$5,194,000, an increase of \$155,000 or 3%, during the year ended December 31, 2010 compared with 2010. The increase was largely attributable to the Company's common identity initiative. Other operating expenses increased \$650,000 or 15% during 2009 compared with 2008. The increase during 2009 was largely attributable to an increased level of loan collection costs and amortization expense related to a new market tax credit project in which the Company invested in the fourth quarter of 2009.

PROVISION FOR INCOME TAXES

The Company records a provision for current income taxes payable, along with a provision for deferred taxes payable in the future. Deferred taxes arise from temporary differences, which are items recorded for financial statement purposes in a different period than for income tax returns. The Company's effective tax rate was 29.6%, 24.7%, and 30.6%, respectively, in 2010, 2009, and 2008. The effective tax rate in all periods is lower than the blended statutory rate. The lower effective rate in all periods primarily resulted from the Company's tax-exempt investment income on securities, loans, and company owned life insurance, income tax credits generated by investments in affordable housing projects, and income generated by subsidiaries domiciled in a state with no state or local income tax. In addition, during 2009 the Company's effective tax rate was reduced as a result of tax credits attributable to a new markets tax credit in which the Company invested in 2009. This credit continued during 2010. See Note 9 to the Company's consolidated financial statements included in Item 8 of this Report for additional details relative to the Company's income tax provision.

CAPITAL RESOURCES

The Company and its affiliate bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. The prompt corrective action regulations provide five classifications, including well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. The Company and its affiliate bank at year-end 2010 were categorized as well-capitalized as that term is defined by applicable regulations. See Note 7 to the Company's consolidated financial statements included in Item 8 of this Report for actual and required capital ratios and for additional information regarding capital adequacy.

The Company continues to maintain a strong capital position. Shareholders' equity totaled \$121.5 million and \$113.5 million at December 31, 2010 and 2009, respectively. Total equity represented 8.8% and 9.1%, respectively, of year-end 2010 and 2009 total assets. The Company paid cash dividends of \$6.2 million or \$0.56 per share in 2010 and 2009. The increase in shareholders' equity during 2010 compared with 2009 was primarily the result of increased retained earnings of \$7.2 million.

On April 30, 2009, the Company issued \$19.3 million of 8% redeemable subordinated debentures that will mature in a single payment of principal on March 30, 2019 for gross proceeds to the Company (before offering expenses) of \$19.3 million. The Company has the right to redeem the debentures without penalty or premium on or after March 30, 2012 subject to prior consultation with the Federal Reserve Board. The entire principal amount was includable in the Company's Tier 2 regulatory capital under banking agency regulatory standards at December 31, 2010 and 2009.

USES OF FUNDS

LOANS

Year-end 2010 loans outstanding increased approximately \$39.2 million or 4% compared with year-end 2009. The overall increase in the loan portfolio was largely driven by the May 2010 branch acquisition, pursuant to which the Company acquired approximately \$42.9 million in loans. Commercial and industrial loans increased \$29.5 million or 16%, commercial real estate loans increased \$5.3 million or 2%, agricultural loans increased \$8.3 million or 5%, and consumer loans increased \$3.5 million or 4% during 2010 while residential mortgage loans decreased \$7.4 million or

9% during 2010. The decline in the residential loan portfolio was the result of continued refinancing activity and the Company's continuance of selling a vast majority of production into the secondary market.

Total loans at year-end 2009 decreased \$13.0 million or 1% compared with year-end 2008. Commercial and industrial loans increased \$13.1 million or 7% and commercial real estate loans increased \$4.9 million or 1% during 2009 while agricultural loans decreased \$3.1 million or 2%, consumer loans decreased \$12.6 million or 10%, and residential mortgage loans decreased \$15.3 million or 15% during 2009. The decline in the residential loan portfolio was the result of historically low market interest rates during 2009 that spurred refinancing activity. The Company continued to actively originate residential mortgage loans, with the vast majority of production being sold into the secondary market.

