HORIZON BANCORP /IN/
Form 10-Q
May 12, 2011

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**HORIZON BANCORP**
**FORM 10-Q**
**United States**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF**
**THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended March 31, 2011**
**Commission file number 0-10792**
**HORIZON BANCORP**
(Exact name of registrant as specified in its charter)

| **Indiana** | **35-1562417** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **515 Franklin Square, Michigan City, Indiana** | **46360** |
| (Address of principal executive offices) | (Zip Code) |

Registrant s telephone number, including area code: **(219) 879-0211**

Former name, former address and former fiscal year, if changed since last report: **N/A**

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 þ No o

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

Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

| Large accelerated filer o | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company þ |
|---|---|---|---|

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

Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 3,329,581 shares of Common Stock, $.2222 par value, at May 12, 2011.

**HORIZON BANCORP**
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**PART 1 FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**HORIZON BANCORP AND SUBSIDIARIES**

**Condensed Consolidated Balance Sheets**

(Dollar Amounts in Thousands)

| | March 31 2011 (Unaudited) | December 31 2010 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 31,409 | $ 15,683 |
| Investment securities, available for sale | 435,356 | 382,344 |
| Investment securities, held to maturity | 10,632 | 9,595 |
| Loans held for sale | 4,962 | 18,833 |
| Loans, net of allowance for loan losses of $19,090 and $19,064 | 790,467 | 863,813 |
| Premises and equipment | 34,710 | 34,194 |
| Federal Reserve and Federal Home Loan Bank stock | 13,664 | 13,664 |
| Goodwill | 5,910 | 5,910 |
| Other intangible assets | 2,628 | 2,741 |
| Interest receivable | 6,633 | 6,519 |
| Cash value life insurance | 27,400 | 27,195 |
| Other assets | 18,619 | 20,428 |
| Total assets | $1,382,390 | $1,400,919 |
| **Liabilities** | | |
| Deposits | | |
| Non-interest bearing | $ 111,155 | $ 107,606 |
| Interest bearing | 890,254 | 877,892 |
| Total deposits | 1,001,409 | 985,498 |
| Borrowings | 224,358 | 260,741 |
| Subordinated debentures | 30,607 | 30,584 |
| Interest payable | 786 | 781 |
| Other liabilities | 9,170 | 11,032 |
| Total liabilities | 1,266,330 | 1,288,636 |
| **Commitments and contingent liabilities** | | |
| **Stockholders Equity** | | |
| Preferred stock, no par value, $1,000 liquidation value Authorized, 1,000,000 shares Issued 18,750 shares | 18,258 | 18,217 |
| Common stock, $.2222 stated value Authorized, 22,500,000 shares Issued, 3,329,581 and 3,300,659 shares | 1,123 | 1,122 |
| Additional paid-in capital | 10,446 | 10,356 |
| Retained earnings | 82,169 | 80,240 |
| Accumulated other comprehensive income | 4,064 | 2,348 |

| | | |
|---|---|---|
| Total stockholders equity | **116,060** | 112,283 |
| Total liabilities and stockholders equity | **$1,382,390** | $1,400,919 |

See notes to condensed consolidated financial statements

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**HORIZON BANCORP AND SUBSIDIARIES**
**Condensed Consolidated Statements of Income**
(Dollar Amounts in Thousands, Except Per Share Data)

| | Three Months Ended March 31 | |
|---|---|---|
| | **2011 (Unaudited)** | 2010 (Unaudited) |
| **Interest Income** | | |
| Loans receivable | **$11,888** | $12,605 |
| Investment securities | | |
| Taxable | **2,500** | 2,446 |
| Tax exempt | **1,043** | 1,081 |
| Total interest income | **15,431** | 16,132 |
| **Interest Expense** | | |
| Deposits | **2,337** | 2,763 |
| Borrowed funds | **1,577** | 2,443 |
| Subordinated debentures | **450** | 373 |
| Total interest expense | **4,364** | 5,579 |
| **Net Interest Income** | **11,067** | 10,553 |
| Provision for loan losses | **1,548** | 3,233 |
| **Net Interest Income after Provision for Loan Losses** | **9,519** | 7,320 |
| **Other Income** | | |
| Service charges on deposit accounts | **795** | 865 |
| Wire transfer fees | **108** | 140 |
| Interchange fees | **545** | 454 |
| Fiduciary activities | **963** | 995 |
| Gain on sale of securities | **274** | |
| Gain on sale of mortgage loans | **533** | 1,382 |
| Mortgage servicing income net of impairment | **764** | 65 |
| Increase in cash surrender value of bank owned life insurance | **205** | 156 |
| Other income | **127** | 317 |
| Total other income | **4,314** | 4,374 |
| **Other Expenses** | | |
| Salaries and employee benefits | **5,361** | 4,798 |
| Net occupancy expenses | **1,081** | 1,062 |
| Data processing | **407** | 402 |
| Professional fees | **349** | 471 |
| Outside services and consultants | **381** | 365 |
| Loan expense | **762** | 750 |

| | | |
|---|---|---|
| FDIC insurance expense | **387** | 388 |
| Other losses | **31** | 27 |
| Other expenses | **1,499** | 1,291 |
| Total other expenses | **10,258** | 9,554 |
| **Income Before Income Tax** | **3,575** | 2,140 |
| Income tax expense | **810** | 349 |
| **Net Income** | **2,765** | 1,791 |
| Preferred stock dividend and discount accretion | **(276)** | (352) |
| **Net Income Available to Common Shareholders** | **$ 2,489** | $ 1,439 |
| **Basic Earnings Per Share** | **$ 0.76** | $ 0.44 |
| **Diluted Earnings Per Share** | **0.74** | 0.44 |

See notes to condensed consolidated financial statements

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**Horizon Bancorp and Subsidiaries**
**Condensed Consolidated Statement of Stockholders Equity**
**(Unaudited)**
(Table Dollar Amounts in Thousands, Except Per Share Data)

| | Preferred Stock | Common Stock | Additional Paid-in Capital | Comprehensive Income | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|---|---|
| **Balances, December 31, 2010** | **$ 18,217** | **$ 1,122** | **$ 10,356** | | **$ 80,240** | **$ 2,348** | **$ 112,283** |
| Net income | | | | $ 2,765 | 2,765 | | 2,765 |
| Other comprehensive income, net of tax: | | | | | | | |
| Unrealized gain on securities | | | | 1,423 | | 1,423 | 1,423 |
| Unrealized gain on derivative instruments | | | | 293 | | 293 | 293 |
| Comprehensive income | | | | $ 4,481 | | | |
| Amortization of unearned compensation | | | 17 | | | | 17 |
| Exercise of stock options | | 1 | 55 | | | | 56 |
| Tax benefit related to stock options | | | 8 | | | | 8 |
| Stock option expense | | | 10 | | | | 10 |
| Cash dividends on preferred stock (5.00%) | | | | | (235) | | (235) |
| Cash dividends on common stock ($.17 per share) | | | | | (560) | | (560) |
| Accretion of discount on preferred stock | 41 | | | | (41) | | |
| **Balances, March 31, 2011** | **$ 18,258** | **$ 1,123** | **$ 10,446** | | **$ 82,169** | **$ 4,064** | **$ 116,060** |

See notes to condensed consolidated financial statements

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**HORIZON BANCORP AND SUBSIDIARIES**
**Condensed Consolidated Statements of Cash Flows**
(Dollar Amounts in Thousands)

| | Three Months Ended March 31 | |
|---|---|---|
| | **2011** | **2010** |
| | **(Unaudited)** | **(Unaudited)** |
| **Operating Activities** | | |
| Net income | **$ 2,765** | $ 1,791 |
| Items not requiring (providing) cash | | |
| Provision for loan losses | **1,548** | 3,233 |
| Depreciation and amortization | **604** | 546 |
| Share based compensation | **10** | 5 |
| Mortgage servicing rights impairment | **(37)** | (55) |
| Deferred income tax | | (276) |
| Premium amortization on securities available for sale, net | **522** | 325 |
| Gain on sale of investment securities | **(274)** | |
| Gain on sale of mortgage loans | **(533)** | (1,382) |
| Proceeds from sales of loans | **64,764** | 50,150 |
| Loans originated for sale | **(64,231)** | (48,996) |
| Increase in cash surrender value of life insurance | **(205)** | (156) |
| Gain on sale of other real estate owned | **(30)** | (48) |
| Net change in | | |
| Interest receivable | **(114)** | (220) |
| Interest payable | **5** | (97) |
| Other assets | **737** | (5,653) |
| Other liabilities | **(1,159)** | 1,673 |
| Net cash provided by operating activities | **4,372** | 840 |
| **Investing Activities** | | |
| Purchases of securities available for sale | **(76,429)** | (37,161) |
| Proceeds from sales, maturities, calls, and principal repayments of securities available for sale | **25,358** | 18,569 |
| Purchase of securities held to maturity | **(2,437)** | (5,665) |
| Proceeds from maturities of securities held to maturity | **1,400** | 403 |
| Net change in loans | **84,163** | 69,492 |
| Proceeds on the sale of OREO and repossessed assets | **1,469** | 875 |
| Purchases of premises and equipment | **(990)** | (548) |
| Net cash provided by investing activities | **32,534** | 45,965 |
| **Financing Activities** | | |
| Net change in | | |
| Deposits | **15,911** | (78,186) |
| Borrowings | **(36,360)** | (10,781) |
| Proceeds from issuance of stock | **56** | 100 |
| Tax benefit from issuance of stock | **8** | 62 |
| Dividends paid on common shares | **(560)** | (313) |

| | | |
|---|---|---|
| Dividends paid on preferred shares | **(235)** | (560) |
| Net cash provided by (used in) financing activities | **(21,180)** | (89,678) |
| **Net Change in Cash and Cash Equivalent** | **15,726** | (42,873) |
| **Cash and Cash Equivalents, Beginning of Period** | **15,683** | 68,702 |
| **Cash and Cash Equivalents, End of Period** | **$ 31,409** | $ 25,829 |
| **Additional Cash Flows Information** | | |
| Interest paid | **$ 4,358** | $ 5,676 |
| Income taxes paid | | |
| Transfer of loans to other real estate owned | **1,095** | 1,939 |

See notes to condensed consolidated financial statements

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**HORIZON BANCORP AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**
(Table Dollar Amounts in Thousands, Except Per Share Data)

**Note 1 Accounting Policies**

The accompanying condensed consolidated financial statements include the accounts of Horizon Bancorp ( Horizon or the Company ) and its wholly-owned subsidiaries, including Horizon Bank, N.A. ( Bank ). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended March 31, 2011 and March 31, 2010 are not necessarily indicative of the operating results for the full year of 2011 or 2010. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of Horizon s management, necessary to fairly present the financial position, results of operations and cash flows of Horizon for the periods presented. Those adjustments consist only of normal recurring adjustments.

Certain information and note disclosures normally included in Horizon s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon s Annual Report on Form 10-K for 2010 filed with the Securities and Exchange Commission on March 11, 2011. The consolidated condensed balance sheet of Horizon as of December 31, 2010 has been derived from the audited balance sheet of Horizon as of that date.

Basic earnings per share is computed by dividing net income available to common shareholders (net income less dividend requirements for preferred stock and accretion of preferred stock discount) by the weighted-average number of common shares outstanding. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The following table shows computation of basic and diluted earnings per share.

| | Three months ended March 31 | |
|---|---|---|
| | **2011 (Unaudited)** | **2010 (Unaudited)** |
| **Basic earnings per share** | | |
| Net income | **$ 2,765** | $ 1,791 |
| Less: Preferred stock dividends and accretion of discount | **276** | 352 |
| Net income available to common shareholders | **$ 2,489** | $ 1,439 |
| Weighted average common shares outstanding | **3,283,143** | 3,270,217 |
| **Basic earnings per share** | **$ 0.76** | $ 0.44 |
| **Diluted earnings per share** | | |
| Net income available to common shareholders | **$ 2,489** | $ 1,439 |
| Weighted average common shares outstanding | **3,283,143** | 3,270,217 |
| Effect of dilutive securities: | | |
| Warrants | **77,258** | |
| Restricted stock | **14,811** | 18,893 |
| Stock options | **7,963** | 4,082 |
| Weighted average shares outstanding | **3,383,175** | 3,293,192 |

| | | | | |
|---|---|---|---|---|
| **Diluted earnings per share** | **$** | **0.74** | $ | 0.44 |

At March 31, 2011 and 2010, there were 26,117 shares and 29,000 shares that were not included in the computation of diluted earnings per share because they were non-dilutive.

