HORIZON BANCORP /IN/
Form 10-Q
August 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 June 30, 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 þ 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 Do not check if 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: 3,329,576 shares of Common Stock, $.2222 par value, at August 12, 2011.

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PART 1 FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

HORIZON BANCORP AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Dollar Amounts in Thousands)

	June 30 2011 (Unaudited)	December 31 2010
Assets		
Cash and due from banks	**$ 20,832**	$ 15,683
Investment securities, available for sale	**449,817**	382,344
Investment securities, held to maturity	**10,632**	9,595
Loans held for sale	**4,343**	18,833
Loans, net of allowance for loan losses of $18,586 and $19,064	**820,684**	863,813
Premises and equipment	**33,255**	34,194
Federal Reserve and Federal Home Loan Bank stock	**12,390**	13,664
Goodwill	**5,910**	5,910
Other intangible assets	**2,515**	2,741
Interest receivable	**6,778**	6,519
Cash value life insurance	**27,611**	27,195
Other assets	**18,970**	20,428
Total assets	**$ 1,413,737**	$ 1,400,919
Liabilities		
Deposits		
Non-interest bearing	**$ 113,747**	$ 107,606
Interest bearing	**906,529**	877,892
Total deposits	**1,020,276**	985,498
Borrowings	**230,141**	260,741
Subordinated debentures	**30,630**	30,584
Interest payable	**705**	781
Other liabilities	**10,478**	11,032
Total liabilities	**1,292,230**	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	**18,301**	18,217
Common stock, $.2222 stated value Authorized, 22,500,000 shares Issued, 3,329,576 and 3,300,659 shares	**1,139**	1,122
Additional paid-in capital	**10,471**	10,356
Retained earnings	**84,417**	80,240
Accumulated other comprehensive income	**7,179**	2,348
Total stockholders equity	**121,507**	112,283

Total liabilities and stockholders equity	**$ 1,413,737**	$ 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 June 30		Six Months Ended June 30	
	2011 (Unaudited)	2010 (Unaudited)	**2011 (Unaudited)**	2010 (Unaudited)
Interest Income				
Loans receivable	**$ 11,891**	$ 13,212	**$ 23,779**	$ 25,817
Investment securities				
Taxable	**2,786**	2,517	**5,286**	4,963
Tax exempt	**1,035**	1,078	**2,078**	2,159
Total interest income	**15,712**	16,807	**31,143**	32,939
Interest Expense				
Deposits	**2,195**	2,706	**4,532**	5,469
Borrowed funds	**1,600**	2,338	**3,177**	4,781
Subordinated debentures	**454**	395	**904**	768
Total interest expense	**4,249**	5,439	**8,613**	11,018
Net Interest Income	**11,463**	11,368	**22,530**	21,921
Provision for loan losses	**1,332**	3,000	**2,880**	6,233
Net Interest Income after Provision for Loan Losses	**10,131**	8,368	**19,650**	15,688
Other Income				
Service charges on deposit accounts	**825**	964	**1,620**	1,829
Wire transfer fees	**137**	185	**245**	325
Interchange fees	**639**	560	**1,184**	1,014
Fiduciary activities	**932**	1,007	**1,895**	2,002
Gain on sale of securities	**365**	131	**639**	131
Gain on sale of mortgage loans	**1,308**	1,674	**1,841**	3,056
Mortgage servicing income net of impairment	**99**	(97)	**863**	(32)
Increase in cash surrender value of bank owned life insurance	**211**	197	**416**	353
Other income	**(68)**	302	**59**	619
Total other income	**4,448**	4,923	**8,762**	9,297
Other Expenses				
Salaries and employee benefits	**5,470**	5,190	**10,831**	9,988
Net occupancy expenses	**1,039**	979	**2,120**	2,041
Data processing	**494**	570	**901**	972
Professional fees	**331**	530	**680**	1,001

Outside services and consultants	**386**	424	**767**	789
Loan expense	**694**	771	**1,456**	1,521
FDIC insurance expense	**303**	408	**690**	796
Other losses	**246**	10	**277**	37
Other expenses	**1,524**	1,302	**3,023**	2,593
Total other expenses	**10,487**	10,184	**20,745**	19,738
Income Before Income Tax	**4,092**	3,107	**7,667**	5,247
Income tax expense	**999**	592	**1,809**	941
Net Income	**3,093**	2,515	**5,858**	4,306
Preferred stock dividend and discount accretion	**(277)**	(352)	**(553)**	(704)
Net Income Available to Common Shareholders	**$ 2,816**	$ 2,163	**$ 5,305**	$ 3,602
Basic Earnings Per Share	**$ 0.86**	$ 0.66	**$ 1.61**	$ 1.10
Diluted Earnings Per Share	**0.83**	0.65	**1.57**	1.09

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				$ 5,858	5,858		5,858
Other comprehensive income, net of tax:							
Unrealized gain on securities				5,148		5,148	5,148
Unrealized gain on derivative instruments				(317)		(317)	(317)
Comprehensive income				$ 10,689			
Amortization of unearned compensation			49				49
Issuance of restricted shares		16	(16)				
Exercise of stock options		1	54				55
Tax benefit related to stock options			8				8
Stock option expense			20				20
Cash dividends on preferred stock (5.00%)					(469)		(469)
Cash dividends on common stock ($.34 per share)					(1,128)		(1,128)
Accretion of discount on preferred stock	84				(84)		
Balances, June 30, 2011	**$ 18,301**	**$ 1,139**	**$ 10,471**		**$ 84,417**	**$ 7,179**	**$ 121,507**

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)

	Six Months Ended June 30	
	2011	**2010**
	(Unaudited)	**(Unaudited)**
Operating Activities		
Net income	**$ 5,858**	$ 4,306
Items not requiring (providing) cash		
Provision for loan losses	**2,880**	6,233
Depreciation and amortization	**1,227**	1,112
Share based compensation	**20**	12
Mortgage servicing rights impairment	**(728)**	59
Deferred income tax		5
Premium amortization on securities available for sale, net	**1,026**	764
Gain on sale of investment securities	**(639)**	(131)
Gain on sale of mortgage loans	**(1,841)**	(3,056)
Proceeds from sales of loans	**109,902**	104,014
Loans originated for sale	**(108,061)**	(101,447)
Increase in cash surrender value of life insurance	**(416)**	(353)
(Gain) loss on sale of other real estate owned	**86**	(183)
Net change in		
Interest receivable	**(259)**	(58)
Interest payable	**(76)**	(120)
Other assets	**1,977**	655
Other liabilities	**(812)**	(680)
Net cash provided by operating activities	**10,144**	11,132
Investing Activities		
Purchases of securities available for sale	**(108,989)**	(92,230)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**49,049**	68,839
Purchase of securities held to maturity	**(2,437)**	(15,332)
Proceeds from maturities of securities held to maturity	**1,400**	13,032
Proceeds from the sale of Federal Home Loan Bank stock	**1,274**	
Net change in loans	**50,962**	4,929
Proceeds on the sale of OREO and repossessed assets	**1,069**	3,392
Purchases of premises and equipment	**(13)**	(1,733)
Purchases and assumption of ATSB		3,406
Net cash used in investing activities	**(7,685)**	(15,697)
Financing Activities		
Net change in		
Deposits	**34,778**	(26,731)
Borrowings	**(30,554)**	(10,628)