The composition of the loan portfolio has remained relatively stable over the past several years including 2010. The portfolio is most heavily concentrated in commercial real estate loans at 37% of the portfolio. While this is the largest component of the total portfolio, the Company has only limited exposure in construction and development lending with this segment representing approximately 2% of the total loan portfolio. In addition, the Company's exposure to non-owner occupied commercial real estate is limited to 21% of the total loan portfolio at year-end 2010. The Company's commercial lending is extended to various industries, including hotel, agribusiness and manufacturing, as well as health care, wholesale, and retail services.

Loan Portfolio (dollars in thousands)	December 31,					
	2010	2009	2008	2007	2006	
Commercial and Industrial Loans and Leases	\$218,443	\$188,962	\$175,828	\$158,556	\$158,502	
Commercial Real Estate Loans	339,555	334,255	329,363	298,477	243,783	
Agricultural Loans	165,166	156,845	159,923	165,592	148,872	
Consumer Loans	118,244	114,736	127,343	131,110	132,791	
Residential Mortgage Loans	77,310	84,677	100,054	116,908	114,687	
Total Loans	918,718	879,475	892,511	870,643	798,635	
Less: Unearned Income	(1,482)	(1,653)	(2,075)	(2,922)	(2,376)	
Subtotal	917,236	877,822	890,436	867,721	796,259	
Less: Allowance for Loan Losses	(13,317)	(11,016)	(9,522)	(8,044)	(7,129)	
Loans, Net	\$903,919	\$866,806	\$880,914	\$859,677	\$789,130	
Ratio of Loans to Total Loans						
Commercial and Industrial Loans	24	% 21	% 20	% 18	% 20	%
Commercial Real Estate Loans	37	% 38	% 37	% 35	% 30	%
Agricultural Loans	18	% 18	% 18	% 19	% 19	%
Consumer Loans	13	% 13	% 14	% 15	% 17	%
Residential Mortgage Loans	8	% 10	% 11	% 13	% 14	%
Total Loans	100	% 100	% 100	% 100	% 100	%

The Company's policy is generally to extend credit to consumer and commercial borrowers in its primary geographic market area in Southern Indiana. Commercial extensions of credit outside this market area are generally concentrated in real estate loans within a 120 mile radius of the Company's primary market and are granted on a selective basis. These out-of-market credits include participations that the Company may purchase from time to time in loans that are originated by banks in which the Company owns (or previously owned) non-controlling common stock investments.

The following table indicates the amounts of loans (excluding residential mortgages on 1-4 family residences and consumer loans) outstanding as of December 31, 2010, which, based on remaining scheduled repayments of principal, are due in the periods indicated (dollars in thousands).

	Within One Year	One to Five Years	After Five Years	Total
Commercial and Agricultural	\$ 315,635	\$ 322,832	\$ 84,697	\$ 723,164

	Interest Sensitivity	
	Fixed Rate	Variable Rate
Loans maturing after one year	\$ 114,456	\$ 293,073

INVESTMENTS

The investment portfolio is a principal source for funding the Company's loan growth and other liquidity needs of its subsidiaries. The Company's securities portfolio consists of money market securities, uncollateralized federal agency

securities, municipal obligations of state and political subdivisions, and mortgage-backed securities issued by U.S. government agencies. Money market securities include federal funds sold, interest-bearing balances with banks, and other short-term investments. The composition of the year-end balances in the investment portfolio is presented in Note 2 to the Company's consolidated financial statements included in Item 8 of this Report and in the table below:

Investment Portfolio, at Amortized Cost (dollars in thousands)	2010		December 31, 2009		2008	
		%		%		%
Federal Funds Sold and Other Short-term						
Investments	\$ 4,250	1 %	\$ 12,002	5 %	\$ 27,791	14 %
U.S. Treasury and Agency Securities	—	—	5,000	2	—	—
Obligations of State and Political						
Subdivisions	33,087	10	24,285	9	19,887	10
Mortgage-backed Securities - Residential	304,935	88	214,591	83	151,499	74
Equity Securities	2,418	1	2,818	1	3,620	2
Total Securities Portfolio	\$ 344,690	100 %	\$ 258,696	100 %	\$ 202,797	100 %

The amortized cost of investment securities, including federal funds sold and short-term investments, increased \$86.0 million at year-end 2010 compared with year-end 2009 and increased \$55.9 million at year-end 2009 compared with year-end 2008. The increase in the portfolio during 2010 and 2009 was largely due to the growth of the Company's core deposit base at a greater pace than the Company's loan portfolio.