**HORIZON BANCORP AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**
(Table Dollar Amounts in Thousands, Except Per Share Data)

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2010 Annual Report on Form 10-K.

***Reclassifications***

Certain reclassifications have been made to the 2010 consolidated financial statements to be comparable to 2011. These reclassifications had no effect on net income.

**Note 2 Securities**

The fair value of securities is as follows:

| March 31, 2011 (Unaudited) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available for sale** | | | | |
| U.S. Treasury and federal agencies | $ 17,017 | $ 276 | $ (64) | $ 17,229 |
| State and municipal | 142,716 | 2,536 | (966) | 144,287 |
| Federal agency collateralized mortgage obligations | 121,917 | 1,887 | (161) | 123,643 |
| Federal agency mortgage-backed pools | 141,405 | 3,811 | (303) | 144,913 |
| Private labeled mortgage-backed pools | 4,545 | 154 | | 4,698 |
| Corporate notes | 590 | | (4) | 586 |
| Total available for sale investment securities | $428,190 | $8,664 | $(1,498) | $435,356 |
| **Held to maturity, State and Municipal** | $ 10,632 | $ | $ | $ 10,632 |

| December 31, 2010 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available for sale** | | | | |
| U.S. Treasury and federal agencies | $ 24,727 | $ 643 | $ (119) | $ 25,251 |
| State and municipal | 132,380 | 1,511 | (2,402) | 131,489 |
| Federal agency collateralized mortgage obligations | 100,106 | 1,945 | (214) | 101,837 |
| Federal agency mortgage-backed pools | 114,390 | 3,865 | (360) | 117,895 |
| Private labeled mortgage-backed pools | 5,197 | 126 | | 5,323 |
| Corporate notes | 555 | | (6) | 549 |
| Total available for sale investment securities | $377,355 | $8,090 | $(3,101) | $382,344 |
| **Held to maturity, State and Municipal** | $ 9,595 | $ | $ | $ 9,595 |

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information, and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. While these securities are held in the available for sale portfolio, Horizon intends, and has the ability,

to hold them until the earlier of a recovery in fair value or maturity.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At March 31, 2011, no individual investment security had an unrealized loss that was determined to be other-than-temporary.

The unrealized losses on the Company s investments in securities of state and municipal governmental agencies, federal agency mortgage-backed pools, and collateralized mortgage obligations were caused by interest rate volatility and not a decline in credit quality. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The Company expects to recover the amortized cost basis over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the

**HORIZON BANCORP AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**
(Table Dollar Amounts in Thousands, Except Per Share Data)

investments before recovery of their amortized cost basis, which may be maturity, the Company did not consider those investments to be other-than-temporarily impaired at March 31, 2011.

The amortized cost and fair value of securities available for sale and held to maturity at March 31, 2011 and December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | March 31, 2011(Unaudited) | | December 31, 2010 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| **Available for sale** | | | | |
| Within one year | $ 965 | $ 973 | $ 855 | $ 866 |
| One to five years | 27,825 | 28,560 | 28,240 | 28,949 |
| Five to ten years | 54,018 | 54,818 | 44,179 | 44,450 |
| After ten years | 77,515 | 77,751 | 84,388 | 83,024 |
| | 160,323 | 162,102 | 157,662 | 157,289 |
| Federal agency collateralized mortgage obligations | 121,917 | 123,643 | 100,106 | 101,837 |
| Federal agency mortgage-backed pools | 141,405 | 144,913 | 114,390 | 117,895 |
| Private labeled mortgage-backed pools | 4,545 | 4,698 | 5,197 | 5,323 |
| Total available for sale investment securities | $428,190 | $435,356 | $377,355 | $382,344 |
| **Held to maturity** | | | | |
| Within one year | $ 10,532 | $ 10,532 | $ 9,495 | $ 9,495 |
| One to five years | 100 | 100 | 100 | 100 |
| Total held to maturity investment securities | $ 10,632 | $ 10,632 | $ 9,595 | $ 9,595 |

The following table shows the gross unrealized losses and the fair value of the Company s investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| **March 31, 2011 (Unaudited)** | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Treasury and federal agencies | $ 9,935 | $ (64) | $ | $ | $ 9,935 | $ (64) |
| State and municipal | 36,527 | (936) | 568 | (30) | 37,095 | (966) |
| Federal agency collateralized mortgage obligations | 20,020 | (161) | | | 20,020 | (161) |
| Federal agency mortgage-backed pools | 46,149 | (303) | 30 | | 46,179 | (303) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Corporate notes | 28 | (4) | | | 28 | (4) |
| Total temporarily impaired securities | $112,659 | $(1,468) | $598 | $(30) | $113,257 | $(1,498) |

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| **December 31, 2010** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** | **Fair Value** | **Unrealized Losses** |
| U.S. Treasury and federal agencies | $ 9,881 | $ (119) | $ | $ | $ 9,881 | $ (119) |
| State and municipal | 60,401 | (2,370) | 568 | (32) | 60,969 | (2,402) |
| Federal agency collateralized mortgage obligations | 21,130 | (214) | | | 21,130 | (214) |
| Federal agency mortgage-backed pools | 27,033 | (360) | 32 | | 27,065 | (360) |
| Corporate notes | 26 | (6) | | | 26 | (6) |
| Total temporarily impaired securities | $118,471 | $(3,069) | $600 | $(32) | $119,071 | $(3,101) |

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**HORIZON BANCORP AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**
(Table Dollar Amounts in Thousands, Except Per Share Data)

| | Three months ended March 31 | |
|---|---|---|
| | 2011 | 2010 |
| **Sales of securities available for sale** (Unaudited) | | |
| Proceeds | **$ 9,274** | $ |
| Gross gains | **274** | |
| Gross losses | | |

**Note 3 Loans**

| | March 31 2011 (Unaudited) | December 31 2010 |
|---|---|---|
| Commercial | | |
| Working capital and equipment | **$158,435** | $151,414 |
| Real estate, including agriculture | **166,875** | 167,785 |
| Tax exempt | **3,059** | 2,925 |
| Other | **7,389** | 7,894 |
| Total | **335,758** | 330,018 |
| Real estate | | |
| 1 4 family | **159,473** | 157,478 |
| Other | **4,767** | 4,957 |
| Total | **164,240** | 162,435 |
| Consumer | | |
| Auto | **130,678** | 136,014 |
| Recreation | **5,751** | 6,086 |
| Real estate/home improvement | **27,813** | 29,184 |
| Home equity | **91,642** | 90,580 |
| Unsecured | **2,920** | 3,091 |
| Other | **1,721** | 1,726 |
| Total | **260,525** | 266,681 |
| Mortgage warehouse | **49,034** | 123,743 |
| Total | **49,034** | 123,743 |
| Total loans | **809,557** | 882,877 |
| Allowance for loan losses | **(19,090)** | (19,064) |

| | | |
|---|---|---|
| Loans, net | **$790,467** | $863,813 |

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**HORIZON BANCORP AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**
(Table Dollar Amounts in Thousands, Except Per Share Data)

| March 31, 2011 | Loan Balance | Interest Due | Deferred Fees / (Costs) | Recorded Investment |
|---|---|---|---|---|
| Owner occupied real estate | $125,978 | $ 274 | $ 21 | $126,273 |
| Non owner occupied real estate | 139,281 | 398 | 86 | 139,765 |
| Residential spec homes | 2,249 | 1 | (1) | 2,249 |
| Development & spec land loans | 8,272 | 13 | | 8,285 |
| Commercial and industrial | 59,867 | 301 | 5 | 60,173 |
| Total commercial | 335,647 | 987 | 111 | 336,745 |
| Residential mortgage | 155,697 | 560 | 56 | 156,313 |
| Residential construction | 8,487 | 19 | | 8,506 |
| Mortgage warehouse | 49,034 | | | 49,034 |
| Total real estate | 213,218 | 579 | 56 | 213,853 |
| Direct installment | 22,581 | 85 | (331) | 22,335 |
| Direct installment purchased | 1,564 | | | 1,564 |
| Indirect installment | 123,369 | 428 | 4 | 123,801 |
| Home equity | 114,069 | 529 | (731) | 113,867 |
| Total consumer | 261,583 | 1,042 | (1,058) | 261,567 |
| **Total loans** | 810,448 | 2,608 | (891) | 812,165 |
| Allowance for loan losses | (19,090) | | | (19,090) |
| **Net loans** | $791,358 | $2,608 | $ (891) | $793,075 |

| December 31, 2010 | Loan Balance | Interest Due | Deferred Fees / (Costs) | Recorded Investment |
|---|---|---|---|---|
| Owner occupied real estate | $125,883 | $ 442 | $ 26 | $126,351 |
| Non owner occupied real estate | 136,986 | 364 | 87 | 137,437 |
| Residential spec homes | 2,257 | 4 | (2) | 2,259 |
| Development & spec land loans | 6,439 | 14 | | 6,453 |
| Commercial and industrial | 58,336 | 234 | 6 | 58,576 |
| Total commercial | 329,901 | 1,058 | 117 | 331,076 |
| Residential mortgage | 154,891 | 592 | 76 | 155,559 |

| | | | | |
|---|---|---|---|---|
| Residential construction | 7,467 | 13 | 1 | 7,481 |
| Mortgage warehouse | 123,743 | 332 | | 124,075 |
| Total real estate | 286,101 | 937 | 77 | 287,115 |
| Direct installment | 23,527 | 97 | (338) | 23,286 |
| Direct installment purchased | 1,869 | | | 1,869 |
| Indirect installment | 128,122 | 491 | 7 | 128,620 |
| Home equity | 114,202 | 563 | (708) | 114,057 |
| Total consumer | 267,720 | 1,151 | (1,039) | 267,832 |
| **Total loans** | 883,722 | 3,146 | (845) | 886,023 |
| Allowance for loan losses | (19,064) | | | (19,064) |
| **Net loans** | $864,658 | $3,146 | $ (845) | $866,959 |

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**HORIZON BANCORP AND SUBSIDIARIES**
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**Note 4 Allowance for Loan Losses**

| | Three Months Ended | |
|---|---|---|
| | **March 31 2011** | **March 31 2010** |
| Balance at beginning of the period | $ 19,064 | $ 16,015 |
| Loans charged off: | | |
| **Commercial** | | |
| Owner occupied real estate | 11 | 65 |
| Non owner occupied real estate | | 288 |
| Residential development | | |
| Development & Spec Land Loans | | 780 |
| Commercial and industrial | 50 | 700 |
| **Total commercial** | 61 | **1,833** |
| **Real estate** | | |
| Residential mortgage | 82 | 310 |
| Residential construction | | |
| Mortgage warehouse | | |
| **Total real estate** | 82 | 310 |
| **Consumer** | | |
| Direct Installment | 185 | 85 |
| Direct Installment Purchased | | |
| Indirect Installment | 455 | 1,077 |
| Home Equity | 977 | 102 |
| **Total consumer** | 1,617 | 1,264 |
| Total loans charged-off | 1,760 | 3,407 |
| Recoveries of loans previously charged-off: | | |
| **Commercial** | | |
| Owner occupied real estate | | |
| Non owner occupied real estate | | |
| Residential development | | |
| Development & Spec Land Loans | | |
| Commercial and industrial | 2 | |
| **Total commercial** | 2 | |
| **Real estate** | | |
| Residential mortgage | 0 | 1 |
| Residential construction | | |
| Mortgage warehouse | | |
| **Total real estate** | 0 | 1 |

| | | |
|---|---|---|
| **Consumer** | | |
| Direct Installment | 48 | 21 |
| Direct Installment Purchased | | |
| Indirect Installment | 169 | 255 |
| Home Equity | 19 | 2 |
| **Total consumer** | 236 | 278 |
| Total loan recoveries | 238 | 279 |
| Net loans charged-off | 1,522 | 3,128 |
| Provision charged to operating expense | 1,548 | 3,233 |
| Balance at the end of the period | $ 19,090 | $ 16,120 |