Proceeds from issuance of stock	**55**	110
Tax benefit from issuance of stock	**8**	70
Dividends paid on common shares	**(1,128)**	(1,117)
Dividends paid on preferred shares	**(469)**	(625)
Net cash provided by (used in) financing activities	**2,690**	(38,921)
Net Change in Cash and Cash Equivalent	**5,149**	(43,486)
Cash and Cash Equivalents, Beginning of Period	**15,683**	68,702
Cash and Cash Equivalents, End of Period	**$ 20,832**	$ 25,216
Additional Cash Flows Information		
Interest paid	**$ 8,689**	$ 11,137
Income taxes paid	**100**	180
Transfer of loans to other real estate owned	**3,717**	4,137

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 June 30, 2011 and June 30, 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 June 30		Six months ended June 30	
	2011 (Unaudited)	**2010 (Unaudited)**	**2011 (Unaudited)**	**2010 (Unaudited)**
Basic earnings per share				
Net income	**$ 3,093**	$ 2,515	**$ 5,858**	$ 4,306
Less: Preferred stock dividends and accretion of discount	**277**	352	**553**	704
Net income available to common shareholders	**$ 2,816**	$ 2,163	**$ 5,305**	$ 3,602
Weighted average common shares outstanding	**3,291,833**	3,278,392	**3,287,258**	3,274,327
Basic earnings per share	**$ 0.86**	$ 0.66	**$ 1.61**	$ 1.10
Diluted earnings per share				
Net income available to common shareholders	**$ 2,816**	$ 2,163	**$ 5,305**	$ 3,602
Weighted average common shares outstanding	**3,291,833**	3,278,392	**3,287,258**	3,274,327
Effect of dilutive securities:				
Warrants	**73,673**	41,250	**75,479**	26,135
Restricted stock	**4,759**	12,738	**9,806**	12,220
Stock options	**6,704**	1,388	**6,915**	3,989

Weighted average shares outstanding	**3,376,969**	3,333,768	**3,379,458**	3,316,671
Diluted earnings per share	**$ 0.83**	$ 0.65	**$ 1.57**	$ 1.09

At June 30, 2011 and 2010, there were 34,117 shares and 39,000 shares that were not included in the computation of diluted earnings per share because they were non-dilutive.

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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:

June 30, 2011 (Unaudited)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 19,468	$ 311	$ (9)	$ 19,770
State and municipal	134,371	4,488	(225)	138,634
Federal agency collateralized mortgage obligations	130,406	3,300		133,706
Federal agency mortgage-backed pools	147,936	4,933	(11)	152,858
Private labeled mortgage-backed pools	4,157	126		4,283
Corporate notes	569	7	(10)	566
Total available for sale investment securities	$ 436,907	$ 13,165	$ (255)	$ 449,817
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 June 30, 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 U.S. Treasury and federal agencies, securities of state and municipal governmental agencies, and federal agency mortgage-backed pools 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 investments

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HORIZON BANCORP AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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before recovery of their amortized cost basis, which may be at maturity, the Company did not consider those investments to be other-than-temporarily impaired at June 30, 2011.

The amortized cost and fair value of securities available for sale and held to maturity at June 30, 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.

	June 30, 2011 (Unaudited)	
	Amortized Cost	Fair Value
Available for sale		
Within one year	$ 970	$ 977
One to five years	26,845	27,834
Five to ten years	56,701	58,432
After ten years	69,892	71,728
	154,408	158,971
Federal agency collateralized mortgage obligations	130,406	133,706
Federal agency mortgage-backed pools	147,936	152,857
Private labeled mortgage-backed pools	4,157	4,283
Total available for sale investment securities	$ 436,907	$ 449,817
Held to maturity		
Within one year	$ 10,532	$ 10,532
One to five years	100	100
Total held to maturity investment securities	$ 10,632	$ 10,632

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	
June 30, 2011 (Unaudited)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ 5,048	$ (9)	$	$	$ 5,048	$ (9)
State and municipal	9,794	(215)	797	(10)	10,591	(225)
Federal agency collateralized mortgage obligations						
Federal agency mortgage-backed pools	580	(11)	28		608	(11)

Corporate notes		(10)				(10)
Total temporarily impaired securities	$ 15,422	$ (245)	$ 825	$ (10)	$ 16,247	$ (255)

December 31, 2010	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total 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 June 30		Six months ended June 30	
	2011	**2010**	**2011**	**2010**
Sales of securities available for sale (Unaudited)				
Proceeds	**$ 8,116**	$ 18,938	**$ 17,390**	$ 18,938
Gross gains	**365**	135	**639**	135
Gross losses		4		4

Note 3 Loans

	June 30 2011 (Unaudited)	**December 31 2010**
Commercial		
Working capital and equipment	**$ 157,169**	$ 151,414
Real estate, including agriculture	**171,182**	167,785
Tax exempt	**2,768**	2,925
Other	**7,320**	7,894
Total	**338,439**	330,018
Real estate		
1 4 family	**159,608**	157,478
Other	**4,195**	4,957
Total	**163,803**	162,435
Consumer		
Auto	**132,683**	136,014
Recreation	**5,218**	6,086
Real estate/home improvement	**27,335**	29,184
Home equity	**91,601**	90,580
Unsecured	**3,148**	3,091
Other	**1,986**	1,726
Total	**261,971**	266,681
Mortgage warehouse	**75,057**	123,743
Total	**75,057**	123,743
Total loans	**839,270**	882,877
Allowance for loan losses	**(18,586)**	(19,064)

Loans, net	**$ 820,684**	$ 863,813

Commercial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely

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

affected by conditions in the real estate markets or in the general economy. The properties securing The Company s commercial real estate portfolio are diverse in terms of property type, which are monitored for concentrations of credit. Management monitors and evaluates commercial real estate loans based on collateral, cash flow and risk grade criteria. As a general rule, The Company avoids financing single purpose projects, such as churches, schools, restaurants, and golf courses unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

Real Estate and Consumer

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Mortgage Warehousing

Horizon s mortgage warehouse lending has specific mortgage companies as customers of Horizon Bank. Individual mortgage loans originated by these mortgage companies are funded as a secured borrowing with pledge of collateral under Horizon s agreement with the mortgage company. Each individual mortgage is assigned to Horizon until the loan is sold to the secondary market by the mortgage company. In addition, Horizon takes possession of each original note and forwards such note to the end investor once the mortgage company has sold the loan. At the time a loan is transferred to the secondary market, the mortgage company repurchases the loan under its option within the agreement. Due to the repurchase feature contained in the agreement, the transaction does not qualify as a sale and therefore is accounted for as a secured borrowing with pledge of collateral pursuant to the agreement with the mortgage company. When the individual loan is sold to the end investor by the mortgage company the proceeds from the sale of the loan are received by Horizon and used to payoff the loan balance with Horizon along with any accrued interest and any related fees. The remaining balance from the sale is forwarded to the mortgage company. These individual loans typically are sold by the mortgage company within 30 days and are seldom held more than 90 days. Interest income is accrued during this period and collected at the time each loan is sold. Fee income for each loan sold is collected when the loan is sold and no costs are deferred due to the term between each loan funding and related payoff is typically less than 30 days.

Based on the agreements with each mortgage company, at any time a mortgage company can repurchase from Horizon their outstanding loan balance on an individual mortgage and regain possession of the original note. Horizon also has the option to request that the mortgage company repurchase an individual mortgage. Should this occur, Horizon would return the original note and reassign the assignment of the mortgage to the mortgage company. Also, in the event that the end investor would not be able to honor the sales commitment and the mortgage company would not be able to repurchase its loan on an individual mortgage, Horizon would be able to exercise its rights under the agreement.

