

HORIZON BANCORP /IN/
Form 10-Q
November 12, 2010

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HORIZON BANCORP
United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2010
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 No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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 Accelerated Filer Non-accelerated Filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 3,301,437 at November 12, 2010.

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Table of Contents**PART 1 FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****HORIZON BANCORP AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(Dollar Amounts in Thousands)

| | September 30 2010 (Unaudited) | December 31 2009 |
|--|--|-----------------------------|
| Assets | | |
| Cash and due from banks | \$ 18,203 | \$ 68,702 |
| Investment securities, available for sale | 384,204 | 333,132 |
| Investment securities, held to maturity | 13,490 | 11,657 |
| Loans held for sale | 16,483 | 5,703 |
| Loans, net of allowance for loan losses of \$18,030 and \$16,015 | 940,784 | 870,302 |
| Premises and equipment | 34,274 | 30,534 |
| Federal Reserve and Federal Home Loan Bank stock | 14,603 | 13,189 |
| Goodwill | 5,910 | 5,787 |
| Other intangible assets | 2,855 | 1,447 |
| Interest receivable | 6,720 | 5,986 |
| Cash value life insurance | 26,991 | 23,139 |
| Other assets | 20,541 | 17,442 |
| Total assets | \$1,485,058 | \$1,387,020 |
| Liabilities | | |
| Deposits | | |
| Non-interest bearing | \$ 105,376 | \$ 84,357 |
| Interest bearing | 894,107 | 867,351 |
| Total deposits | 999,483 | 951,708 |
| Borrowings | 318,516 | 284,016 |
| Subordinated debentures | 30,562 | 27,837 |
| Interest payable | 766 | 1,135 |
| Other liabilities | 15,619 | 7,719 |
| Total liabilities | 1,364,946 | 1,272,415 |
| Commitments and contingent liabilities | | |
| Stockholders Equity | | |
| Preferred stock, no par value, \$1,000 liquidation value | | |
| Authorized, 1,000,000 shares | | |
| Issued 25,000 shares | 24,426 | 24,306 |
| Common stock, \$.2222 stated value | | |
| Authorized, 22,500,000 shares | | |
| Issued, 3,301,437 and 3,273,881 shares | 1,122 | 1,119 |
| Additional paid-in capital | 10,295 | 10,030 |
| Retained earnings | 78,280 | 73,431 |
| Accumulated other comprehensive income | 5,989 | 5,719 |

| | | |
|--|--------------------|-------------|
| Total stockholders' equity | 120,112 | 114,605 |
| Total liabilities and stockholders' equity | \$1,485,058 | \$1,387,020 |

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 | | Nine Months Ended | |
|---|---------------------------|--------------------|--------------------------|--------------------|
| | September 30 | | September 30 | |
| | 2010 | 2009 | 2010 | 2009 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Interest Income | | | | |
| Loans receivable | \$ 14,466 | \$ 13,797 | \$ 40,283 | \$ 43,793 |
| Investment securities | | | | |
| Taxable | 2,431 | 2,673 | 7,394 | 8,333 |
| Tax exempt | 979 | 1,015 | 3,138 | 2,882 |
| Total interest income | 17,876 | 17,485 | 50,815 | 55,008 |
| Interest Expense | | | | |
| Deposits | 2,769 | 3,528 | 8,238 | 11,517 |
| Borrowed funds | 2,026 | 2,897 | 6,807 | 9,011 |
| Subordinated debentures | 461 | 341 | 1,229 | 1,082 |
| Total interest expense | 5,256 | 6,766 | 16,274 | 21,610 |
| Net Interest Income | 12,620 | 10,719 | 34,541 | 33,398 |
| Provision for loan losses | 2,657 | 3,416 | 8,890 | 9,903 |
| Net Interest Income after Provision for Loan Losses | 9,963 | 7,303 | 25,651 | 23,495 |
| Other Income | | | | |
| Service charges on deposit accounts | 921 | 972 | 2,750 | 2,880 |
| Wire transfer fees | 211 | 201 | 536 | 709 |
| Interchange fees | 649 | 514 | 1,663 | 1,358 |
| Fiduciary activities | 934 | 745 | 2,936 | 2,486 |
| Gain (loss) on sale of securities | 336 | 422 | 467 | 422 |
| Gain on sale of mortgage loans | 2,473 | 1,277 | 5,529 | 4,861 |
| Mortgage servicing net of impairment | (331) | 35 | (363) | (131) |
| Increase in cash surrender value of bank owned life insurance | 246 | 206 | 599 | 547 |
| Other income | 209 | 170 | 828 | 420 |
| Total other income | 5,648 | 4,542 | 14,945 | 13,552 |
| Other Expenses | | | | |
| Salaries and employee benefits | 5,985 | 4,539 | 15,973 | 14,264 |
| Net occupancy expenses | 1,036 | 941 | 3,077 | 2,872 |
| Data processing | 502 | 419 | 1,474 | 1,194 |
| Professional fees | 417 | 316 | 1,418 | 1,021 |