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment analysis:

| March 31, 2011 (Unaudited) | Commercial | Real Estate | Mortgage Warehousing | Consumer | Total Allowance |
| --- | --- | --- | --- | --- | --- |
| **Allowance For Loan Losses** | | | | | |
| **Ending allowance balance attributable to loans:** | | | | | |
| Individually evaluated for impairment | $ 1,490 | $ | $ | $ | $ 1,490 |
| Collectively evaluated for impairment | 7,119 | 2,357 | 1,421 | 6,703 | 17,600 |
| **Total ending allowance balance** | $ 8,609 | $ 2,357 | $ 1,421 | $ 6,703 | $ 19,090 |
| **Loans:** | | | | | |
| Individually evaluated for impairment | $ 9,517 | $ | $ | $ | $ 9,517 |
| Collectively evaluated for impairment | 327,228 | 164,819 | 49,034 | 261,567 | 802,648 |
| **Total ending loans balance** | $336,745 | $164,819 | $49,034 | $261,567 | $ 812,165 |

| December 31, 2010 | Commercial | Real Estate | Mortgage Warehousing | Consumer | Total Allowance |
| --- | --- | --- | --- | --- | --- |
| **Allowance For Loan Losses** | | | | | |
| **Ending allowance balance attributable to loans:** | | | | | |
| Individually evaluated for impairment | $ 1,457 | $ | $ | $ | $ 1,457 |
| Collectively evaluated for impairment | 6,097 | 2,379 | 1,435 | 7,696 | 17,607 |
| **Total ending allowance balance** | $ 7,554 | $ 2,379 | $ 1,435 | $ 7,696 | $ 19,064 |
| **Loans:** | | | | | |
| Individually evaluated for impairment | $ 8,123 | $ | $ | $ | $ 8,123 |
| Collectively evaluated for impairment | 322,953 | 163,040 | 124,075 | 267,832 | 877,900 |
| **Total ending loans balance** | $331,076 | $163,040 | $124,075 | $267,832 | $ 886,023 |

**Note 5 Non-performing Assets and Impaired Loans**

The following table presents the nonaccrual, loans past due over 90 days still on accrual, and trouble debt restructured ( TDR s ) by class of loans:

| March 31, 2011 | Nonaccrual | Loans Past Due Over 90 Days Still Accruing | Non Performing TDR s | Performing TDR s | Total Non-Performing Loans |
|---|---|---|---|---|---|
| **Commercial** | | | | | |
| Owner occupied real estate | $ 2,543 | $ | $ | $ | $ 2,543 |
| Non owner occupied real estate | 5,687 | | 413 | | 6,100 |
| Residential development | 16 | | | | 16 |
| Development & Spec Land Loans | 374 | | | | 374 |
| Commercial and industrial | 245 | | 150 | | 395 |
| **Total commercial** | 8,865 | | 563 | | 9,428 |
| **Real estate** | | | | | |
| Residential mortgage | 4,579 | | 703 | 2,964 | 8,246 |
| Residential construction | 205 | | 293 | | 498 |
| Mortgage warehouse | | | | | |
| **Total real estate** | 4,784 | | 996 | 2,964 | 8,744 |
| **Consumer** | | | | | |
| Direct Installment | 186 | 15 | | | 201 |
| Direct Installment Purchased | | 34 | | | 34 |
| Indirect Installment | 1,203 | 8 | | | 1,211 |
| Home Equity | 2,321 | | | 173 | 2,494 |
| **Total Consumer** | 3,710 | 57 | | 173 | 3,940 |
| **Total** | $17,359 | $ 57 | $1,559 | $3,137 | $22,112 |

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| | Nonaccrual | Loans Past Due Over 90 Days Still Accruing | Non Performing TDR s | Performing TDR s | Total Non-Performing Loans |
|---|---|---|---|---|---|
| **December 31, 2010** | | | | | |
| **Commercial** | | | | | |
| Owner occupied real estate | $ 1,358 | $ | $ | $ | $ 1,358 |
| Non owner occupied real estate | 5,439 | | 421 | | 5,860 |
| Residential development | 16 | | | | 16 |
| Development & Spec Land Loans | 250 | | | | 250 |
| Commercial and industrial | 445 | | 153 | | 598 |
| **Total commercial** | 7,508 | | 574 | | 8,082 |
| **Real estate** | | | | | |
| Residential mortgage | 5,278 | 222 | 241 | 3,380 | 9,121 |
| Residential construction | 205 | | | | 205 |
| Mortgage warehouse | | | | | |
| **Total real estate** | 5,483 | 222 | 241 | 3,380 | 9,326 |
| **Consumer** | | | | | |
| Direct Installment | 251 | 23 | | | 274 |
| Direct Installment Purchased | | 5 | | | 5 |
| Indirect Installment | 1,328 | 98 | | | 1,426 |
| Home Equity | 2,103 | 10 | 37 | 165 | 2,315 |
| **Total Consumer** | 3,682 | 136 | 37 | 165 | 4,020 |
| **Total** | $16,673 | $ 358 | $ 852 | $3,545 | $21,428 |

From time to time, the Bank obtains information, which may lead management to believe that the collection of payments may be doubtful on a particular loan. In recognition of such, it is management s policy to convert the loan from an earning asset to a non-accruing loan. Further, it is management s policy to place a loan on a non-accrual status when delinquent in excess of 90 days or have had the accrual of interest discontinued by management. The officer responsible for the loan, the Chief Operating Officer and the senior collection officer must review all loans placed on non-accrual status.

A loan becomes impaired when, based on current information, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is classified as impaired, the degree of impairment must be recognized by estimating future cash flows from the debtor. The present value of these cash flows is computed at a discount rate based on the interest rate contained in the loan agreement. However, if a particular loan has a determinable market value, the creditor may use that value. Also, if the loan is secured and

considered collateral dependent, the creditor may use the fair value of the collateral.

Smaller-balance, homogeneous loans are evaluated for impairment in total. Such loans include residential first mortgage loans secured by 1 4 family residences, residential construction loans, automobile, home equity, second mortgage loans and mortgage warehouse loans. Commercial loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicate that underlying cash flows of a borrower s business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 30 days or more. Loans are generally moved to non-accrual status when 90 days or more past due. These loans are often considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms, including TDR s, are measured for impairment. Allowable methods for determining the amount of impairment include estimating fair value using the fair value of the collateral for collateral-dependent loans.

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The Company s TDR s are considered impaired loans and included in the allowance methodology using the guidance for impaired loans. At March 31, 2011 the type of concessions the Company has made on restructured loans has been temporary rate reductions and/or reductions in monthly payments. Any modification to a loan that is a concession and is not in the normal course of lending is considered a restructured loan. A restructured loan is returned to accruing status after six consecutive payments but is still reported as TDR unless the loan bears interest at a market rate. As of March 31, 2011, the Company had $4.7 million in TDR s and $4.0 million were performing according to the restructured terms. The Company experienced no TDR default for the three months ending March 31, 2011 and one during the twelve months ending December 31, 2010.

The following table presents commercial loans individually evaluated for impairment by class of loans:

| | Unpaid Principal Balance | Recorded Investment | Allowance For Loan Loss Allocated | Average Balance in Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| **March 31, 2011** | | | | | |
| **With no recorded allowance** | | | | | |
| **Commercial** | | | | | |
| Owner occupied real estate | $1,003 | $1,006 | $ | $ 818 | $ 1 |
| Non owner occupied real estate | 1,254 | 1,254 | | 1,037 | 4 |
| Residential development | 16 | 16 | | 16 | |
| Development & Spec Land Loans | 124 | 124 | | 83 | |
| Commercial and industrial | 191 | 191 | | 154 | |
| **Total commercial** | 2,588 | 2,591 | | 2,107 | 5 |
| **With an allowance recorded** | | | | | |
| **Commercial** | | | | | |
| Owner occupied real estate | 1,538 | 1,537 | 585 | 1,141 | |
| Non owner occupied real estate | 4,849 | 4,888 | 665 | 4,884 | |
| Residential development | | | | | |
| Development & Spec Land Loans | 250 | 250 | 125 | 250 | |
| Commercial and industrial | 251 | 251 | 115 | 251 | 1 |
| **Total commercial** | 6,888 | 6,926 | 1,490 | 6,526 | 1 |
| **Total** | $9,476 | $9,517 | $1,490 | $8,633 | $ 6 |

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| | Unpaid Principal Balance | Recorded Investment | Allowance For Loan Loss Allocated | Average Balance in Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| **December 31, 2010** | | | | | |
| **With no recorded allowance** | | | | | |
| **Commercial** | | | | | |
| Owner occupied real estate | $ 720 | $ 721 | $ | $2,434 | $ 19 |
| Non owner occupied real estate | 928 | 929 | | 1,195 | 36 |
| Residential development | | | | | |
| Development & Spec Land Loans | | | | 770 | |
| Commercial and industrial | 118 | 118 | | 785 | |
| **Total commercial** | 1,766 | 1,768 | | 5,184 | 55 |
| **With an allowance recorded** | | | | | |
| **Commercial** | | | | | |
| Owner occupied real estate | 639 | 640 | 385 | 68 | 15 |
| Non owner occupied real estate | 4,932 | 4,970 | 665 | 2,677 | 115 |
| Residential development | 16 | 16 | 16 | 7 | 2 |
| Development & Spec Land Loans | 250 | 250 | 126 | 250 | |
| Commercial and industrial | 479 | 479 | 265 | 316 | 13 |
| **Total commercial** | 6,316 | 6,355 | 1,457 | 3,318 | 145 |
| **Total** | $8,082 | $8,123 | $1,457 | $8,502 | $ 200 |

The following table presents the payment status by class of loans:

| | 30 - 59 Days Past Due | 60 - 89 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| **March 31, 2011** | | | | | | |
| **Commercial** | | | | | | |
| Owner occupied real estate | $1,257 | $ 148 | $ | $ 1,405 | $ 124,573 | $125,978 |
| Non owner occupied real estate | 2,179 | 157 | | 2,336 | 136,945 | 139,281 |
| Residential development | | | | | 2,249 | 2,249 |
| Development & Spec Land Loans | | | | | 8,272 | 8,272 |
| Commercial and industrial | 85 | | | 85 | 59,782 | 59,867 |
| **Total commercial** | 3,521 | 305 | | 3,826 | 331,821 | 335,647 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Real estate** | | | | | | |
| Residential mortgage | 937 | 106 | | 1,043 | 154,654 | 155,697 |
| Residential construction | | | 293 | 293 | 8,194 | 8,487 |
| Mortgage warehouse | | | | | 49,034 | 49,034 |
| **Total real estate** | 937 | 106 | 293 | 1,336 | 211,882 | 213,218 |
| **Consumer** | | | | | | |
| Direct Installment | 93 | 10 | 15 | 118 | 22,463 | 22,581 |
| Direct Installment Purchased | 34 | 15 | 34 | 83 | 1,481 | 1,564 |
| Indirect Installment | 1,208 | 306 | 8 | 1,522 | 121,847 | 123,369 |
| Home Equity | 363 | 53 | | 416 | 113,653 | 114,069 |
| **Total consumer** | 1,698 | 384 | 57 | 2,139 | 259,444 | 261,583 |
| **Total** | $6,156 | $ 795 | $ 350 | $ 7,301 | $ 803,147 | $ 810,448 |

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| | 30 - 59 Days Past Due | 60 - 89 Days Past Due | Greater than 90 Days Past Due | Total Past Due | Loans Not Past Due | Total |
|---|---|---|---|---|---|---|
| **December 31, 2010** | | | | | | |
| **Commercial** | | | | | | |
| Owner occupied real estate | $ 229 | $ | $ | $ 229 | $ 125,654 | $ 125,883 |
| Non owner occupied real estate | 461 | | | 461 | 136,525 | 136,986 |
| Residential development | | | | | 2,257 | 2,257 |
| Development & Spec Land Loans | | | | | 6,439 | 6,439 |
| Commercial and industrial | 74 | | | 74 | 58,262 | 58,336 |
| **Total commercial** | 764 | | | 764 | 329,137 | 329,901 |
| **Real estate** | | | | | | |
| Residential mortgage | 317 | 91 | 222 | 630 | 154,261 | 154,891 |
| Residential construction | 293 | | | 293 | 7,174 | 7,467 |
| Mortgage warehouse | | | | | 123,743 | 123,743 |
| **Total real estate** | 610 | 91 | 222 | 923 | 285,178 | 286,101 |
| **Consumer** | | | | | | |
| Direct Installment | 294 | 156 | 23 | 473 | 23,054 | 23,527 |
| Direct Installment Purchased | 51 | 31 | 5 | 87 | 1,782 | 1,869 |
| Indirect Installment | 2,360 | 433 | 98 | 2,891 | 125,231 | 128,122 |
| Home Equity | 899 | 218 | 10 | 1,127 | 113,075 | 114,202 |
| **Total consumer** | 3,604 | 838 | 136 | 4,578 | 263,142 | 267,720 |
| **Total** | $ 4,978 | $ 929 | $ 358 | $ 6,265 | $ 877,457 | $ 883,722 |

Horizon Bank s processes for determining credit quality differ slightly depending on whether a new loan or a renewed loan is being underwritten, or whether an existing loan is re-evaluated for credit quality. The latter usually occurs upon receipt of current financial information or other pertinent data that would trigger a change in the loan grade.