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

June 30, 2011	Loan Balance	Interest Due	Deferred Fees / (Costs)	Recorded Investment
Owner occupied real estate	$ 125,398	$ 384	$ 20	$ 125,802
Non owner occupied real estate	141,451	428	86	141,965
Residential spec homes	2,828	3		2,831
Development & spec land loans	7,890	30		7,920
Commercial and industrial	60,762	193	4	60,959
Total commercial	338,329	1,038	110	339,477
Residential mortgage	154,923	601	50	155,574
Residential construction	8,830	17		8,847
Mortgage warehouse	75,057			75,057
Total real estate	238,810	618	50	239,478
Direct installment	23,378	83	(356)	23,105
Direct installment purchased	1,243			1,243
Indirect installment	125,533	435	2	125,970
Home equity	112,911	531	(740)	112,702
Total consumer	263,065	1,049	(1,094)	263,020
Total loans	840,204	2,705	(934)	841,975
Allowance for loan losses	(18,586)			(18,586)
Net loans	$ 821,618	$ 2,705	$ (934)	$ 823,389

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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Note 4 Allowance for Loan Losses

The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the prior one to five years. Management believes the two-year historical loss experience methodology is appropriate in the current economic environment, as it captures loss rates that are comparable to the current period being analyzed.

	Three Months Ended		Six Months Ended	
	June 30 2011	June 30 2010	June 30 2011	June 30 2010
Balance at beginning of the period	$ 19,090	$ 16,120	$ 19,064	$ 16,015
Loans charged-off:				
Commercial				
Owner occupied real estate	113	894	124	958
Non owner occupied real estate	114		114	288
Residential development				
Development & Spec Land Loans				780
Commercial and industrial	160	57	210	757
Total commercial	387	951	448	2,783
Real estate				
Residential mortgage	669	287	751	597
Residential construction				
Mortgage warehouse				
Total real estate	669	287	751	597
Consumer				
Direct Installment	217	254	402	339
Direct Installment Purchased				
Indirect Installment	331	651	786	1,729
Home Equity	552	766	1,529	868
Total consumer	1,100	1,671	2,717	2,936
Total loans charged-off	2,156	2,909	3,916	6,316
Recoveries of loans previously charged-off:				
Commercial				
Owner occupied real estate	18		18	
Non owner occupied real estate				
Residential development		66		66
Development & Spec Land Loans				
Commercial and industrial	3		5	
Total commercial	21	66	23	66
Real estate				
Residential mortgage	10		10	1

Residential construction				
Mortgage warehouse				
Total real estate	10		10	1
Consumer				
Direct Installment	19	19	67	40
Direct Installment Purchased				
Indirect Installment	220	244	389	499
Home Equity	50	3	69	5
Total consumer	289	266	525	544
Total loan recoveries	320	332	558	611
Net loans charged-off	1,836	2,577	3,358	5,705
Provision charged to operating expense	1,332	3,000	2,880	6,233
Balance at the end of the period	$ 18,586	$ 16,543	$ 18,586	$ 16,543

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Management s general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral.

Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company s policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except 1-4 family residential properties and consumer, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower s ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges-off 1-4 family residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the loan is 180 days past due, charge-off of unsecured open-end loans when the loan is 90 days past due, and charge down to the net realizable value when other secured loans are 90 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection will occur regardless of delinquency status, need not be charged off.

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:

June 30, 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	5,588	1,710	1,516	8,282	17,096
Total ending allowance balance	$ 7,078	$ 1,710	$ 1,516	$ 8,282	$ 18,586
Loans:					
Individually evaluated for impairment	$ 9,655	$	$	$	$ 9,655
Collectively evaluated for impairment	329,822	164,421	75,057	263,020	832,320
Total ending loans balance	$ 339,477	$ 164,421	$ 75,057	$ 263,020	$ 841,975

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

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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:

June 30, 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	$ 2,471	$	$	$	$ 2,471
Non owner occupied real estate	5,113		413		5,526
Residential development					
Development & Spec Land Loans	214				214
Commercial and industrial	414		147	840	1,401
Total commercial	8,212		560	840	9,612
Real estate					
Residential mortgage	2,834		1,352	2,301	6,487
Residential construction	204			293	497
Mortgage warehouse					
Total real estate	3,038		1,352	2,594	6,984
Consumer					
Direct Installment	274	1			275
Direct Installment Purchased		1			1
Indirect Installment	1,182	53			1,235
Home Equity	1,724			793	2,517
Total Consumer	3,180	55		793	4,028
Total	$ 14,430	$ 55	$ 1,912	$ 4,227	$ 20,624

December 31, 2010	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	$ 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

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From time to time, the Bank obtains information that may lead management to believe that the collection of payments may be doubtful on a particular loan. In recognition of this, it is management s policy to convert the loan from an earning asset to a non-accruing loan. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date. 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. Subsequent payments on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to 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. Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

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.

The Company s TDR s are considered impaired loans and included in the allowance methodology using the guidance for impaired loans. At June 30, 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 June 30, 2011, the Company had $6.1 million in TDR s and $4.2 million were performing according to the restructured terms. The Company experienced no TDR default for the three months ending June 30, 2011 and one during the twelve months ending December 31, 2010.

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

				Six Months Ending		Three Months Ending	
June 30, 2011	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance For Loan Loss Allocated**	**Average Balance in Impaired Loans**	**Interest Income Recognized**	**Average Balance in Impaired Loans**	**Interest Income Recognized**
With no recorded allowance							
Commercial							
Owner occupied real estate	$ 1,027	$ 1,030	$	$ 732	$ 10	$ 894	$ 9
Non owner occupied real estate	813	813		701	5	851	1
Residential development				13		10	
Development & Spec Land Loans	124	124		104		124	
Commercial and industrial	1,067	1,069		1,056	6	1,072	6
Total commercial	3,031	3,036		2,606	21	2,951	16
With an allowance recorded							
Commercial							
Owner occupied real estate	1,444	1,443	460	1,083		1,339	
Non owner occupied real estate	4,713	4,752	665	4,818		4,751	
Residential development							
Development & Spec Land Loans	90	90	125	223		197	
Commercial and industrial	334	334	240	473	2	444	2
Total commercial	6,581	6,619	1,490	6,597	2	6,731	2
Total	$ 9,612	$ 9,655	$ 1,490	$ 9,203	$ 23	$ 9,682	$ 18

Twelve Months Ending

December 31, 2010	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Loss Allocated	Average Balance in Impaired Loans	Interest Income Recognized
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

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

June 30, 2011	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial						
Owner occupied real estate	$ 363	$	$	$ 363	$ 125,035	$ 125,398
Non owner occupied real estate	1,058	13		1,071	140,380	141,451
Residential development					2,828	2,828
Development & Spec Land Loans	42			42	7,848	7,890
Commercial and industrial	137	20		157	60,605	60,762
Total commercial	1,600	33		1,633	336,696	338,329
Real estate						
Residential mortgage	540			540	154,383	154,923
Residential construction					8,830	8,830
Mortgage warehouse					75,057	75,057
Total real estate	540			540	238,270	238,810
Consumer						
Direct Installment	192	55	1	248	23,130	23,378
Direct Installment Purchased	29	9	1	39	1,204	1,243
Indirect Installment	1,959	215	53	2,227	123,306	125,533
Home Equity	229	42		271	112,640	112,911
Total consumer	2,409	321	55	2,785	260,280	263,065
Total	$ 4,549	$ 354	$ 55	$ 4,958	$ 835,246	$ 840,204

December 31, 2010	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial						
Owner occupied real estate	$ 229	$	$	$ 229	$ 125,654	$ 125,883
	461			461	136,525	136,986

Non owner occupied real estate						
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

The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date.