The largest concentration in the investment portfolio continues to be in mortgage related securities representing 88% of the total securities portfolio at December 31, 2010. The Company's level of obligations of state and political subdivisions increased to \$33.1 million or 10% of the portfolio at December 31, 2010.

The Company's equity securities portfolio at year-end 2010 consisted of non-controlling common stock investments in three unaffiliated banking companies.

Investment Securities, at Carrying Value
(dollars in thousands)

	2010	December 31, 2009	2008
Securities Held-to-Maturity			
Obligations of State and Political Subdivisions	\$ 1,604	\$ 2,774	\$ 3,326
Securities Available-for-Sale			
U.S. Treasury and Agency Securities	\$ —	\$ 4,970	\$ —
Obligations of State and Political Subdivisions	32,178	22,378	16,868
Mortgage-backed Securities - Residential	311,066	221,252	155,627
Equity Securities	3,503	2,340	3,345
Subtotal of Securities Available-for-Sale	346,747	250,940	175,840
Total Securities	\$ 348,351	\$ 253,714	\$ 179,166

The Company's \$346.7 million available-for-sale portion of the investment portfolio provides an additional funding source for the liquidity needs of the Company's subsidiaries and for asset/liability management requirements. Although management has the ability to sell these securities if the need arises, their designation as available-for-sale should not necessarily be interpreted as an indication that management anticipates such sales.

The amortized cost of debt securities at December 31, 2010 are shown in the following table by expected maturity. Mortgage-backed securities are based on estimated average lives. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations. Equity securities do not have contractual maturities, and are excluded from the table below.

Maturities and Average Yields of Securities at December 31, 2010
(dollars in thousands)

	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and Agency Securities	\$ —	N/A	\$ —	N/A	\$ —	N/A	\$ —	N/A
Obligations of State and Political Subdivisions	590	7.14 %	5,665	5.16 %	5,520	5.59 %	21,312	6.64 %

Mortgage-backed Securities - Residential	9,924	4.94 %	267,946	3.76 %	27,065	3.10 %	—	N/A
Total Securities	\$ 10,514	4.44 %	\$ 273,611	3.79 %	\$ 32,585	3.52 %	\$ 21,312	6.64 %

A tax-equivalent adjustment using a tax rate of 34 percent was used in the above table.

In addition to the other uses of funds discussed previously, the Company had certain long-term contractual obligations as of December 31, 2010. These contractual obligations primarily consisted of long-term borrowings with the Federal Home Loan Bank (“FHLB”), JPMorgan Chase Bank N.A., and subordinated debentures issued during 2009 through a shareholders’ rights offering, time deposits, and lease commitments for certain office facilities. Scheduled principal payments on long-term borrowings, time deposits, and future minimum lease payments are outlined in the table below.

Contractual Obligations (dollars in thousands)	Payments Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-term Borrowings	\$ 80,332	\$ 30	\$ 38,069	\$ 11,581	\$ 30,652
Time Deposits	361,550	203,173	134,517	23,733	127
Capital Lease Obligation	1,346	81	162	162	941
Operating Lease Commitments	2,425	359	574	404	1,088
Total Contractual Obligations	\$ 445,653	\$ 203,643	\$ 173,322	\$ 35,880	\$ 32,808

SOURCES OF FUNDS

The Company's primary source of funding is its base of core customer deposits. Core deposits consist of demand deposits, savings, interest-bearing checking, money market accounts, and certificates of deposit of less than \$100,000. Other sources of funds are certificates of deposit of \$100,000 or more, brokered deposits, overnight borrowings from other financial institutions and securities sold under agreement to repurchase. The membership of the Company's affiliate bank in the Federal Home Loan Bank System provides a significant additional source for both long and short-term collateralized borrowings. In addition, the Company, as a separate and distinct corporation from its bank and other subsidiaries, also has the ability to borrow funds from other financial institutions and to raise debt or equity capital from the capital markets and other sources. The following pages contain a discussion of changes in these areas.