For new and renewed commercial loans, the Bank s Credit Department, which acts independently of the loan officer, assigns the credit quality grade to the loan. Loan grades for loans with an aggregate credit exposure of $500,000 or greater are validated by the Loan Committee, which is chaired by the Chief Operating Officer

(COO).

Commercial loan officers are responsible for reviewing their loan portfolios and report any adverse material change to the COO or Loan Committee. When circumstances warrant a change in the credit quality grade, loan officers are required to notify the COO and the Credit Department of the change in the loan grade. Downgrades are accepted immediately by the COO however, lenders must present their factual information to either the Loan Committee or the COO when recommending an upgrade. One of the requirements for a loan officer to meet the annual bonus criteria is that the loan officer did not have any of his/her loans downgraded by either Internal Loan Review or Bank Regulators to a classified grade; that is, substandard, doubtful or loss.

The COO meets weekly with loan officers to discuss the status of past-due loans and classified loans. These meetings are also designed to give the loan officers an opportunity to identify an existing loan that should be downgraded to a classified grade.

Monthly, Senior Management attends the Watch Committee, which reviews all of the past due, classified, and impaired loans and the relative trends of these assets. This committee also reviews the actions taken by management regarding foreclosure mitigation, loan extensions, troubled debt restructures, and collateral repossessions. The information reviewed in this meeting acts as a precursor for developing Management s analysis of the adequacy of the Allowance for Loan and Lease Losses.

For real estate and consumer loans, Horizon uses a grading system based on delinquency. Loans that are 90 days or more past due, on non-accrual, or a troubled debt restructure are graded Substandard. After being 90 days delinquent a loan is charged off unless it is well secured and in the process of collection. If the latter case exists, the loan is placed on non-accrual. Occasionally a mortgage loan may be graded as Special Mention. When this situation arises, it is because the characteristics of the loan and the borrower fit the definition of a Risk Grade 5 described below, which is normally used for grading commercial loans. Loans not graded Substandard are considered Pass.

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Horizon Bank employs an eight-grade rating system to determine the credit quality of commercial loans. The first four grades represent acceptable quality, and the last four grades mirror the criticized and classified grades used by the bank regulatory agencies (special mention, substandard, doubtful, and loss). The loan grade definitions are detailed below.

**Risk Grade 1: Excellent (Pass)**

Loans secured by liquid collateral, such as certificates of deposit, reputable bank letters of credit, or other cash equivalents; loans that are guaranteed or otherwise backed by the full faith and credit of the United States government or an agency thereof, such as the Small Business Administration; or loans to any publicly held company with a current long term debt rating of A or better.

**Risk Grade 2: Good (Pass)**

Loans to businesses that have strong financial statements containing an unqualified opinion from a CPA firm and at least three consecutive years of profits; loans supported by unaudited financial statements containing strong balance sheets, five consecutive years of profits, a five-year satisfactory relationship with the Bank, and key balance sheet and income statement trends that are either stable or positive; loans secured by publicly traded marketable securities where there is no impediment to liquidation; loans to individuals backed by liquid personal assets and unblemished credit history; or loans to publicly held companies with current long-term debt ratings of Baa or better.

**Risk Grade 3: Satisfactory (Pass)**

Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with some weakness but offsetting features of other support are readily available; loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered. Loans may be graded Satisfactory when there is no recent information on which to base a current risk evaluation and the following conditions apply:

At inception, the loan was properly underwritten, did not possess an unwarranted level of credit risk, and the loan met the above criteria for a risk grade of Excellent, Good, or Satisfactory;

At inception, the loan was secured with collateral possessing a loan value adequate to protect the Bank from loss.

The loan has exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance.

During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the borrower is in an industry known to be experiencing problems. If any of these credit weaknesses is observed, a lower risk grade may be warranted.

**Risk Grade 4: Satisfactory/Monitored (Pass)**

Loans in this category are considered to be of acceptable credit quality, but contain greater credit risk than Satisfactory loans due to weak balance sheets, marginal earnings or cash flow, lack of financial information, weakening markets, insufficient or questionable collateral coverage or other uncertainties. These loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in a Satisfactory/Monitored loan is within acceptable underwriting guidelines so long as the loan is given the proper level of management supervision. Loans that normally fall into this grade include construction of commercial real estate buildings, land development and subdivisions, and rental properties that have not attained stabilization.

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**Risk Grade 5: Special Mention**

Loans which possess some credit deficiency or potential weakness which deserves close attention. Such loans pose an unwarranted financial risk that, if not corrected, could weaken the loan by adversely impacting the future repayment ability of the borrower. The key distinctions of a Special Mention classification are that (1) it is indicative of an unwarranted level of risk and (2) weaknesses are considered potential, not defined, impairments to the primary source of repayment. These loans may be to borrowers with adverse trends in financial performance, collateral value and/or marketability, or balance sheet strength.

**Risk Grade 6:Substandard**

One or more of the following characteristics may be exhibited in loans classified Substandard:

Loans which possess a defined credit weakness. The likelihood that a loan will be paid from the primary source of repayment is uncertain. Financial deterioration is under way and very close attention is warranted to ensure that the loan is collected without loss.

Loans are inadequately protected by the current net worth and paying capacity of the obligor.

The primary source of repayment is gone, and the Bank is forced to rely on a secondary source of repayment, such as collateral liquidation or guarantees.

Loans have a distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.

Unusual courses of action are needed to maintain a high probability of repayment.

The borrower is not generating enough cash flow to repay loan principal; however, it continues to make interest payments.

The lender is forced into a subordinated or unsecured position due to flaws in documentation.

Loans have been restructured so that payment schedules, terms, and collateral represent concessions to the borrower when compared to the normal loan terms.

The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.

There is a significant deterioration in market conditions to which the borrower is highly vulnerable.

**Risk Grade 7:Doubtful**

One or more of the following characteristics may be present in loans classified Doubtful:

Loans have all of the weaknesses of those classified as Substandard. However, based on existing conditions, these weaknesses make full collection of principal highly improbable.

The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.

The possibility of loss is high but because of certain important pending factors which may strengthen the loan, loss classification is deferred until the exact status of repayment is known.

**Risk Grade 8: Loss**

Loans are considered uncollectible and of such little value that continuing to carry them as assets is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion

of a basically worthless asset, even though partial recovery may be possible at some time in the future.

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| | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| **March 31, 2011** | | | | | |
| **Commercial** | | | | | |
| Owner occupied real estate | $ 94,950 | $10,868 | $20,160 | $ | $125,978 |
| Non owner occupied real estate | 119,069 | 7,096 | 13,116 | | 139,281 |
| Residential development | 828 | 535 | 886 | | 2,249 |
| Development & Spec Land Loans | 3,140 | 119 | 5,013 | | 8,272 |
| Commercial and industrial | 48,575 | 5,181 | 6,112 | | 59,868 |
| **Total commercial** | 266,562 | 23,799 | 45,287 | | 335,648 |
| **Real estate** | | | | | |
| Residential mortgage | 147,450 | | 8,247 | | 155,697 |
| Residential construction | 7,989 | | 498 | | 8,487 |
| Mortgage warehouse | 49,034 | | | | 49,034 |
| **Total real estate** | 204,473 | | 8,745 | | 213,218 |
| **Consumer** | | | | | |
| Direct Installment | 22,380 | | 201 | | 22,581 |
| Direct Installment Purchased | 1,530 | | 34 | | 1,564 |
| Indirect Installment | 122,158 | | 1,211 | | 123,369 |
| Home Equity | 111,575 | | 2,494 | | 114,069 |
| **Total Consumer** | 257,643 | | 3,940 | | 261,583 |
| **Total** | $728,678 | $23,799 | $57,972 | $ | $810,449 |

| | Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| **December 31, 2010** | | | | | |
| **Commercial** | | | | | |
| Owner occupied real estate | $ 94,722 | $13,656 | $17,506 | $ | $125,883 |
| Non owner occupied real estate | 119,041 | 6,107 | 11,838 | | 136,986 |
| Residential development | 834 | 537 | 886 | | 2,257 |
| Development & Spec Land Loans | 4,378 | 746 | 1,315 | | 6,439 |
| Commercial and industrial | 45,831 | 6,856 | 5,649 | | 58,336 |
| **Total commercial** | 264,805 | 27,902 | 37,195 | | 329,901 |

| | | | | | |
|---|---|---|---|---|---|
| **Real estate** | | | | | |
| Residential mortgage | 145,770 | | 9,121 | | 154,891 |
| Residential construction | 7,262 | | 205 | | 7,467 |
| Mortgage warehouse | 123,743 | | | | 123,743 |
| **Total real estate** | 276,775 | | 9,326 | | 286,101 |
| **Consumer** | | | | | |
| Direct Installment | 23,253 | | 274 | | 23,527 |
| Direct Installment Purchased | 1,864 | | 5 | | 1,869 |
| Indirect Installment | 126,696 | | 1,426 | | 128,122 |
| Home Equity | 111,888 | | 2,314 | | 114,202 |
| **Total Consumer** | 263,701 | | 4,019 | | 267,720 |
| **Total** | $805,281 | $27,902 | $50,539 | $ | $883,722 |

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## Note 6 Derivative financial instruments

***Cash Flow Hedges***

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flow due to interest rate fluctuations, the Company entered into interest rate swap agreements for a portion of its floating rate debt. The agreements provide for the Company to receive interest from the counterparty at three month LIBOR and to pay interest to the counterparty at a weighted average fixed rate of 5.63% on a notional amount of $30.6 million at March 31, 2011. Under these agreements, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of the other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At March 31, 2011, the Company s cash flow hedge was effective and is not expected to have a significant impact the Company s net income over the next 12 months.

***Fair Value Hedges***

Fair value hedges are intended to reduce the interest rate risk associated with the underlying hedged item. The Company enters into fixed rate loan agreements as part of its lending activities. To mitigate the risk of changes in fair value based on fluctuations in interest rates, the Company has entered into interest rate swap agreements on individual loans, converting the fixed rate loans to a variable rate. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. At March 31, 2011, the Company s fair value hedges were effective and are not expected to have a significant impact the Company s net income over the next 12 months.

The change in fair value of both the hedge instruments and the underlying loan agreements are recorded as gains or losses in interest income. The fair value hedges are considered to be highly effective, and any hedge ineffectiveness was deemed not material. The notional amounts of the loan agreements being hedged were $46.8 million at March 31, 2011.

***Other Derivative Instruments***

The Company enters into non-hedging derivatives in the form of mortgage loan forward sale commitments with investors and commitments to originate mortgage loans as part of its mortgage banking business. At March 31, 2011, the Company s fair value of these derivatives was recorded and over the next 12 months is not expected to have a significant impact on the Company s net income.

The change in fair value of both the forward sale commitments and commitments to originate mortgage loans were recorded and the net gains or losses included in the Company s gain on sale of loans.