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.

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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.

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

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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.

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.

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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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June 30, 2011	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Owner occupied real estate	$ 98,823	$ 7,659	$ 18,916	$	$ 125,398
Non owner occupied real estate	117,696	9,774	13,981		141,451
Residential development	822	535	1,471		2,828
Development & Spec Land Loans	3,259	1,046	3,585		7,890
Commercial and industrial	49,388	2,574	8,800		60,762
Total commercial	269,988	21,588	46,753		338,329
Real estate					
Residential mortgage	148,436		6,487		154,923
Residential construction	8,333		497		8,830
Mortgage warehouse	75,057				75,057
Total real estate	231,826		6,984		238,810
Consumer					
Direct Installment	23,103		275		23,378
Direct Installment Purchased	1,242		1		1,243
Indirect Installment	124,298		1,235		125,533
Home Equity	110,394		2,517		112,911
Total Consumer	259,037		4,028		263,065
Total	$ 760,851	$ 21,588	$ 57,765	$	$ 840,204

December 31, 2010	Pass	Special Mention	Substandard	Doubtful	Total
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 June 30, 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 June 30, 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 June 30, 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 $47.6 million at June 30, 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 June 30, 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 June 30, 2011		Liability Derivatives June 30, 2011	
Derivatives designated as hedging instruments	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts	Loans	$ 1,128	Other liabilities	$ 1,980
Interest rate contracts	Other Assets	852	Other liabilities	1,865
Total derivatives designated as hedging instruments		1,980		3,845
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	455	Other liabilities	64
Total derivatives not designated as hedging instruments		455		64
Total derivatives		$ 2,435		$ 3,909

	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 June 30		Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion) Six Months Ended June 30	
Derivative in cash flow hedging relationship	**2011 (Unaudited)**	**2010 (Unaudited)**	**2011 (Unaudited)**	**2010 (Unaudited)**
Interest rate contracts	$ (611)	$ (1,421)	$ (318)	$ (1,694)

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 June 30 2011 (Unaudited)	2010 (Unaudited)	Amount of Gain (Loss) Recognized on Derivative Six Months Ended June 30 2011	2010
Interest rate contracts	Interest income - loans	$ 351	$ 810	$ (59)	$ 1,213
Interest rate contracts	Interest income - loans	(351)	(810)	59	(1,213)
Total		$	$	$	$

Derivative not designated as hedging relationship	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended June 30 2011 (Unaudited)	2010 (Unaudited)	Amount of Gain (Loss) Recognized on Derivative Six Months Ended June 30 2011	2010
Mortgage contracts	Other income - gain on sale of loans	$ 165	$ 362	$ 799	$ 600
Total		$ 165	$ 362	$ 799	$ 600

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 United States Department of the Treasury (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)
June 30, 2011				
Available-for-sale securities				
U.S. Treasury and federal agencies	$ 19,770	$	$ 19,770	$
State and municipal	138,634		138,634	
Federal agency collateralized mortgage obligations	133,706		133,706	
Federal agency mortgage-backed pools	152,858		152,858	
Private labeled mortgage-backed pools	4,283		4,283	
Corporate notes	566	547	20	
Total available-for-sale securities	449,817	547	449,271	
Hedged loans	49,618			49,618
Forward sale commitments	455			455
Interest rate swap agreements	(3,846)			(3,846)
Commitments to originate loans	(64)			(64)
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	456	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)
Total realized and unrealized gains and losses				
Included in net income	351	174	(351)	(8)
Included in other comprehensive income, gross			(941)	
Purchases, issuances, and settlements	1,200			
Principal payments	(344)			
Ending balance June 30, 2011	$ 49,618	$ 455	$ (3,846)	$ (64)

	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)
Total realized and unrealized gains and losses				
Included in net income	810	324	(810)	38
Included in other comprehensive income, gross			(2,186)	
Purchases, issuances, and settlements	4,041			
Principal payments	(284)			
Ending balance June 30, 2010	$ 43,898	$ 730	$ (4,534)	$

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

Non Interest Income	Period Ended June 30 2011	2010
Total gains and losses from:		
Hedged loans	$ 351	$ 403
Fair value interest rate swap agreements	(351)	(403)
Derivative loan commitments	165	237
	$ 165	$ 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):

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	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011				
Impaired loans	$ 9,612	$	$	$ 9,612
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 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 June 30, 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.

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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.

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:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and due from banks	$ 20,832	$ 20,832	$ 15,683	$ 15,683
Investment securities available for sale	449,817	449,817	382,344	382,344
Investment securities held to maturity	10,632	10,632	9,595	9,595
Loans held for sale	4,343	4,343	18,833	18,833
Loans, net	820,684	825,994	863,813	867,054
Stock in FHLB and FRB	12,390	12,390	13,664	13,664
Interest receivable	6,778	6,778	6,519	6,519
Liabilities				
Non-interest bearing deposits	$ 113,747	$ 113,747	$ 107,606	$ 107,606
Interest-bearing deposits	906,529	884,277	877,892	854,617
Borrowings	230,141	260,919	260,741	289,381
Subordinated debentures	30,630	30,902	30,584	30,734
Interest payable	705	705	781	781

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Note 9 Other Comprehensive Income (Loss)

	Three Months Ended		Six Months Ended	
	June 30 2011 (Unaudited)	June 30 2010 (Unaudited)	June 30 2011 (Unaudited)	June 30 2010 (Unaudited)
Unrealized gains on securities:				
Unrealized holding gains arising during the period	$ (574)	$ (420)	$ 151	$ 1,380
Less: reclassification adjustment for gains realized in net income	365	131	639	131
	(939)	(551)	(488)	1,249
Unrealized gain (loss) on derivative instruments	5,731	(2,535)	7,920	(2,608)
Net unrealized gains	4,792	(3,086)	7,432	(1,359)
Tax benefit	(1,677)	1,080	(2,601)	476
Other comprehensive income	$ 3,115	$ (2,006)	$ 4,831	$ (883)

	June 30 2011	December 31 2010
Unrealized gain on securities available for sale	$ 12,910	$ 4,989
Unrealized gain (loss) on derivative instruments	(1,866)	(1,377)
Tax effect	(3,865)	(1,264)
Total accumulated other comprehensive income	$ 7,179	$ 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.

ASU No. 2011-02; A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring (TDR). In April, 2011, FASB issued ASU No. 2011-02, intended to provide additional guidance to assist creditors in determining whether a restructuring of a receivable meets the criteria to be considered a troubled debt restructuring. The amendments in this ASU are effective for the first interim or annual period beginning on or after June 15, 2011, and are to be applied retrospectively to the beginning of the annual period of adoption. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. Early adoption is permitted. The Company intends to adopt the methodologies prescribed by this ASU by the date required, and is continuing to evaluate the impact of adoption of this ASU.

ASU No. 2011-05; Amendments to Topic 220, Comprehensive Income. In June, 2011, FASB issued ASU No. 2011-05. Under the amendments in this ASU, an entity has the option to present the total of

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comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. Due to this pronouncement only recently announced, the Company is evaluating its timing of adoption of ASU 2011-05, but will adopt the ASU retrospectively by the due date.