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| | | | | |
|--|-----------------|-----------------|-----------------|-----------------|
| Outside services and consultants | 374 | 366 | 1,163 | 1,043 |
| Loan expense | 855 | 631 | 2,376 | 1,841 |
| FDIC insurance expense | 423 | 400 | 1,219 | 1,751 |
| Other losses | 143 | (25) | 180 | 442 |
| Other expenses | 1,522 | 1,342 | 4,115 | 3,826 |
| Total other expenses | 11,257 | 8,929 | 30,995 | 28,254 |
| Income Before Income Tax | 4,354 | 2,916 | 9,601 | 8,793 |
| Income tax expense | 1,075 | 559 | 2,016 | 1,737 |
| Net Income | 3,279 | 2,357 | 7,585 | 7,056 |
| Preferred stock dividend and discount accretion | (353) | (351) | (1,057) | (1,051) |
| Net Income Available to Common Shareholders | \$ 2,926 | \$ 2,006 | \$ 6,528 | \$ 6,005 |
| Basic Earnings Per Share | \$ 0.89 | \$ 0.62 | \$ 1.99 | \$ 1.86 |
| Diluted Earnings Per Share | \$ 0.88 | \$ 0.61 | \$ 1.96 | \$ 1.84 |
| 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, January 1, 2010 | \$ 24,306 | \$ 1,119 | \$ 10,030 | | \$ 73,431 | \$ 5,719 | \$ 114,605 |
| Net income | | | | \$ 7,585 | 7,585 | | 7,585 |
| Other comprehensive income, net of tax: | | | | | | | |
| Unrealized gain on securities | | | | 2,865 | | 2,865 | 2,865 |
| Unrealized loss on derivative instruments | | | | (2,595) | | (2,595) | (2,595) |
| Comprehensive income | | | | \$ 7,855 | | | |
| Amortization of unearned compensation | | | 51 | | | | 51 |
| Exercise of stock options | | 3 | 117 | | | | 120 |
| Tax benefit related to stock options | | | 77 | | | | 77 |
| Stock option expense | | | 20 | | | | 20 |
| Cash dividends on preferred stock (5.00%) | | | | | (937) | | (937) |
| Cash dividends on common stock (\$.51 per share) | | | | | (1,679) | | (1,679) |
| Accretion of discount on preferred stock | 120 | | | | (120) | | |
| Balances, September 30, 2010 | \$ 24,426 | \$ 1,122 | \$ 10,295 | | \$ 78,280 | \$ 5,989 | \$ 120,112 |

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)