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The following tables summarize the fair value of derivative financial instruments utilized by Horizon Bancorp:

| | Asset Derivative March 31, 2011 | | Liability Derivatives March 31, 2011 | |
|---|---|---|---|---|
| **Derivatives designated as hedging instruments** | **Balance Sheet Location** | **Fair Value** | **Balance Sheet Location** | **Fair Value** |
| Interest rate contracts | Loans | $ 1,153 | Other liabilities | $ 1,630 |
| Interest rate contracts | Other Assets | 477 | Other liabilities | 926 |
| **Total derivatives designated as hedging instruments** | | 1,630 | | 2,556 |
| **Derivatives not designated as hedging instruments** | | | | |
| Mortgage loan contracts | Other assets | 281 | Other liabilities | 56 |
| **Total derivatives not designated as hedging instruments** | | 281 | | 56 |
| **Total derivatives** | | $ 1,911 | | $ 2,612 |

| | Asset Derivative December 31, 2010 | | Liability Derivatives December 31, 2010 | |
|---|---|---|---|---|
| **Derivatives designated as hedging instruments** | **Balance Sheet Location** | **Fair Value** | **Balance Sheet Location** | **Fair Value** |
| Interest rate contracts | Loans | $ 1,388 | Other liabilities | $ 2,039 |
| Interest rate contracts | Other Assets | 651 | Other liabilities | 1,376 |
| **Total derivatives designated as hedging instruments** | | 2,039 | | 3,415 |
| **Derivatives not designated as hedging instruments** | | | | |
| Mortgage loan contracts | Other assets | 407 | Other liabilities | |
| **Total derivatives not designated as hedging instruments** | | 407 | | |

| **Total derivatives** | $ 2,446 | $ 3,415 |
|---|---|---|

The effect of the derivative instruments on the consolidated statement of income for the three month period ended is as follows:

| | **Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion) Three Months Ended March 31** | |
|---|---|---|
| **Derivative in cash flow hedging relationship** | **2011 (Unaudited)** | **2010 (Unaudited)** |
| Interest rate contracts | $ 293 | $ (273) |

FASB Accounting Standards Codification ( ASC ) Topic 820-10-20 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820-10-55 establishes a fair value hierarchy that emphasizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

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| Derivative in fair value hedging relationship | Location of gain (loss) recognized on derivative | Amount of Gain (Loss) Recognized on Derivative Three Months Ended March 31 2011 (Unaudited) | 2010 (Unaudited) |
|---|---|---|---|
| Interest rate contracts | Interest income - loans | $ (410) | $ 403 |
| Interest rate contracts | Interest income - loans | 410 | (403) |
| **Total** | | $ | $ |

| Derivative not designated as hedging relationship | Location of gain (loss) recognized on derivative | Amount of Gain (Loss) Recognized on Derivative Three Months Ended March 31 2011 (Unaudited) | 2010 (Unaudited) |
|---|---|---|---|
| Mortgage contracts | Other income gain on sale of loans | $ 634 | $ 237 |
| **Total** | | $ 634 | $ 237 |

**Note 7 Disclosures about fair value of assets and liabilities**

The Fair Value Measurements topic of the FASB ASC defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. There are three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3**

Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy.

***Available for sale securities***

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Treasury and federal agency securities, state and municipal securities, federal agency mortgage obligations and mortgage-backed pools, and corporate notes. Level 2 securities are valued by a third party pricing service commonly used in the banking industry utilizing observable inputs. Observable inputs include dealer quotes, market spreads, cash flow analysis, the U.S. Treasury yield curve, trade execution data, market consensus prepayment spreads and available credit information and the bond s terms and conditions. The pricing provider utilizes evaluated pricing models that vary based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed-income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector grouping, and matrix pricing. In addition, model processes, such as an option adjusted spread model is used to develop prepayment and interest rate scenarios for securities with prepayment features.

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***Hedged loans***

Certain fixed rate loans have been converted to variable rate loans by entering into interest rate swap agreements. The fair value of those fixed rate loans is based on discounting the estimated cash flows using interest rates determined by the respective interest rate swap agreement. Loans are classified within Level 3 of the valuation hierarchy based on the unobservable inputs used.

***Interest rate swap agreements***

The fair value of the Company s interest rate swap agreements is estimated by a third party using inputs that are primarily unobservable and cannot be corroborated by observable market data and, therefore, are classified within Level 3 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the FASB ASC fair value hierarchy in which the fair value measurements fall at the following:

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **March 31, 2011** | | | | |
| Available-for-sale securities | | | | |
| U.S. Treasury and federal agencies | $ 17,229 | $ | $ 17,229 | $ |
| State and municipal | 144,287 | | 144,287 | |
| Federal agency collateralized mortgage obligations | 123,643 | | 123,643 | |
| Federal agency mortgage-backed pools | 144,913 | | 144,913 | |
| Private labeled mortgage-backed pools | 4,698 | | 4,698 | |
| Corporate notes | 586 | 566 | 20 | |
| Total available-for-sale securities | 435,356 | 566 | 434,790 | |
| Hedged loans | 48,411 | | | 48,411 |
| Forward sale commitments | 281 | | | 281 |
| Interest rate swap agreements | (2,556) | | | (2,556) |
| Commitments to originate loans | (56) | | | (56) |
| **December 31, 2010** | | | | |
| Available-for-sale securities | | | | |
| U.S. Treasury and federal agencies | $ 25,251 | $ | $ 25,251 | $ |
| State and municipal | 131,489 | | 131,489 | |
| Federal agency collateralized mortgage obligations | 101,837 | | 101,837 | |
| Federal agency mortgage-backed pools | 117,895 | | 117,895 | |
| Private labeled mortgage-backed pools | 5,323 | | 5,323 | |

| | | | | |
|---|---|---|---|---|
| Corporate notes | 549 | 529 | 20 | |
| Total available-for-sale securities | 382,344 | 456 | 381,815 | |
| Hedged loans | 50,088 | | | 50,088 |
| Forward sale commitments | 407 | | | 407 |
| Interest rate swap agreements | (3,415) | | | (3,415) |
| Commitments to originate loans | | | | |

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying condensed consolidated balance sheet using significant unobservable (level 3) inputs (Unaudited):

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| | Hedged Loans | Forward Sale Commitments | Interest Rate Swaps | Commitments to Originate Loans |
|---|---|---|---|---|
| **Beginning balance December 31, 2010** | $50,088 | $ 407 | $(3,415) | $ |
| Total realized and unrealized gains and losses | | | | |
| Included in net income | (410) | (126) | 410 | (56) |
| Included in other comprehensive income, gross | | | 451 | |
| Purchases, issuances, and settlements | (352) | | | |
| Principal payments | (915) | | | |
| **Ending balance March 31, 2011** | $48,411 | $ 281 | $(2,554) | $ (56) |

| | Hedged Loans | Forward Sale Commitments | Interest Rate Swaps | Commitments to Originate Loans |
|---|---|---|---|---|
| **Beginning balance December 31, 2009** | $31,153 | $ 265 | $ (715) | $ (135) |
| Total realized and unrealized gains and losses | | | | |
| Included in net income | 403 | 141 | (403) | 97 |
| Included in other comprehensive income, gross | | | (420) | |
| Purchases, issuances, and settlements | 7,991 | | | |
| Principal payments | (216) | | | |
| **Ending balance March 31, 2010** | $39,331 | $ 406 | $(1,538) | $ (38) |

Realized gains and losses included in net income for the periods are reported in the condensed consolidated statements of income as follows:

| | Period Ended March 31 | |
|---|---|---|
| **Non Interest Income** | **2011** | **2010** |
| **Total gains and losses from:** | | |
| Hedged loans | $(410) | $ 403 |
| Fair value interest rate swap agreements | 410 | (403) |
| Derivative loan commitments | 634 | 237 |
| | $ 634 | $ 237 |

Certain other assets are measured at fair value on a nonrecurring basis in the ordinary course of business and are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment):

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| **March 31, 2011** | | | | |
| Impaired loans | $11,831 | $ | $ | $ 11,831 |
| **December 31, 2010** | | | | |
| Impaired loans | $ 9,919 | $ | $ | $ 9,919 |

**Impaired (collateral dependent):** Fair value adjustments for impaired and non-accrual loans typically occur when there is evidence of impairment. Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. The Company measures fair value based on the value of the collateral securing the loans. Collateral

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may be in the form of real estate or personal property, including equipment and inventory. The value of the collateral is determined based on internal estimates as well as third party appraisals or non-binding broker quotes. These measurements were classified as Level 3. The fair value of the Company s other real estate owned is determined using Level 3 inputs, which include current and prior appraisals net of estimated costs to sell.

**Note 8 Fair Value of Financial Instruments**

The estimated fair value amounts of the Company s financial instruments were determined using available market information, current pricing information applicable to Horizon and various valuation methodologies. Where market quotations were not available, considerable management judgment was involved in the determination of estimated fair values. Therefore, the estimated fair value of financial instruments shown below may not be representative of the amounts at which they could be exchanged in a current or future transaction. Due to the inherent uncertainties of expected cash flows of financial instruments, the use of alternate valuation assumptions and methods could have a significant effect on the estimated fair value amounts.

The estimated fair values of financial instruments, as shown below, are not intended to reflect the estimated liquidation or market value of Horizon taken as a whole. The disclosed fair value estimates are limited to Horizon s significant financial instruments at March 31, 2011 and December 31, 2010. These include financial instruments recognized as assets and liabilities on the consolidated balance sheet as well as certain off-balance sheet financial instruments. The estimated fair values shown below do not include any valuation of assets and liabilities, which are not financial instruments as defined by the FASB ASC fair value hierarchy.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

**Cash and Due from Banks** The carrying amounts approximate fair value.

**Held-to-Maturity Securities** For debt securities held to maturity, fair values are based on quoted market prices or dealer quotes. For those securities where a quoted market price is not available, carrying amount is a reasonable estimate of fair value based upon comparison with similar securities.

**Loans Held for Sale** The carrying amounts approximate fair value.

**Net Loans** The fair value of portfolio loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying amounts of loans held for sale approximate fair value.

**FHLB and FRB Stock** Fair value of FHLB and FRB stock is based on the price at which it may be resold to the FHLB and FRB.

**Interest Receivable/Payable** The carrying amounts approximate fair value.

**Deposits** The fair value of demand deposits, savings accounts, interest-bearing checking accounts and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturity.

**Borrowings** Rates currently available to Horizon for debt with similar terms and remaining maturities are used to estimate fair values of existing borrowings.

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**Subordinated Debentures** Rates currently available for debentures with similar terms and remaining maturities are used to estimate fair values of existing debentures.

**Commitments to Extend Credit and Standby Letter of Credit** The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. Due to the short-term nature of these agreements, carrying amounts approximate fair value.