Note 11 Subsequent Events

On July 29, 2011, the U.S. Treasury preliminarily approved Horizon s application for participation in the Small Business Lending Fund by issuing $12.5 million of a new series of preferred stock to the U.S. Treasury Department. The SBLF, which is part of the Small Business Jobs Act of 2010, provides incentives for participating banks to increase small business lending. Horizon intends to use the proceeds from the SBLF investment, together with Horizon s available funds, to redeem in full the remaining $18.75 million of outstanding preferred stock Horizon issued to the U.S Treasury under the Troubled Asset Relief Program (TARP) Capital Purchase Program. Horizon expects to close on the repurchase of the preferred stock before August 31, 2011. A binding obligation and final approval of Horizon s application for the SBLF funds will not arise until a Stock Purchase Agreement is executed by the U.S. Treasury and Horizon. The execution of the Stock Purchase Agreement and the transfer of the funds by the U.S. Treasury are subject to, in the U.S. Treasury s sole discretion, due diligence and the satisfaction of the closing conditions set forth in the Stock Purchase Agreement, including the absence of any material adverse changes in Horizon s business, results of operation or condition (financial or otherwise).

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HORIZON BANCORP AND SUBSIDIARIES
Management s Discussion and Analysis of Financial Condition
And Results of Operations
For the Three and Six Months Ended June 30, 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. Statements in this report should be considered in conjunction with the other information available about Horizon, including the information in the other filings we make with the Securities and Exchange Commission. The forward-looking statements are based on management s expectations and are subject to a number of risks and uncertainties. We have tried, wherever possible, to identify such statements by using words such as anticipate, estimate, project, intend, plan, believe, will and similar expressions in connection with any discussion of futu operating or financial performance. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements.

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.

Additional risks and uncertainties that could cause actual results to differ materially include risk factors relating to the banking industry and the other factors detailed from time to time in Horizon s reports filed with the Securities and Exchange Commission, including those described in Item 1A Risk Factors of Part I of Horizon s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and in Item 1A Risk Factors of Part II of this Form 10-Q for the quarter ended June 30, 2011. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date of this report. Horizon does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions that may be made to update any forward-looking statement to reflect the events or circumstances after the date on which the forward-looking statement is made, or 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 six 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 than historical levels of non-performing loans at June 30, 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 six months of 2011.

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

Horizon s second quarter 2011 net income was $3.1 million or $.83 diluted earnings per share, a 23.0% increase in net income from the same period in 2010 and the highest second quarter net income in the Company s history.

Horizon s net income for the first half of 2011 was $5.9 million or $1.57 diluted earnings per share, a 36.0% increase in net income from the same period in 2010 and the highest first half net income in the Company s history.

Total deposits surpassed $1.0 billion at June 30, 2011 and increased $34.8 million from December 31, 2010.

Borrowings decreased by $30.6 million since December 31, 2010.

Net interest income, after provisions for loan losses, during the six months of 2011 was $19.7 million compared with $15.7 million for the same period in the prior year.

Horizon s non-performing loans decreased by 6.7% in the second quarter of 2011 compared to the first quarter of 2011.

The provision for loan losses decreased to $2.9 million for the first six months of 2011 compared to $6.2 million for the same period in 2010.

The Company s mortgage servicing asset recovered $728,000 of impairment during the first six months of 2011 as mortgage loan refinancing activity slowed.

Horizon s tangible book value per share rose to $28.76 compared with $25.39 at the close of the second quarter of 2010.

Horizon s capital ratios, including Tier 1 Capital to total risk weighted assets of 13.61%, continue to be well 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 June 30, 2011, Horizon had core deposit intangibles of $2.5 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 June 30, 2011 was $26.90 per share compared to a book value of $31.32 per common share. Horizon reported record earnings for the eleventh consecutive year in 2010 and the first six months of 2011 were the highest first six months of 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

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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 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

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recognized currently in the consolidated statements of income. Horizon excludes the time value expiration of the hedge when measuring ineffectiveness.

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 June 30, 2011, Horizon s total assets were $1.4 billion, an increase of $12.8 million from December 31, 2010. Total assets increased primarily due to the increase in investment securities as excess liquidity was reinvested, offset by the reduction in net loans from the lower balance of mortgage warehouse loans compared to December 31, 2010.

Cash and cash equivalents increased during the period from the decrease in net loans and an increase in total deposits. The excess liquidity was used to repay borrowings held at December 31, 2010 and increase investment securities. However, at June 30, 2011, all excess cash and due from banks had been reinvested.

Investment securities were comprised of the following as of:

	June 30, 2011 (Unaudited)		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 19,468	$ 19,770	$ 24,727	$ 25,251
State and municipal	134,371	138,634	132,380	131,489
Federal agency collateralized mortgage obligations	130,406	133,706	100,106	101,837
Federal agency mortgage-backed pools	147,936	152,858	114,390	117,895
Private labeled mortgage-backed pools	4,157	4,283	5,197	5,323
Corporate notes	569	566	555	549
Total available for sale investment securities	$ 436,907	$ 449,817	$ 377,355	$ 382,344
Held to maturity, State and Municipal	$ 10,632	$ 10,632	$ 9,595	$ 9,595

Investment securities increased by approximately $67.4 million compared to the end of 2010. This growth was the result of the Company deploying excess cash held during the first six months in cash and cash due from banks into investment securities as net loans decreased.

Net loans decreased $43.1 million since December 31, 2010. This decrease was primarily the result of a reduction in mortgage warehouse loans of $48.7 million. Horizon s consumer loans decreased during the first six months of 2011 as new loan production has not completely replaced all of the loan run-off from scheduled amortization and pay-offs,

however, commercial loans increased $8.4 million and residential mortgage loans increased $1.4 million during the same period.

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Total deposits increased $34.8 million during the first six months of 2011 primarily due to consumer and municipal deposits.

The Company s borrowings decreased $30.6 million since December 31, 2010. At June 30, 2011 the Company had $7.0 million in 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 $121.5 million at June 30, 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. At June 30, 2011, the ratio of average stockholders equity to average assets was 8.51% compared to 8.22% for December 31, 2010. Book value per common share at June 30, 2011 increased to $31.32 compared to $28.68 at December 31, 2010.

Results of Operations

Overview

Consolidated net income for the three-month period ended June 30, 2011 was $3.1 million, an increase of 23.0% from the $2.5 million for the same period in 2010. Earnings per common share for the three months ended June 30, 2011 increased to $0.86 basic and $0.83 diluted, compared to $0.66 basic and $0.65 diluted for the same three-month period in 2010. Earnings per share increased $.03 per share in the second 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 U.S. Treasury s Capital Purchase Plan capital during the fourth quarter of 2010. Earnings per share were impacted by $.08 for the three months ending June 30, 2011 and $.11 for the three months ending June 30, 2010 due to the preferred stock dividends and the accretion of the discount on the preferred stock.

Consolidated net income for the six-month period ended June 30, 2011 was $5.9 million, an increase of 36.0% from the $4.3 million for the same period in 2010. Earnings per common share for the six months ended June 30, 2011 increased to $1.61 basic and $1.57 diluted, compared to $1.10 basic and $1.09 diluted for the same six-month period in 2010. Earnings per share increased $.06 per share during the first six months 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 U.S. Treasury s Capital Purchase Plan capital during the fourth quarter of 2010. Earnings per share were impacted by $.16 for the six months ending June 30, 2011 and $.22 for the six months ending June 30, 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 yields received on the Company s interest earning assets more significantly than the reduction in the cost of the Company s interest bearing liabilities, resulting in a decrease of the net interest margin. Management believes that the current level of interest rates is driven by

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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 June 30, 2011 was $11.5 million, an increase of $95,000 over the $11.4 million earned during the same period in 2010. Yields on the Company s interest-earning assets decreased by 53 basis points to 4.98% from 5.51% for the three months ended June 30, 2011 and 2010, respectively. Interest income decreased $1.1 million from $16.8 million for the three months ended June 30, 2010 to $15.7 million for the same period in 2011. This decrease was primarily due to a decrease in the yield on new and repriced earning assets but partially offset by an increase in interest 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 $256.1 million of the Company s $388.7 million of adjustable rate loans.