The table below illustrates changes between years in the average balances of all funding sources:

Funding Sources - Average Balances (dollars in thousands)	December 31,			% Change From Prior Year	
	2010	2009	2008	2010	2009
Demand Deposits					
Non-interest-bearing	\$ 173,091	\$ 149,673	\$ 140,962	16 %	6 %
Interest-bearing	281,355	245,811	212,467	14	16
Savings Deposits	76,721	63,182	57,948	21	9
Money Market Accounts	160,889	164,221	151,645	(2)	8
Other Time Deposits	269,286	251,906	258,314	7	(2)
Total Core Deposits	961,342	874,793	821,336	10	7
Certificates of Deposits of \$100,000 or more and Brokered Deposits	84,953	89,135	100,801	(5)	(12)
FHLB Advances and Other Borrowings					
Other Borrowings	150,737	143,332	138,888	5	3
Total Funding Sources	\$ 1,197,032	\$ 1,107,260	\$ 1,061,025	8	4

Maturities of certificates of deposit of \$100,000 or more are summarized as follows:

(dollars in thousands)	3 Months	3 thru	6 thru	Over	Total
	Or Less	6 Months	12 Months	12 Months	
December 31, 2010	\$ 25,335	\$ 11,159	\$ 17,057	\$ 35,036	\$ 88,587

CORE DEPOSITS

The Company's overall level of average core deposits increased approximately 10% during 2010 following a 7% increase during 2009. The Company's ability to attract core deposits continues to be influenced by competition and the interest rate environment, as well as the increased availability of alternative investment products. Core deposits continue to represent a stable and viable funding source for the Company's operations. Core deposits represented 80% of average total funding sources during 2010 compared with 79% during 2009 and 77% during 2008.

Demand, savings, and money market deposits have provided a growing source of funding for the Company in each of the periods reported. Average demand, savings, and money market deposits increased 11% during both 2010 and 2009. Average demand, savings, and money market deposits totaled \$692.1 million or 72% of core deposits (58% of total funding sources) in 2010 compared with \$622.9 million or 71% of core deposits (56% of total funding sources) in 2009 and \$563.0 million or 69% of core deposits (53% of total funding sources) in 2008.

Other time deposits consist of certificates of deposits in denominations of less than \$100,000. These deposits increased by 7% during 2010 following a decrease of 2% in 2009. Other time deposits comprised 28% of core deposits in 2010, 29% in 2009 and 31% in 2008.

OTHER FUNDING SOURCES

Federal Home Loan Bank advances and other borrowings represent the Company's most significant source of other funding. Average borrowed funds increased \$7.4 million or 5% during 2010 following an increase of \$4.4 million or 3% in 2009. Borrowings comprised approximately 13% of average total funding sources in 2010, 2009 and 2008.

Certificates of deposits in denominations of \$100,000 or more and brokered deposits are an additional source of other funding for the Company's bank subsidiary. Large denomination certificates and brokered deposits decreased \$4.2 million or 5% during 2010 following a decline of \$11.7 million or 12% during 2009. Large certificates and brokered deposits comprised approximately 7% of average total funding sources in 2010, 8% in 2009 and 10% in 2008. This type of funding is used as both long-term and short-term funding sources.

The bank subsidiary of the Company also utilizes short-term funding sources from time to time. These sources consist of overnight federal funds purchased from other financial institutions, secured repurchase agreements that generally mature within one day of the transaction date, and secured overnight variable rate borrowings from the FHLB. These borrowings represent an important source of short-term liquidity for the Company's bank subsidiary. Long-term debt at the Company's bank subsidiary is in the form of FHLB advances, which are secured by the pledge of certain investment securities, residential and housing-related mortgage loans, and certain other commercial real estate loans. See Note 6 to the Company's consolidated financial statements included in Item 8 of this Report for further information regarding borrowed funds.

PARENT COMPANY FUNDING SOURCES

The parent company is a corporation separate and distinct from its bank and other subsidiaries. For information regarding the financial condition, result of operations, and cash flows of the Company, presented on a parent-company-only basis, see Note 15 to the Company's consolidated financial statements included in Item 8 of this Report.