The estimated fair values of Horizon s financial instruments are as follows:

| | March 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Assets** | | | | |
| Cash and due from banks | $ 31,409 | $ 31,409 | $ 15,683 | $ 15,683 |
| Investment securities available for sale | 435,356 | 435,356 | 382,344 | 382,344 |
| Investment securities held to maturity | 10,632 | 10,632 | 9,595 | 9,595 |
| Loans held for sale | 4,962 | 4,962 | 18,833 | 18,833 |
| Loans, net | 790,467 | 794,073 | 863,813 | 867,054 |
| Stock in FHLB and FRB | 13,664 | 13,664 | 13,664 | 13,664 |
| Interest receivable | 6,633 | 6,633 | 6,519 | 6,519 |
| **Liabilities** | | | | |
| Non-interest bearing deposits | $111,155 | $111,155 | $107,606 | $107,606 |
| Interest-bearing deposits | 890,254 | 865,730 | 877,892 | 854,617 |
| Borrowings | 224,358 | 253,398 | 260,741 | 289,381 |
| Subordinated debentures | 30,607 | 30,756 | 30,584 | 30,734 |
| Interest payable | 786 | 786 | 781 | 781 |

**Note 9 Other Comprehensive Income (Loss)**

| | Three Months Ended | |
|---|---|---|
| | March 31 2011 (Unaudited) | March 31 2010 (Unaudited) |
| Unrealized gains on securities: | | |
| Unrealized holding gains arising during the period | $ 725 | $ 434 |
| Less: reclassification adjustment for gains realized in net income | 274 | |
| | 451 | 434 |
| Unrealized gain (loss) on derivative instruments | 2,189 | (420) |
| Net unrealized gains | 2,640 | 14 |
| Tax benefit | (924) | (5) |

| | | |
|---|---|---|
| Other comprehensive income | $1,716 | $ 9 |

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| | March 31 2011 | December 31 2010 |
|---|---|---|
| Unrealized gain on securities available for sale | $ 7,178 | $ 4,989 |
| Unrealized gain (loss) on derivative instruments | (926) | (1,377) |
| Tax effect | (2,188) | (1,264) |
| Total accumulated other comprehensive income | $ 4,064 | $ 2,348 |

**Note 10 Future accounting matters**

ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. In July 2010, the Financial Accounting Standards board ( FASB ) issued ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 requires that more information be disclosed about the credit quality of a company s loans and the allowance for loan losses held against those loans. A company is required to disaggregate new and existing disclosure based on how it develops its allowance for loan losses and how it manages credit exposures. Existing disclosures to be presented on a disaggregated basis include a roll-forward of the allowance for loan losses, the related recorded investment in such loans, the nonaccrual status of loans, and impaired loans. Additional disclosure is also required about the credit quality indicators of loans by class at the end of the reporting period, the aging of past due loans, information about troubled debt restructurings, and significant purchases and sales of loans during the reporting period by class. For public companies, ASU 2010-20 requires certain disclosures as of the end of a reporting period effective for periods ending on or after December 15, 2010. Other required disclosures about activity that occurs during a reporting period are effective for periods beginning on or after December 15, 2010. The Company adopted the applicable required additional disclosures effective December 31, 2010, and adoption of these additional disclosures did not have a material effect on its financial position or results of operations.

Receivables: In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-02 Receivables (Topic 310) A Creditor s Determination of Whether a Restructuring is a Troubled Debt Restructuring. ASU 2011-02 clarifies whether loan modifications constitute troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: (a) the restructuring constitutes a concession; and (b) the debtor is experiencing financial difficulties. ASU 2011-02 is effective for the first interim and annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. We are assessing the impact of ASU 2011-02 on our financial condition, results of operations, and disclosures.

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**HORIZON BANCORP AND SUBSIDIARIES**
**Management s Discussion and Analysis of Financial Condition**
**And Results of Operations**
**For the Three Months Ended March 31, 2011**

## ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

***Forward Looking Statements***

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to Horizon Bancorp ( Horizon or the Company ) and Horizon Bank, N.A. (the Bank ). Horizon intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and is including this statement for the purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of Horizon, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate project, will or similar expressions. Forward-looking statements provide current expectations or forecasts of future events, and although management believes that the expectations reflected in such forward-looking statements are accurate and reasonable, they are not guarantees of future results or performance and actual results may differ materially from those expressed or implied in such forward-looking statements. As a result, undue reliance should not be placed on these forward-looking statements, which speak only as of the date of this Form 10-Q.

Horizon s ability to predict results or the actual effect of future plans or strategies is inherently uncertain. Factors that could have a material adverse effect on Horizon s future activities and operating results include, but are not limited to:

***Credit risk***: the risk that loan customers or other parties will be unable to perform their contractual obligations;

***Market risk*:** the risk that changes in market rates and prices will adversely affect the Company s financial condition or results of operation;

***Liquidity risk*:** the risk that Horizon or the Bank will have insufficient cash or access to cash to meet its operating needs;

***Operational risk*:** the risk of loss resulting from fraud, inadequate or failed internal processes, people and systems, or external events;

***Economic risk*:** the risk that the economy in the Company s markets could decline further resulting in increased unemployment, decreased real estate values and increased loan charge-offs; and

***Compliance risk*:** the risk of additional action by Horizon s regulators or additional regulation could hinder the Company s ability to do business profitably.

For a discussion of the risks and uncertainties that could cause our actual results to differ materially, see Item 1A Risk Factors of Part I of Horizon s Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Statements in this report should be considered in conjunction with such risk factors and the other information publicly available about Horizon, including the information in the other filings we make with the Securities and Exchange Commission. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Horizon does not undertake, and specifically disclaims any obligation, to publicly release any updates to any forward-looking statement to reflect events or circumstances occurring or arising after the date on which the forward-looking statement is made, or to reflect the occurrence of unanticipated events, except to the extent required by law.

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***Overview***

Horizon is a registered bank holding company incorporated in Indiana and headquartered in Michigan City, Indiana. Horizon provides a broad range of banking services in Northwestern Indiana and Southwestern Michigan through its bank subsidiary. Horizon operates as a single segment, which is commercial banking. Horizon s Common Stock is traded on the Nasdaq Global Market under the symbol HBNC. The Bank was chartered as a national banking association in 1873 and has operated continuously since that time. The Bank is a full-service commercial bank offering commercial and retail banking services, corporate and individual trust and agency services, and other services incident to banking.

Horizon continues to operate in a challenging economic environment. Within the Company s primary market areas of Northwest Indiana and Southwest Michigan, unemployment rates increased during 2009 and have remained at high levels during 2010 and the first three months of 2011. This rise in unemployment has been driven by factors including slowdowns in the steel and recreational vehicle industries as well as a continued slowdown in the housing industry. The Company s higher level of non-performing loans at March 31, 2011 and over the past two years can be attributed to the continued slow economy and continued high local unemployment causing lower business revenues and increased bankruptcies. Despite these economic factors, Horizon continued to post positive results through the first three months of 2011.

Following are some highlights of Horizons financial performance through the first quarter of 2011:

Horizon s first quarter 2011 net income was $2.8 million or $.74 diluted earnings per share, a 54.4% increase in net income from the same period in 2010 and the highest first quarter net income in the Company s history.

Total deposits grew to over $1.0 billion at March 31, 2011, a $15.9 million increase from December 31, 2010.

Borrowings decreased by $36.4 million in the first quarter of 2011 from December 31, 2010.

Net interest income after provisions for loan losses was $9.5 million compared with $7.3 million in the prior year s first quarter.

Total loans decreased during the first quarter as the balance of mortgage warehouse loans decreased $74.7 million from December 31, 2010 as a result of an increase in long term mortgage interest rates.

Commercial loans were $335.8 million, up 8% from the first quarter 2010.

Residential mortgage loans of $164.2 million at March 31, 2011 rose 21% compared with first quarter 2010, partially reflecting loans acquired in the American Trust acquisition.

Investment securities increased during the first quarter of 2011 as excess cash was invested.

The Company s mortgage servicing asset recovered $701,000 of impairment during the first quarter of 2011 as mortgage loan refinancing activity slowed.

The provision for loan losses decreased to $1.5 million for the first quarter of 2011 compared to $2.7 million for the fourth quarter of 2010.

Horizon s capital ratios continue to be above the regulatory standards for well-capitalized banks.

***Critical Accounting Policies***

The notes to the consolidated financial statements included in Item 8 of the Company s Annual Report on Form 10-K for 2010 contain a summary of the Company s significant accounting policies. Certain of these policies are important to the portrayal of the Company s financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management has identified the allowance for loan losses, intangible assets and hedge accounting as critical accounting policies.

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Allowance for Loan Losses

An allowance for loan losses is maintained to absorb probable incurred loan losses inherent in the loan portfolio. The determination of the allowance for loan losses is a critical accounting policy that involves management s ongoing quarterly assessments of the probable incurred losses inherent in the loan portfolio. The identification of loans that have probable incurred losses is subjective; therefore, a general reserve is maintained to cover all probable losses within the entire loan portfolio. Horizon utilizes a loan grading system that helps identify, monitor and address asset quality problems in an adequate and timely manner. Each quarter, various factors affecting the quality of the loan portfolio are reviewed. Large credits are reviewed on an individual basis for loss potential. Other loans are reviewed as a group based upon previous trends of loss experience. Horizon also reviews the current and anticipated economic conditions of its lending market as well as transaction risk to determine the effect they may have on the loss experience of the loan portfolio.

Goodwill and Intangible Assets

Management believes that the accounting for goodwill and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. FASB ASC 350-10 establishes standards for the amortization of acquired intangible assets and impairment assessment of goodwill. At March 31, 2011, Horizon had core deposit intangibles of $2.6 million subject to amortization and $5.9 million of goodwill, which is not subject to amortization. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Horizon s goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of Horizon to provide quality, cost effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill that could adversely affect earnings in future periods.
FASB ASC 350-10 requires an annual evaluation of goodwill for impairment. The evaluation of goodwill for impairment requires the use of estimates and assumptions. Market price at the close of business on March 31, 2011 was $27.30 per share compared to a book value of $29.76 per common share. Horizon reported record earnings for the eleventh consecutive year in 2010 and the first quarter of 2011 was the highest first quarter net income in the Company s history therefore, the Company believes the below book market price relates to an overall decline in the financial industry sector and is not specific to Horizon.

The financial markets are currently reflecting significantly lower valuations for the stocks of financial institutions, when compared to historic valuation metrics, largely driven by the constriction in available credit and losses suffered related to residential mortgage markets. The Company s stock activity, as well as the price, has been affected by the economic conditions affecting the banking industry. Management believes this downturn has impacted the Company s stock and has concluded that the recent stock price is not indicative or reflective of fair value (per ASC Topic 820 Fair Value).

Horizon has concluded that, based on its own internal evaluation the recorded value of goodwill is not impaired.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets on a servicing-retained basis. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated regularly for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying servicing rights by predominant characteristics, such as interest rates, original loan terms and whether the loans are fixed or adjustable rate mortgages. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. When the book value of an individual stratum exceeds its fair value, an impairment reserve is recognized so that each individual

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stratum is carried at the lower of its amortized book value or fair value. In periods of falling market interest rates, accelerated loan prepayment can adversely affect the fair value of these mortgage-servicing rights relative to their book value. In the event that the fair value of these assets was to increase in the future, Horizon can recognize the increased fair value to the extent of the impairment allowance but cannot recognize an asset in excess of its amortized book value. Future changes in management s assessment of the impairment of these servicing assets, as a result of changes in observable market data relating to market interest rates, loan prepayment speeds, and other factors, could impact Horizon s financial condition and results of operations either positively or negatively.

Generally, when market interest rates decline and other factors favorable to prepayments occur, there is a corresponding increase in prepayments as customers refinance existing mortgages under more favorable interest rate terms. When a mortgage loan is prepaid, the anticipated cash flows associated with servicing that loan are terminated, resulting in a reduction of the fair value of the capitalized mortgage servicing rights. To the extent that actual borrower prepayments do not react as anticipated by the prepayment model (i.e., the historical data observed in the model does not correspond to actual market activity), it is possible that the prepayment model could fail to accurately predict mortgage prepayments and could result in significant earnings volatility. To estimate prepayment speeds, Horizon utilizes a third-party prepayment model, which is based upon statistically derived data linked to certain key principal indicators involving historical borrower prepayment activity associated with mortgage loans in the secondary market, current market interest rates and other factors, including Horizon s own historical prepayment experience. For purposes of model valuation, estimates are made for each product type within the mortgage servicing rights portfolio on a monthly basis. In addition, on a quarterly basis Horizon engages a third party to independently test the value of its servicing asset.

Derivative Instruments

As part of the Company s asset/liability management program, Horizon utilizes, from time-to-time, interest rate floors, caps or swaps to reduce the Company s sensitivity to interest rate fluctuations. These are derivative instruments, which are recorded as assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair values of derivatives are reported in the consolidated income statements or other comprehensive income ( OCI ) depending on the use of the derivative and whether the instrument qualifies for hedge accounting. The key criterion for the hedge accounting is that the hedged relationship must be highly effective in achieving offsetting changes in those cash flows that are attributable to the hedged risk, both at inception of the hedge and on an ongoing basis.

Horizon s accounting policies related to derivatives reflect the guidance in FASB ASC 815-10. Derivatives that qualify for the hedge accounting treatment are designated as either: a hedge of the fair value of the recognized asset or liability or of an unrecognized firm commitment (a fair value hedge) or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge). For fair value hedges, the cumulative change in fair value of both the hedge instruments and the underlying loans is recorded in non-interest income. For cash flow hedges, changes in the fair values of the derivative instruments are reported in OCI to the extent the hedge is effective. The gains and losses on derivative instruments that are reported in OCI are reflected in the consolidated income statement in the periods in which the results of operations are impacted by the variability of the cash flows of the hedged item. Generally, net interest income is increased or decreased by amounts receivable or payable with respect to the derivatives, which qualify for hedge accounting. At inception of the hedge, Horizon establishes the method it uses for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The ineffective portion of the hedge, if any, is recognized currently in the consolidated statements of income. Horizon excludes the time value expiration of the hedge when measuring ineffectiveness.