Rates paid on interest-bearing liabilities decreased by 44 basis points for the three months ended June 30, 2011 compared to the same period in 2010 due to the lower interest rate environment. Interest expense decreased $1.2 million from $5.4 million for the three-months ended June 30, 2010 to $4.2 million for the same period in 2011. This decrease was due to the lower rates being paid on the Company s interest bearing liabilities partially offset with a higher volume of interest bearing liabilities. Due to a more significant decrease in the yields received on the Company s interest-earning assets compared to the decrease in the rates paid on the Company s interest-bearing liabilities the net interest margin decreased 11 basis points from 3.78% for the three months ended June 30, 2010 to 3.67% for the same period in 2011.

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

	Three Months Ended June 30, 2011			Three Months Ended June 30, 2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	$ 14,529	$ 5	0.14%	$ 10,968	$ 4	0.15%
Interest-earning deposits	8,333	5	0.24%	6,988	4	0.23%
Investment securities taxable	351,596	2,776	3.17%	283,883	2,509	3.54%
Investment securities non-taxable (1)	112,279	1,035	5.28%	110,940	1,078	5.73%
Loans receivable (2)	814,581	11,891	5.86%	849,296	13,212	6.25%
Total interest-earning assets (1)	1,301,318	15,712	4.98%	1,262,075	16,807	5.51%
Noninterest-earning assets						
Cash and due from banks	15,476			14,904		
Allowance for loan losses	(19,089)			(16,723)		
Other assets	96,056			92,376		
	$ 1,393,761			$ 1,352,632		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	$ 893,836	$ 2,195	0.98%	$ 840,647	$ 2,706	1.29%
Borrowings	224,864	1,600	2.85%	264,964	2,338	3.54%
Subordinated debentures	31,446	454	5.79%	30,181	395	5.25%
Total interest-bearing liabilities	1,150,146	4,249	1.48%	1,135,792	5,439	1.92%
Noninterest-bearing liabilities						
Demand deposits	115,659			90,301		
Accrued interest payable and other liabilities	9,297			9,216		
Shareholders equity	118,659			117,323		
	$ 1,393,761			$ 1,352,632		
Net interest income/spread		$ 11,463	3.50%		$ 11,368	3.59%

Net interest income as a percent of average interest earning assets (1)	3.67%	3.78%

(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.

Net interest income during the six months ended June 30, 2011 was $22.5 million, an increase of $609,000 over the $21.9 million earned during the same period in 2010. Yields on the Company s interest-earning assets decreased by 48 basis points to 4.95% for the six months ended June 30, 2011 from 5.43% for the same period in 2010. Interest income decreased $1.8 million from $32.9 million for the six months ended June 30, 2010 to $31.1 million for the same period in 2011. This decrease was due to the reduction in the yield on interest earning assets offset by an increase in interest earning assets.

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Rates paid on interest-bearing liabilities decreased by 46 basis points for the six months ended June 30, 2011 compared to the same period in 2010 due to the lower interest rate environment. Interest expense decreased $2.4 million from $11.0 million for the six-months ended June 30, 2010 to $8.6 million for the same period in 2011. This decrease was due to the lower rates being paid on the Company s interest bearing liabilities partially offset with a higher volume of interest bearing liabilities. Due to a more significant decrease in the yields received on the Company s interest-earning assets compared to the decrease in the rates paid on the Company s interest-bearing liabilities the net interest margin decreased 4 basis points from 3.66% for the six months ended June 30, 2010 to 3.62% for the same period in 2011.

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

	Six Months Ended June 30, 2011			Six Months Ended June 30, 2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	$ 38,740	$ 44	0.23%	$ 39,431	$ 13	0.07%
Interest-earning deposits	5,771	6	0.21%	5,928	38	1.29%
Investment securities taxable	326,790	5,236	3.23%	268,949	4,912	3.68%
Investment securities non-taxable (1)	113,281	2,078	5.07%	111,604	2,159	5.42%
Loans receivable (2)	817,468	23,779	5.88%	830,429	25,817	6.28%
Total interest-earning assets (1)	1,302,050	31,143	4.95%	1,256,341	32,939	5.43%
Noninterest-earning assets						
Cash and due from banks	15,039			14,381		
Allowance for loan losses	(19,077)			(16,365)		
Other assets	96,513			88,667		
	$ 1,394,525			$ 1,343,024		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	$ 898,635	$ 4,532	1.02%	$ 834,775	$ 5,469	1.32%
Borrowings	226,161	3,177	2.83%	267,145	4,781	3.61%
Subordinated debentures	31,446	904	5.80%	29,015	768	5.34%
Total interest-bearing liabilities	1,156,242	8,613	1.50%	1,130,935	11,018	1.96%
Noninterest-bearing liabilities						
Demand deposits	112,618			86,501		
Accrued interest payable and other liabilities	9,390			8,822		

Shareholders equity	116,275			116,766	
	$ 1,394,525			$ 1,343,024	
Net interest income/spread		$ 22,530	3.45%		$ 21,921	3.46%
Net interest income as a percent of average interest earning assets (1)			3.62%			3.66%

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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 second quarter of 2011, a provision for loan losses of $1.3 million was required to adequately fund the ALLL compared to a provision of $3.0 million for the second quarter of 2010. The 2011 second quarter provision was the lowest since the first quarter of 2008. The provision for the current quarter resulted from losses primarily in the commercial and installment loan portfolios as a result of current economic conditions. Commercial loan net charge-offs during the second quarter of 2011 were $366,000, residential mortgage loan net charge-offs were $659,000, and installment loans net charge-offs were $811,000. Due to the use of specific reserves for a portion of the charge offs during both during the three months and six months ending June 30, 2011, the ALLL decreased. The ALLL balance at June 30, 2011 was $18.6 million or 2.20% of total loans. This compares to an ALLL balance of $19.1 million at December 31, 2010 or 2.11% of total loans and $16.5 million at June 30, 2010 or 1.77% of total loans.

For the six months ended June 30, 2011, the provision for loan losses totaled $2.9 million compared to $6.2 million in the prior year for the same period. Commercial loan net charge-offs during the first six months of 2011 were $425,000, real estate loan net charge-offs were $741,000, and installment loan net charge-offs were $2.2 million. The $2.2 million in installment loan net charge-offs were comprised of $397,000 of indirect automobile loans, $854,000 of home equity lines, and $941,000 primarily of direct home equity installment 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 June 30, 2011.

Non-performing loans totaled $20.6 million on June 30, 2011, down from $22.1 million on March 31, 2011, and from $21.2 million on June 30, 2010. As a percentage of total loans non-performing loans were 2.44% on June 30, 2011, down from 2.71% on March 31, 2011, but up from 2.26% on June 30, 2010. The increase from a year ago was due to a decrease in total loans.

The decrease of non-performing loans from the prior quarter was primarily due to lower non-performing mortgage loans, partially offset by higher non-performing installment and commercial loans. Non-performing mortgage loans declined from $8.7 million at March 31, 2011, to $7.0 million on June 30, 2011. This decrease was primarily due to $2.7 million of loans moving to OREO during the quarter. It was also reduced by $384,000 for a loan brought current and $659,000 of charge-offs. These reductions were partially offset by the addition of $2.1 million of mortgage loans to non-performing status.