The Company uses funds at the parent company level to pay dividends to its shareholders, to acquire or make other investments in other businesses or their securities or assets, to repurchase its stock from time to time, and for other general corporate purposes. The parent company does not have access at the parent-company level to the deposits and certain other sources of funds that are available to its bank subsidiary to support its operations. Instead, the parent company has historically derived most of its revenues from dividends paid to the parent company by its bank subsidiary. The Company's banking subsidiary is subject to statutory restrictions on its ability to pay dividends to the parent company. See Note 7, Stockholders' Equity, of the Notes to the Consolidated Financial Statements included in Item 8 of this Report, which is incorporated herein by reference. The parent company has in recent years supplemented the dividends received from its subsidiaries with borrowings, which are discussed in detail below.

At year-end 2010, the Company had an outstanding credit facility with JPMorgan Chase Bank, N.A. (the "Lender") pursuant to which (a) the parent company is obligated to the Lender under a \$10 million subordinated debenture issued by the parent company to the Lender in 2006, and a term loan made by the Lender to the parent company in 2006 in the original principal amount of \$10 million, and (b) the Lender has made available to the parent company a \$5 million revolving line of credit. The Company's obligations to repay its borrowings from the Lender under the term loan and the line of credit are secured by a pledge to the Lender of all of the Company's stock in the Bank.

The subordinated debenture held by the Lender matures in a single installment of principal on January 1, 2014. Interest is payable quarterly on the outstanding principal balance.

The term loan matures on the following schedule: \$1.0 million principal amount was payable on January 1, 2008 and \$1.5 million was or is payable on January 1 of each of the years 2009 through 2014, inclusive. Interest is payable quarterly on the outstanding principal balance. The outstanding principal balance of the term loan was \$4.5 million at year-end 2010 (the \$1.5 million principal payment due January 1, 2011 was made in late December 2010).

The revolving line of credit expires on September 30, 2011, at which time any amounts then outstanding would be due and payable to the Lender. The interest rate payable by the Company to the Lender in respect of LIBOR-based advances made to the Company under the line of credit is LIBOR plus 300 basis points, and includes a provision for a non-refundable fee on the unused portion of the maximum amount available under the line of credit of 35 basis points per annum, due quarterly in arrears. At December 31, 2010, there was no outstanding balance owed to the Lender under the revolving line of credit.

The parent company has made certain representations and warranties to the Lender, and has agreed to comply with certain affirmative and negative covenants with the Lender. Among the affirmative covenants are provisions requiring that (a) the Company maintain the capital ratios of the parent company and of its subsidiary bank(s) at levels that would be considered “well-capitalized” under the prompt corrective action regulations of the federal banking agencies, (b) the Company maintain a consolidated ratio of (i) the sum of its non-performing loans plus other real estate owned (real estate that is neither used in the ordinary course of the business of the Company or its subsidiaries nor held for future use) (OREO) to (ii) the sum of the Company's loans plus OREO, of not greater than 3.25% (at December 31, 2010, this ratio was 1.45%), and (c) the Company maintain during each twelve-month period (tested quarterly, commencing December 31, 2010) a minimum ratio of cash flow to fixed charges (as defined, parent company only) of 1-to-1 (the Company’s ratio tested as of December 31, 2010, for the twelve-month period then ended was 1.46-to-1). If the parent company were to fall out of compliance with its representations and warranties to the Lender or were to breach its covenants with the Lender, the Lender could elect to declare that the Company is in default under the credit facility with the Lender, and as a result (a) could elect to declare all amounts borrowed under the term loan and the revolving line of credit (and, in certain limited cases, the amount payable under the subordinated debenture) to be immediately due and payable and (b) could refuse to advance to the Company additional amounts under the revolving line of credit.

On April 30, 2009, the parent company issued \$19.3 million of 8% redeemable subordinated debentures that will mature in a single payment of principal on March 30, 2019 for gross proceeds (before offering expenses) of \$19.3 million. The parent company has the right to redeem the debentures without penalty or premium on or after March 30, 2012 subject to prior consultation with the Federal Reserve Board. The entire principal amount was includable in the parent company’s consolidated Tier 2 regulatory capital under banking agency regulatory standards at December 31, 2010.

See Note 6 to the Company’s consolidated financial statements included in Item 8 of this Report for further information regarding the parent company borrowed funds.