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Valuation Measurements

Valuation methodologies often involve a significant degree of judgment, particularly when there are no observable active markets for the items being valued. Investment securities, residential mortgage loans held for sale and derivatives are carried at fair value, as defined in FASB ASC 820, which requires key judgments affecting how fair value for such assets and liabilities is determined. In addition, the outcomes of valuations have a direct bearing on the carrying amounts of goodwill, mortgage servicing rights, and pension and other post-retirement benefit obligations. To determine the values of these assets and liabilities, as well as the extent, to which related assets may be impaired, management makes assumptions and estimates related to discount rates, asset returns, prepayment speeds and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results, which could affect Horizon s results of operations.

**Financial Condition**

On March 31, 2011, Horizon s total assets were $1.4 billion, a decrease of $18.5 million from December 31, 2010. Total assets decreased primarily due to the reduction in net loans from the lower balance of mortgage warehouse loans compared to December 31, 2010. The decrease in loans was offset by an increase in investment securities as excess liquidity was reinvested.

Cash and cash equivalents increased during the quarter from the decrease in net loans. The excess liquidity was used to repay borrowing held at December 31, 2010 and increase investment securities. At March 31, 2011, cash and due from banks still included approximately $15.0 million of excess liquidity.

Investment securities were comprised of the following as of:

| | March 31, 2011 (Unaudited) | | December 31, 2010 | |
|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| **Available for sale** | | | | |
| U.S. Treasury and federal agencies | $ 17,017 | $ 17,229 | $ 24,727 | $ 25,251 |
| State and municipal | 142,716 | 144,287 | 132,380 | 131,489 |
| Federal agency collateralized mortgage obligations | 121,917 | 123,643 | 100,106 | 101,837 |
| Federal agency mortgage-backed pools | 141,405 | 144,913 | 114,390 | 117,895 |
| Private labeled mortgage-backed pools | 4,545 | 4,698 | 5,197 | 5,323 |
| Corporate notes | 590 | 586 | 555 | 549 |
| Total available for sale investment securities | $ 428,190 | $ 435,356 | $ 377,355 | $ 382,344 |
| **Held to maturity, State and Municipal** | $ 10,632 | $ 10,632 | $ 9,595 | $ 9,595 |

Investment securities increased by approximately $54.0 million compared to the end of 2010. This growth was the result of the Company deploying excess cash held during the first quarter in cash and cash due from banks into investment securities as net loans decreased.

Net loans decreased $73.3 million since December 31, 2010. This decrease was primarily the result a reduction in mortgage warehouse loans of $74.7 million. Horizon s residential mortgage and consumer loans decreased during the first quarter as new loan production has not completely replaced all of the loan run-off from scheduled amortization and pay-offs however, commercial loans increased $5.7 million during the same period.

Total deposits increased $15.9 million during the first three months of 2011 primarily due to consumer and municipal deposits.

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The Company s borrowings decreased $36.4 million since December 31, 2010. At March 31, 2011 the Company had $0 short-term federal funds borrowed compared to $31.5 million at December 31, 2010, and this was the primary reason for the reduction in borrowings.

Stockholders equity totaled $116.1 million at March 31, 2011 compared to $112.3 million at December 31, 2010. The increase in stockholders equity during the period was the result of generating net income and an increase in accumulated other comprehensive income, net of dividends declared. For the three-months ended March 31, 2011, the ratio of average stockholders equity to average assets was 8.14% compared to 8.22% for the quarter ending December 31, 2010. Book value per common share at March 31, 2011 increased to $29.76 compared to $28.68 at December 31, 2010.

***Results of Operations***

Overview

Consolidated net income for the three-month period ended March 31, 2011 was $2.8 million, an increase of 54.4% from the $1.8 million for the same period in 2010. Earnings per common share for the three months ended March 31, 2011 increased to $0.76 basic and $0.74 diluted, compared to $0.44 basic and $0.44 diluted for the same three-month period in 2010. Earnings per share increased $.03 per share in the first quarter of 2011 compared to the same period in 2010 from the reduction in the preferred stock dividend paid due to the repayment of $6.25 million of US Treasury s Capital Purchase Plan capital during the fourth quarter of 2010. Earnings per share were impacted by $.08 for the three months ending March 31, 2011 and $.11 for the three months ending March 31, 2010 due to the preferred stock dividends and the accretion of the discount on the preferred stock.

Net Interest Income

The largest component of net income is net interest income. Net interest income is the difference between interest income, principally from loans and investment securities, and interest expense, principally on deposits and borrowings. Changes in the net interest income are the result of changes in volume and the net interest spread which affects the net interest margin. Volume refers to the average dollar levels of interest-earning assets and interest-bearing liabilities. Net interest spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities. Net interest margin refers to net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities.

The reduction in interest rates has influenced the cost of the Company s interest bearing liabilities more significantly than the reduction in yields received on the Company s interest earning assets, resulting in an increase of the net interest margin. Management believes that the current level of interest rates is driven by external factors and therefore impacts the results of the Company s net interest margin. Management does not expect a significant rise in interest rates in the short term, but an increase in rates is expected at some time in the future due to the current historically low interest rate environment.

Net interest income during the three months ended March 31, 2011 was $11.1 million, an increase of $514,000 or 4.9% over the $10.6 million earned during the same period in 2010. Yields on the Company s interest-earning assets decreased by 43 basis points to 4.93% from 5.36% for the three months ended March 31, 2011 and 2010, respectively. Interest income decreased $701,000 from $16.1 million for the three months ended March 31, 2010 to $15.4 million for the same period in 2011. This decrease was primarily due to a decrease in the yield on new and repriced earning assets. However, the asset yields on loans receivable has not declined at the same pace as some market indices partially due to interest rate floors that are in place on approximately $229.9 million of the Company s $360.1 million of adjustable rate loans.

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Rates paid on interest-bearing liabilities decreased by 49 basis points for the three months ended March 31, 2011 compared to the same period in 2010 due to the lower interest rate environment. Interest expense decreased $1.2 million from $5.6 million for the three-months ended March 31, 2010 to $4.4 million for the same period in 2011. This decrease was due to the lower rates being paid on the Company s interest bearing liabilities. Due to a more significant decrease in the rates paid on the Company s interest-bearing liabilities compared to the decrease in the yields received on the Company s interest-earning assets which helped offset the decrease in the Company s earning assets, the net interest margin increased 2 basis points from 3.55% for the three months ended March 31, 2010 to 3.57% for the same period in 2011.

The following are the average balance sheets for the three months ending:

| | Three Months Ended March 31, 2011 | | | Three Months Ended March 31, 2010 | | |
|---|---|---|---|---|---|---|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| **ASSETS** | | | | | | |
| Interest-earning assets | | | | | | |
| Federal funds sold | $ 63,220 | $ 39 | 0.25% | $ 68,209 | $ 12 | 0.07% |
| Interest-earning deposits | 3,180 | 1 | 0.13% | 4,857 | 5 | 0.42% |
| Investment securities taxable | 301,613 | 2,460 | 3.31% | 253,848 | 2,429 | 3.88% |
| Investment securities non-taxable (1) | 114,294 | 1,043 | 5.07% | 112,275 | 1,081 | 5.28% |
| Loans receivable (2) | 820,388 | 11,888 | 5.88% | 811,350 | 12,605 | 6.31% |
| Total interest-earning assets (1) | 1,302,695 | 15,431 | 4.93% | 1,250,539 | 16,132 | 5.36% |
| Noninterest-earning assets | | | | | | |
| Cash and due from banks | 14,596 | | | 13,852 | | |
| Allowance for loan losses | (19,062) | | | (16,001) | | |
| Other assets | 100,475 | | | 84,904 | | |
| | $ 1,398,704 | | | $ 1,333,294 | | |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing deposits | $ 903,487 | $ 2,337 | 1.05% | $ 828,838 | $ 2,763 | 1.35% |
| Borrowings | 227,472 | 1,577 | 2.81% | 269,349 | 2,443 | 3.68% |
| Subordinated debentures | 34,946 | 450 | 5.22% | 27,837 | 373 | 5.43% |
| Total interest-bearing liabilities | 1,165,905 | 4,364 | 1.52% | 1,126,024 | 5,579 | 2.01% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Noninterest-bearing liabilities | | | | | | |
| Demand deposits | 109,543 | | | 82,659 | | |
| Accrued interest payable and other liabilities | 9,382 | | | 8,156 | | |
| Shareholders equity | 113,874 | | | 116,455 | | |
| | $ 1,398,704 | | | $ 1,333,294 | | |
| Net interest income/spread | | $ 11,067 | 3.41% | | $ 10,553 | 3.35% |
| Net interest income as a percent of average interest earning assets (1) | | | 3.57% | | | 3.55% |

(1) Securities balances represent daily average balances for the fair value of securities. The average rate is calculated based on the daily average balance for the amortized cost of securities. Interest income is presented on a tax equivalent basis.

(2) Includes fees on loans. The inclusion of loan fees does not have a material effect on the average interest rate.

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Provision for Loan Losses

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses ( ALLL ) by regularly reviewing the performance of its loan portfolios. During the first quarter of 2011, a provision for loan losses of $1.5 million was required to adequately fund the ALLL compared to a provision of $3.2 million for the first quarter of 2010. The 2011 first quarter provision was the lowest since the second quarter of 2008. The provision for the current quarter resulted from losses primarily in the installment loan portfolio as a result of current economic conditions. Commercial loan net charge-offs during the first quarter of 2011 were $59,000, residential mortgage loan net charge-offs were $82,000, and installment loans net charge-offs were $1.4 million. The ALLL balance at March 31, 2011 was $19.1 million or 2.36% of total loans. This compares to an ALLL balance of $19.1 million at December 31, 2010 or 2.11% of total loans and $16.1 million at March 31, 2010 or 1.97% of total loans.

No assurance can be given that Horizon will not, in any particular period, sustain loan losses that are significant in relation to the amount reserved, or that subsequent evaluations of the loan portfolio, in light of factors then prevailing, including economic conditions and management s ongoing quarterly assessments of the portfolio, will not require increases in the allowance for loan losses. Horizon considers the allowance for loan losses to be appropriate to cover losses inherent in the loan portfolio as of March 31, 2011.

Non-performing loans totaled $22.1 million on March 31, 2011, up slightly from $21.4 million on December 31, 2010, and up from $16.3 million on March 31, 2010. As a percentage of total loans non-performing loans were 2.71% on March 31, 2011, up from 2.38% on December 31, 2010. This increase was primarily due to a decrease in total loans. Horizon s 30 to 89 day loan delinquencies were 0.85% and 0.66% of total loans at March 31, 2011 and December 31, 2010, respectively.

The increase of non-performing loans from the prior quarter was due to higher non-performing commercial loans, partially offset by lower non-performing real estate and consumer loans. Non-performing commercial loans increased from $8.1 million on December 31, 2010 to $9.4 million on March 31, 2011. The increase was due to the addition of eleven non-performing loans with a book value of $1.6 million as of March 31, 2011, partially offset by principal pay downs of $148,000, charge-offs totaling $49,000, and one loan with a balance of $45,000 moved to OREO during the quarter. Real estate non-performing loans decreased from $9.3 million on December 31, 2010 to $8.7 million on March 31, 2011. Consumer non-performing loans decreased from $4.0 million on December 31, 2010 to $3.9 million on March 31, 2011.