Non-performing installment loans increased from $3.9 million on March 31, 2011 to $4.0 million during the quarter. Non-performing commercial loans increased from $9.4 million on March 31, 2011 to $9.6 million on June 30, 2011. Real estate and installment non-performing loans on June 30, 2011 include $1.7 million and $2.7 million, respectively, of loans in bankruptcy. This compares to $1.8 million and $2.0 million on March 31, 2011. These loans are not considered troubled debt restructures (TDRs) while they are going through bankruptcy, a process that can take six to eighteen months. The Company s experience with loans in bankruptcy 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.

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TDRs are also included in total non-performing loans. TDRs increased from $4.7 million on March 31, 2011 to $6.1 million on June 30, 2011. Of these, $3.9 million were mortgage loans, $1.4 million were commercial loans, and $793,000 were consumer installment loans. The increase was primarily due to the addition of one commercial loan to a developer totaling $841,000 and a mortgage and second mortgage to one individual totaling $1.1 million. The commercial loan did not increase the total non-performing loans since it was comprised of the refinancing of several previously non-performing commercial loans.

Non-accrual loans totaled $14.4 million on June 30, 2011, down from $17.4 million on March 31, 2011, and $17.7 million on June 30, 2010. On June 30, 2011, non-accrual commercial loans were the largest component at $8.2 million. Non-accrual commercial loans to hotel owners totaled $4.3 million, with no other group over $1.0 million. Loans 90 days delinquent but still on accrual totaled $55,000 on June 30, 2011, similar to $57,000 on March 31, 2011, and down from $77,000 on June 30, 2010. Horizon s policy is to place loans over 90 days delinquent on non-accrual status unless they are in the process of collection and a full recovery is expected.

Other Real Estate Owned (OREO) totaled $4.1 million on June 30, 2011, up from $2.3 million on March 31, 2011, and $2.9 million on June 30, 2010. During the quarter five properties with a book value of $477,000 as of March 31, 2010 were sold. Seventeen properties with a book value of $2.4 million on June 30, 2011 were transferred to OREO status during the quarter. On June 30, 2011, OREO was comprised of 28 properties. Of these, five totaling $1.6 million were commercial properties and 23 totaling $2.5 million were residential real estate.

Non-Interest Income

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

	Three Months Ended			
Non-interest income	**June 30 2011**	**June 30 2010**	**Amount Change**	**Percent Change**
Service charges on deposit accounts	**$ 825**	$ 964	$(139)	-14.4%
Wire transfer fees	**137**	185	(48)	-25.9%
Interchange fees	**639**	560	79	14.1%
Fiduciary activities	**932**	1,007	(75)	-7.4%
Gain (loss) on sale of securities	**365**	131	234	100.0%
Gain on sale of mortgage loans	**1,308**	1,674	(366)	-21.9%
Mortgage servicing net of impairment	**99**	(97)	196	-202.1%
Increase in cash surrender value of bank owned life insurance	**211**	197	14	7.1%
Other income	**(68)**	302	(370)	-122.5%
Total non-interest income	**$4,448**	$4,923	$(475)	-9.6%

Service charges on deposit accounts were $139,000 lower during the second quarter of 2011 compared to the same period in 2010 due to the regulatory changes on overdraft fees. The residential mortgage loan activity during the second quarter of 2011 generated $1.3 million of income from the gain on sale of mortgage loans, down $366,000 from the same period in 2010. This decrease was primarily due to less favorable pricing on loans sold. In addition, competition has increased for purchase transactions which drove down pricing and reduced gain. Horizon also incurred a gain on the sale of securities of $365,000 during the second quarter of 2011 as the result of restructuring a portion of the investment portfolio. Other income was $370,000 less for the three months ended June 30, 2011 compared to the same period in 2010 as OREO losses were included in 2011 and one-time income items were

included in the 2010 results.

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For the Three and Six Months Ended June 30, 2011

	Six Months Ended			
Non-interest income	**June 30 2011**	**June 30 2010**	**Amount Change**	**Percent Change**
Service charges on deposit accounts	**$1,620**	$1,829	$ (209)	-11.4%
Wire transfer fees	**245**	325	(80)	-24.6%
Interchange fees	**1,184**	1,014	170	16.8%
Fiduciary activities	**1,895**	2,002	(107)	-5.3%
Gain (loss) on sale of securities	**639**	131	508	387.8%
Gain on sale of mortgage loans	**1,841**	3,056	(1,215)	-39.8%
Mortgage servicing net of impairment	**863**	(32)	895	-2796.9%
Increase in cash surrender value of bank owned life insurance	**416**	353	63	17.8%
Other income	**59**	619	(560)	-90.5%
Total non-interest income	**$8,762**	$9,297	$ (535)	-5.8%

Service charges on deposit accounts were $209,000 lower during the first six months of 2011 compared to the same period in 2010 due to the regulatory changes on overdraft fees. Interchange fees increase $170,000 during the first half of 2011 compared to the same period of 2010 due to increased activity. The residential mortgage loan activity during the first six months of 2011 generated $1.8 million of income from the gain on sale of mortgage loans, down $1.2 million 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 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 $728,000 of impairment recovered on the Company s mortgage servicing asset. In addition, Horizon incurred a gain on the sale of securities of $639,000 during the first half 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 and the result of restructuring a portion of the investment portfolio. Other income was $560,000 less for the six months ended June 30, 2011 compared to the same period in 2010 as OREO losses were included in 2011 and one-time income items were included in the 2010 results.

Non-Interest Expense

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

	Three Months Ended			
Non-interest expense	**June 30 2011**	**June 30 2010**	**Amount Change**	**Percent Change**
Salaries	**$ 3,786**	$ 3,612	$ 174	4.8%
Commission and bonuses	**719**	693	26	3.8%
Employee benefits	**965**	885	80	9.0%
Net occupancy expenses	**1,039**	979	60	6.1%
Data processing	**494**	570	(76)	-13.3%
Professional fees	**331**	530	(199)	-37.5%
Outside services and consultants	**386**	424	(38)	-9.0%

Loan expense	**694**	771	(77)	-10.0%
FDIC deposit insurance	**303**	408	(105)	-25.7%
Other losses	**246**	10	236	2360.0%
Other expenses	**1,524**	1,302	222	17.1%
Total non-interest expense	**$10,487**	$10,184	$ 303	3.0%

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Total non-interest expenses were $303,000 higher in the second quarter of 2011 compared to the second quarter of 2010. Salaries, commissions and bonuses, and employee benefits increased $280,000 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. Data processing and professional fees decreased during the second quarter of 2011 as transaction costs associated with the American Trust & Savings Bank transaction we included in the 2010 results. FDIC deposit insurance expense decreased during the second quarter of 2011 compared to 2010 as the new assessment calculation resulted in lower expense for the Bank. Other losses for the three months ending June 30, 2011 included a write down of $140,000 on bank owned property. The increase in other expenses compared to the same period in 2010 included increases primarily in reoccurring items due to higher costs and growth.