RISK MANAGEMENT

The Company is exposed to various types of business risk on an on-going basis. These risks include credit risk, liquidity risk and interest rate risk. Various procedures are employed at the Company’s affiliate banks to monitor and mitigate risk in the loan and investment portfolios, as well as risks associated with changes in interest rates. Following is a discussion of the Company’s philosophies and procedures to address these risks.

LENDING AND LOAN ADMINISTRATION

Primary responsibility and accountability for day-to-day lending activities rests with the Company’s subsidiary bank. Loan personnel at the subsidiary bank have the authority to extend credit under guidelines approved by the bank’s board of directors. The executive loan committee serves as a vehicle for communication and for the pooling of knowledge, judgment and experience of its members. The committee provides valuable input to lending personnel, acts as an approval body, and monitors the overall quality of the bank’s loan portfolio. The Corporate Credit Risk Management Committee, comprised of members of the Company’s and its subsidiary bank’s executive officers and board of directors, strives to ensure a consistent application of the Company’s lending policies. The Company also maintains a comprehensive risk-grading and loan review program, which includes quarterly reviews of problem loans, delinquencies and charge-offs. The purpose of this program is to evaluate loan administration, credit quality, loan documentation and the adequacy of the allowance for loan losses.

The Company maintains an allowance for loan losses to cover probable, incurred credit losses identified during its loan review process. Management estimates the required level of allowance for loan losses using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

The allowance for loan losses is comprised of: (a) specific reserves on individual credits; (b) general reserves for certain loan categories and industries, and overall historical loss experience; and (c) unallocated reserves based on performance trends in the loan portfolios, current economic conditions, and other factors that influence the level of estimated probable losses. The need for specific reserves are considered for credits when: (a) the customer's cash flow or net worth appears insufficient to repay the loan; (b) the loan has been criticized in a regulatory examination; (c) the loan is on non-accrual; or, (d) other reasons where the ultimate collectability of the loan is in question, or the loan characteristics require special monitoring.

Allowance for Loan Losses

(dollars in thousands)

Years Ended December 31,

	2010	2009	2008	2007	2006
Balance of Allowance for Possible Losses at Beginning of Period	\$ 11,016	\$ 9,522	\$ 8,044	\$ 7,129	\$ 9,265
Loans Charged-off:					
Commercial and Industrial Loans	345	941	148	506	870
Commercial Real Estate Loans	2,842	1,248	2,005	1,601	2,187
Agricultural Loans	44	—	28	360	—
Consumer Loans	465	640	686	508	706
Residential Mortgage Loans	518	345	257	269	185
Total Loans Charged-off	4,214	3,174	3,124	3,244	3,948
Recoveries of Previously Charged-off Loans:					
Commercial and Industrial Loans	24	—	49	53	78
Commercial Real Estate Loans	1,089	588	285	270	35
Agricultural Loans	—	17	—	55	30
Consumer Loans	171	192	267	172	226
Residential Mortgage Loans	6	121	11	18	34
Total Recoveries	1,290	918	612	568	403
Net Loans Recovered (Charged-off)	(2,924)	(2,256)	(2,512)	(2,676)	(3,545)
Additions to Allowance Charged to Expense	5,225	3,750	3,990	3,591	925
Allowance from Acquired Subsidiary	—	—	—	—	484
Balance at End of Period	\$ 13,317	\$ 11,016	\$ 9,522	\$ 8,044	\$ 7,129
Net Charge-offs to Average Loans					
Outstanding	0.32	% 0.25	% 0.29	% 0.32	% 0.50
Provision for Loan Losses to Average Loans Outstanding	0.58	% 0.42	% 0.45	% 0.43	% 0.13
Allowance for Loan Losses to Total Loans at Year-end	1.45	% 1.25	% 1.07	% 0.93	% 0.90

The following table indicates the breakdown of the allowance for loan losses for the periods indicated (dollars in thousands):

Commercial and Industrial Loans	\$ 3,713	\$ 2,146	\$ 2,476	\$ 1,830	\$ 1,799
Commercial Real Estate Loans	7,497	6,477	4,909	4,068	3,365
Agricultural Loans	750	872	1,258	1,343	971
Consumer Loans	582	520	481	483	