Real estate and installment non-performing loans on March 31, 2011 included $1.8 million and $2.0 million, respectively, of loans in bankruptcy. This compares to $1.8 million and $2.3 million on December 31, 2010. These loans are not considered troubled debt restructures (TDR s) while they are going through bankruptcy, a process that can take six to eighteen months. This is the first decline in this category the Company has experienced in recent years as borrowers are coming out of bankruptcy and after six months of performance are being moved back to performing status. The Company s experience with bankrupt loans has demonstrated that some debtors continue to make payments during the bankruptcy process, many reaffirm their obligations to the Company when they come out of bankruptcy, and some loans are discharged or restructured by the court. The Company has been accumulating historical data on the performance of loans going through the bankruptcy process and utilizes that data in the calculation of the allowance for loan losses. There were two non-performing loans to commercial borrowers in bankruptcy on March 31, 2011 totaling $120,000.

TDR s are also included in the non-performing loans total. TDR s increased from $4.4 million on December 31, 2010 to $4.7 million on March 31, 2011. Of these, $4.0 million were real estate loans, $563,000 were commercial loans, and $173,000 were installment loans. The increase was primarily due to the addition of two mortgage loans during the quarter totaling $362,000. Only $682,000 of TDR s were on non-accrual as of March 31, 2011.

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Non-accrual loans totaled $17.4 million on March 31, 2011, up from $16.7 million on December 31, 2010, and $14.9 million on March 31, 2010. On March 31, 2011, non-accrual commercial loans to hotel owners totaled $4.4 million and to home builders and land developers were $1.3 million.

Other Real Estate Owned (OREO) totaled $2.3 million on March 31, 2011, down from $2.7 million on December 31, 2010, but up from $2.2 million on March 31, 2010. During the quarter, seven properties with a book value of $913,000 as of December 31, 2010 were sold. Seven properties with a book value of $537,000 on March 31, 2011 were transferred into OREO during the quarter.

On March 31, 2011, OREO was comprised of 17 properties. Of these, five totaling $1.4 million were commercial properties and twelve totaling $914,000 were residential properties. One property with a book value of $1.0 million is under contract to sell with a closing date scheduled in the third quarter. Four other properties with a book value of $235,000 are under contract and are expected to close in April, 2011.

Non-Interest Income

The following is a summary of changes in non-interest income:

| | Three Months Ended | | | |
|---|---|---|---|---|
| **Non-interest income** | **March 31 2011** | **March 31 2010** | **Amount Change** | **Percent Change** |
| Service charges on deposit accounts | **$ 795** | $ 865 | $ (70) | -8.1% |
| Wire transfer fees | **108** | 140 | (32) | -22.9% |
| Interchange fees | **545** | 454 | 91 | 20.0% |
| Fiduciary activities | **963** | 995 | (32) | -3.2% |
| Gain (loss) on sale of securities | **274** | | 274 | 100.0% |
| Gain on sale of mortgage loans | **533** | 1,382 | (849) | -61.4% |
| Mortgage servicing net of impairment | **764** | 65 | 699 | 1075.4% |
| Increase in cash surrender value of bank owned life insurance | **205** | 156 | 49 | 31.4% |
| Other income | **127** | 317 | (190) | -59.9% |
| **Total non-interest income** | **$ 4,314** | $ 4,374 | $ (60) | -1.4% |

The residential mortgage loan activity during the first quarter of 2011 generated $533,000 of income from the gain on sale of mortgage loans, down $849,000 from the same period in 2010. This decrease was primarily due to less favorable pricing on loans sold as interest rates abruptly increased at the end of the fourth quarter of 2010 negatively impacting gain-on-sale. In addition, during the first quarter competition increased for purchase transactions which drove down pricing and reduced gain. This reduction in gain on sale of mortgage loans was partially offset by $701,000 of impairment recovered on the Company s mortgage servicing asset. In addition, Horizon incurred a gain on the sale of securities of $274,000 during the first quarter of 2011 as the result of an analysis that determined that market conditions provided the opportunity to add gains to capital without negatively impacting long-term earnings. Other income was $190,000 less for the three months ended March 31, 2011 compared to the same period in 2010 as one-time items were included in the 2010 results.

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Non-Interest Expense

The following is a summary of changes in non-interest expense:

| Non-interest expense | Three Months Ended March 31 2011 | March 31 2010 | Amount Change | Percent Change |
|---|---|---|---|---|
| Salaries | **$ 3,748** | $3,326 | $ 422 | 12.7% |
| Commission and bonuses | **497** | 405 | 92 | 22.7% |
| Employee benefits | **1,116** | 1,067 | 49 | 4.6% |
| Net occupancy expenses | **1,081** | 1,062 | 19 | 1.8% |
| Data processing | **407** | 402 | 5 | 1.2% |
| Professional fees | **349** | 471 | (122) | -25.9% |
| Outside services and consultants | **381** | 365 | 16 | 4.4% |
| Loan expense | **762** | 750 | 12 | 1.6% |
| FDIC deposit insurance | **387** | 388 | (1) | -0.3% |
| Other losses | **31** | 27 | 4 | 14.8% |
| Other expenses | **1,499** | 1,291 | 208 | 16.1% |
| **Total non-interest expense** | **$10,258** | $9,554 | $ 704 | 7.4% |

Total other expenses were $704,000 higher in the first quarter of 2011 compared to the first quarter of 2010. Salaries, commissions and bonuses, and employee benefits increased $563,000 compared to the same quarter in 2010. This increase is the result of additional payroll expense from the consolidation of the American Trust & Savings Bank transaction that closed at the end of the second quarter of 2010, the expansion into Portage, Michigan, and annual merit pay increases. Professional fees decreased during the first quarter of 2011 as transaction costs associated with the American Trust & Savings Bank transaction we included in the 2010 results. The increase in other expenses compared to the same period in 2010 included increases primarily in reoccurring items due to higher costs and growth.

Income Taxes

Income tax expense for the first quarter of 2011 was $810,000 compared to $349,000 of tax expense for the first quarter of 2010. The effective tax rate for the first quarter of 2011 was 22.7% compared to 16.3% in 2010. The increase in the effective tax rate is primarily due to higher income before income tax for the first quarter of 2011 compared to the same period in 2010 with a similar level of tax exempt income.

***Liquidity***

The Bank maintains a stable base of core deposits provided by long-standing relationships with individuals and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon include earnings, loan repayment, investment security sales and maturities, proceeds form the sale of residential mortgage loans, and borrowing relationships with correspondent banks, including the FHLB. During the three months ended March 31, 2011, cash and cash equivalents increased by approximately $15.7 million. The increase was primarily due to the decrease in mortgage warehouse balances. At March 31, 2011, in addition to liquidity available from the normal operating, funding, and investing activities of Horizon, the Bank had approximately $295.1 million in unused credit lines with various money center banks, including the FHLB at March 31, 2011 compared to $380.8 million at December 31, 2010 and $324.5 million at March 31, 2010.

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***Capital Resources***

The capital resources of Horizon and the Bank exceeded regulatory capital ratios for well capitalized banks at March 31, 2011. Stockholders equity totaled $116.1 million as of March 31, 2011, compared to $112.3 million as of December 31, 2010. For the three-months ended March 31, 2011, the ratio of average stockholders equity to average assets was 8.14% compared to 8.22% for the quarter ending December 31, 2010. Horizon s capital increased during the three months as a result of increased earnings and an increase in accumulated other comprehensive income, net of dividends declared and the amortization of unearned compensation.

Horizon declared dividends in the amount of $0.17 per share during the first three months of 2011 which was the same amount for the same period of 2010. The dividend payout ratio (dividends as a percent of basic earnings per share) was 23.1% and 38.6% for the first three months of 2011 and 2010, respectively. Horizon is a participant in the Capital Purchase Program, which is a program of the TARP established by the United States Department of the Treasury (the U.S. Treasury ) pursuant to the Emergency Economic Stabilization Act of 2008 ( EESA ). Pursuant to the agreements Horizon entered into as part of the Capital Purchase Program, Horizon is not permitted to increase dividends on its common shares above the amount of the last quarterly cash dividend per common share declared prior to October 14, 2008 ($0.17 per common share) without the U.S. Treasury s approval until December 23, 2011, unless all of the Series A Preferred Shares issued to the U.S. Treasury pursuant to the Capital Purchase Program have been redeemed or transferred by the U.S. Treasury to unaffiliated third parties. For additional information regarding dividend conditions, see Horizon s Annual Report on Form 10-K for 2010.

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## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to Horizon s 2010 Annual Report on Form 10-K for analysis of its interest rate sensitivity. Horizon believes there have been no significant changes in its interest rate sensitivity since it was reported in its 2010 Annual Report on Form 10-K.

## ITEM 4. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

Based on an evaluation of disclosure controls and procedures as of March 31, 2011, Horizon s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Horizon s disclosure controls (as defined in Exchange Act Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act )). Based on such evaluation, such officers have concluded that, as of the evaluation date, Horizon s disclosure controls and procedures are effective to ensure that the information required to be disclosed by Horizon in the reports it files under the Exchange Act is recorded, processed, summarized and reported within the time specified in Securities and Exchange Commission rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure.

Changes In Internal Control Over Financial Reporting

Horizon s management, including its Chief Executive Officer and Chief Financial Officer, also have concluded that during the fiscal quarter ended March 31, 2011, there have been no changes in Horizon s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Horizon s internal control over financial reporting.

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## ITEM 1. LEGAL PROCEEDINGS

Horizon and its subsidiaries are involved in various legal proceedings incidental to the conduct of their business. Management does not expect that the outcome of any such proceedings will have a material adverse effect on our consolidated financial position or results of operations.

As previously reported, on September 2, 2010, Capitol Bancorp and one of its subsidiaries, Michigan Commerce Bank, filed a Verified Complaint in Kalamazoo County Circuit Court, Case No. 2010 0300-CK and obtained an ex-parte temporary restraining order in Michigan state court. The Complaint asserted a variety of claims against Horizon and certain ex-employees of Michigan Commerce Bank including, without limitation, breach of contract, tortious interference, misappropriation of trade secretes, and civil conspiracy. The temporary restraining order and preliminary injunction primarily sought to restrain the ex-employees from soliciting or doing business with any of Michigan Commerce Bank s customers and from using or disclosing any of Michigan Commerce Bank s confidential information. A hearing on the preliminary injunction was held, and the court dissolved the temporary restraining order and denied the preliminary injunction. After the temporary restraining order was dissolved, Plaintiffs stipulated to the dismissal of all the ex-employees on September 9, 2010, except one. In addition, Capitol Bancorp and Michigan Commerce Bank have amended their complaint to reflect the dismissal of these ex-employees as defendants but have yet to file the amended complaint pending the parties settlement discussions.

As a result, this matter now primarily involves damage claims against one of the ex-employees for alleged breaches of his duty of loyalty to Michigan Commerce Bank and alleged breaches of the confidentiality agreement he signed while employed at Michigan Commerce Bank and claims against Horizon for alleged breaches of an employee non-solicitation provision contained in a confidentiality agreement between Horizon, Capitol Bancorp and certain of its affiliates (which was entered into in 2009 in connection with Horizon s investigation of potentially purchasing two affiliate banks of Capitol Bancorp) and similar claims relating to the hiring of the ex-employee who remains a party to the lawsuit. On February 16, 2011, the parties met to attempt to settle the case through mediation; but were unsuccessful in doing so. Horizon continues to evaluate the case as it moves through the discovery phase and will continue to attempt to settle the case if it is reasonable to do so.

## ITEM 1A. RISK FACTORS

No material changes from the factors included in the 2010 Annual Report on Form 10-K

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not Applicable

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

## ITEM 4. (REMOVED AND RESERVED)

Not Applicable

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**HORIZON BANCORP AND SUBSIDIARIES**
**Part II Other Information**
**For the Three Months Ended March 31, 2011**

**ITEM 5. OTHER INFORMATION**

Not Applicable

**ITEM 6. EXHIBITS**

(a) Exhibits

| | |
|---|---|
| Exhibit 31.1 | Certification of Craig M. Dwight |
| Exhibit 31.2 | Certification of Mark E. Secor |
| Exhibit 32 | Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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## SIGNATURES

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

| | |
|---|---|
| | HORIZON BANCORP |
| Dated: May 12, 2011 | /s/ Craig M. Dwight |
| | Craig M. Dwight<br>Chief Executive Officer |
| Dated: May 12, 2011 | /s/ Mark E. Secor |
| | Mark E. Secor<br>Chief Financial Officer |

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**INDEX TO EXHIBITS**

The following documents are included as Exhibits to this Report.

Exhibit

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