	Six Months Ended			
Non-interest expense	**June 30 2011**	**June 30 2010**	**Amount Change**	**Percent Change**
Salaries	**$ 7,534**	$ 6,938	$ 596	8.6%
Commission and bonuses	**1,216**	1,098	118	10.7%
Employee benefits	**2,081**	1,952	129	6.6%
Net occupancy expenses	**2,120**	2,041	79	3.9%
Data processing	**901**	972	(71)	-7.3%
Professional fees	**680**	1,001	(321)	-32.1%
Outside services and consultants	**767**	789	(22)	-2.8%
Loan expense	**1,456**	1,521	(65)	-4.3%
FDIC deposit insurance	**690**	796	(106)	-13.3%
Other losses	**277**	37	240	648.6%
Other expenses	**3,023**	2,593	430	16.6%
Total non-interest expense	**$20,745**	$19,738	$1,007	5.1%

Total non-interest expenses were $1.0 million higher in the first six months of 2011 compared to the same period in 2010. Salaries, commissions and bonuses, and employee benefits increased $843,000 compared to the same period 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. Data processing and professional fees decreased during the first half of 2011 as transaction costs associated with the American Trust & Savings Bank transaction were included in the 2010 results. FDIC deposit insurance expense decreased during the first half of 2011 compared to 2010 as the new assessment calculation resulted in lower expense for the Company. Other losses for the six months ending June 30, 2011 included a write down of $140,000 on bank owned property. 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 second quarter of 2011 was $999,000 compared to $592,000 of tax expense for the second quarter of 2010. The effective tax rate for the second quarter of 2011 was 24.4% compared to 19.1% in 2010. The increase in the effective tax rate is primarily due to higher income before income tax for the second quarter of 2011 compared to the same period in 2010 with a similar level of tax exempt income.

Income tax expense for the first half of 2011 was $1.8 million compared to $941,000 of tax expense for the first half of 2010. The effective tax rate for the first half of 2011 was 23.6% compared to 17.9% in 2010. The increase in the effective tax rate is primarily due to higher income before income tax for the first half of 2011 compared to the same period in 2010 with a similar level of tax exempt income.

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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 six months ended June 30, 2011, cash and cash equivalents increased by approximately $5.1 million. The increase was primarily due to the decrease in mortgage warehouse balances. At June 30, 2011, in addition to liquidity available from the normal operating, funding, and investing activities of Horizon, the Bank had approximately $304.6 million in unused credit lines with various money center banks, including the FHLB at June 30, 2011 compared to $380.8 million at December 31, 2010 and $395.1 million at June 30, 2010.

Capital Resources

The capital resources of Horizon and the Bank exceeded regulatory capital ratios for well capitalized banks at June 30, 2011. Stockholders equity totaled $121.5 million as of June 30, 2011, compared to $112.3 million as of December 31, 2010. At June 30, 2011, the quarter s ratio of average stockholders equity to average assets was 8.51% compared to 8.22% at December 31, 2010. Horizon s capital increased during the six 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 $0.34 per share during the first six 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 21.1% and 30.9% for the first six 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 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.

Recent Developments

On July 29, 2011, the U.S. Treasury preliminarily approved Horizon s application for participation in the Small Business Lending Fund by issuing $12.5 million of a new series of preferred stock to the U.S. Treasury Department. The SBLF, which is part of the Small Business Jobs Act of 2010, provides incentives for participating banks to increase small business lending. Horizon intends to use the proceeds from the SBLF investment, together with Horizon s available funds, to redeem in full the remaining $18.75 million of outstanding preferred stock Horizon issued to the U.S Treasury under the TARP Capital Purchase Program. Horizon expects to close on the repurchase of the preferred stock before August 31, 2011. A binding obligation and final approval of Horizon s application for the SBLF funds will not arise until a Stock Purchase Agreement is executed by the U.S. Treasury and Horizon. The execution of the Stock Purchase Agreement and the transfer of the funds by the U.S. Treasury are subject to, in the U.S. Treasury s sole discretion, due diligence and the satisfaction of the closing conditions set forth in the Stock Purchase Agreement, including the absence of any material adverse changes in Horizon s business, results of operation or condition (financial or otherwise).

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Quantitative and Qualitative Disclosures About Market Risk
For the Three and Six Months Ended June 30, 2011

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 June 30, 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 June 30, 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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HORIZON BANCORP AND SUBSIDIARIES
Part II Other Information
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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. As a result, Capitol Bancorp and Michigan Commerce Bank amended their complaint to reflect the dismissal of these ex-employees as defendants and added Horizon Bank, N.A. as an additional defendant.

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

Other than as reflected in the updated risk factor noted below, there were no material changes to the risk factors set forth under Part I, Item 1A Risk Factors in Horizon s 2010 Annual Report on Form 10-K.

Our ability to repurchase the preferred shares issued to the Treasury under the TARP Capital Purchase Program (and therefore obtain relief from the limitations and restrictions of TARP and ARRA) is limited.

Any redemption of the securities sold to the Treasury pursuant to the TARP Capital Purchase Program requires prior Federal Reserve and Treasury approval. Based on Federal Reserve guidelines, institutions seeking to redeem the preferred stock issued pursuant to the Capital Purchase Program must demonstrate an ability to access the long-term debt markets without reliance on the FDIC s Temporary Liquidity Guarantee Program, successfully demonstrate access to public equity markets and meet a number of additional requirements and considerations before they can redeem any securities sold to the Treasury.

Horizon repurchased 6,250 of the 25,000 outstanding Series A Preferred Shares held by the Treasury on November 10, 2010. Horizon paid $6.25 million to repurchase the preferred shares along with the accrued dividend for the shares repurchased. Horizon intends to use available funds to repurchase an additional 6,250 of the Series A Preferred Shares during August 2011. In addition, on July 29, 2011, Horizon received preliminary approval from the Treasury to receive an investment in the amount of $12.5 million pursuant to

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the recently implemented Small Business Lending Fund program (the SBLF). Enacted into law as part of the Small Business Jobs Act of 2010, the SBLF is a $30 billion fund that encourages lending to small businesses by providing Tier 1 capital to qualified community banks with assets of less than $10 billion. The SBLF program provides an option for community banks to refinance preferred stock issued to the Treasury through the Capital Purchase Program, and the SBLF program does not impose many of the restrictions that Horizon is currently subject to under TARP. If Horizon receives final approval from the Treasury for the SBLF investment, Horizon plans to use the SBLF proceeds to repurchase the remaining Series A Preferred Shares from the Treasury with those proceeds. If Horizon redeems all of the Series A Preferred Shares, then Horizon will no longer be subject to the TARP Capital Purchase Program limitations and restrictions.

The Standard & Poor s downgrade in the U.S. government s sovereign credit rating, and in the credit ratings of instruments issued, insured or guaranteed by certain related institutions, agencies and instrumentalities, could result in risks to Horizon and general economic conditions that we are not able to predict.

On August 5, 2011, Standard & Poor s downgraded the United States long-term debt rating from its AAA rating to AA+. On August 8, 2011, Standard & Poor s downgraded the credit ratings of certain long-term debt instruments issued by Fannie Mae and Freddie Mac and other U.S. government agencies linked to long-term U.S. debt. Instruments of this nature are key assets on the balance sheets of financial institutions, including the Bank. These downgrades could adversely affect the market value of such instruments, and could adversely impact our ability to obtain funding that is collateralized by affected instruments, as well as affecting the pricing of that funding when it is available. We cannot predict if, when or how these changes to the credit ratings will affect economic conditions. These ratings downgrades could result in a significant adverse impact to Horizon and could exacerbate the other risks to which Horizon is subject.

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

ITEM 5. OTHER INFORMATION

Not Applicable

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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

Exhibit 101 Interactive Data File*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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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: August 12, 2011	/s/ Craig M. Dwight Craig M. Dwight Chief Executive Officer
Dated: August 12, 2011	/s/ Mark E. Secor Mark E. Secor Chief Financial Officer

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INDEX TO EXHIBITS

The following documents are included as Exhibits to this Report.

Exhibit

31.1	Certification of Craig M. Dwight
31.2	Certification of Mark E. Secor
32	Certification of Chief Executive Officer 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.
101	Interactive Data File*

* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.