| | Nine Months Ended September | |
|---|------------------------------------|--------------------|
| | 30 | |
| | 2010 | 2009 |
| | (Unaudited) | (Unaudited) |
| Operating Activities | | |
| Net income | \$ 7,585 | \$ 7,056 |
| Items not requiring (providing) cash | | |
| Provision for loan losses | 8,890 | 9,903 |
| Depreciation and amortization | 1,715 | 1,733 |
| Share based compensation | 20 | 29 |
| Mortgage servicing rights impairment | 409 | 124 |
| Deferred income tax | (923) | (576) |
| Premium amortization on securities available for sale, net | 1,326 | 491 |
| Gain on sale of investment securities | (467) | (422) |
| Gain on sale of mortgage loans | (5,529) | (4,861) |
| Proceeds from sales of loans | 188,564 | 270,354 |
| Loans originated for sale | (184,368) | (267,847) |
| Increase in cash surrender value of life insurance | (566) | (515) |
| (Gain) Loss on sale of other real estate owned | (352) | 13 |
| Net change in Interest receivable | (195) | (514) |
| Interest payable | (369) | (606) |
| Other assets | 5,010 | 961 |
| Other liabilities | 1,776 | 247 |
| Net cash provided by operating activities | 22,526 | 15,570 |
| Investing Activities | | |
| Purchases of securities available for sale | (165,749) | (89,034) |
| Proceeds from sales, maturities, calls, and principal repayments of securities available for sale | 157,412 | 66,068 |
| Purchase of securities held to maturity | (15,332) | (14,031) |
| Proceeds from maturities of securities held to maturity | 13,500 | |
| Purchase of FRB stock | (78) | (600) |
| Net change in loans | (40,260) | (9,115) |
| Proceeds on sale of OREO and repossessed assets | 2,982 | 8,833 |
| Purchases of premises and equipment | (2,020) | (3,048) |
| Purchases and assumption of ATSB | 3,406 | |
| Net cash used in investing activities | (46,139) | (40,927) |
| Financing Activities | | |
| Net change in | | |
| Deposits | (50,242) | 16,828 |
| Borrowings | 25,774 | (12,499) |

| | | |
|--|------------------|-----------|
| Proceeds from issuance of stock | 120 | 152 |
| Tax benefit from issuance of stock | 77 | |
| Dividends paid on common shares | (1,679) | (1,441) |
| Dividends paid on preferred shares | (937) | (1,051) |
| Net cash provided by (used in) financing activities | (26,887) | 1,989 |
| Net Change in Cash and Cash Equivalent | (50,500) | (23,368) |
| Cash and Cash Equivalents, Beginning of Period | 68,702 | 38,680 |
| Cash and Cash Equivalents, End of Period | \$ 18,202 | \$ 15,312 |
| Additional Cash Flows Information | | |
| Interest paid | \$ 16,643 | \$ 22,216 |
| Income taxes paid | 2,180 | 2,005 |
| Transfer of loans to other real estate owned | 7,937 | 5,436 |
| 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 September 30, 2010 and September 30, 2009 are not necessarily indicative of the operating results for the full year of 2010 or 2009. 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 2009 filed with the Securities and Exchange Commission on March 12, 2010. The consolidated condensed balance sheet of Horizon as of December 31, 2009 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 September 30 | | Nine months ended September 30 | |
|---|--|-----------------------------|---|-----------------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) | 2010 (Unaudited) | 2009 (Unaudited) |
| Basic earnings per share | | | | |
| Net income | \$ 3,279 | \$ 2,357 | \$ 7,585 | \$ 7,056 |
| Less: Preferred stock dividends and accretion of discount | 353 | 351 | 1,057 | 1,051 |
| Net income available to common shareholders | \$ 2,926 | \$ 2,006 | \$ 6,528 | \$ 6,005 |
| Weighted average common shares outstanding | 3,279,201 | 3,245,505 | 3,275,969 | 3,221,622 |
| Basic earnings per share | \$ 0.89 | \$ 0.62 | \$ 1.99 | \$ 1.86 |
| Diluted earnings per share | | | | |
| Net income available to common shareholders | \$ 2,926 | \$ 2,006 | \$ 6,528 | \$ 6,005 |
| Weighted average common shares outstanding | 3,279,201 | 3,245,505 | 3,275,969 | 3,221,622 |

Effect of dilutive securities:

| | | | | |
|-------------------------------------|------------------|-----------|------------------|-----------|
| Warrants | 42,397 | | 31,953 | |
| Restricted stock | 14,295 | 20,572 | 12,910 | 41,895 |
| Stock options | 741 | 7,665 | 2,998 | 6,637 |
| Weighted average shares outstanding | 3,336,634 | 3,273,742 | 3,323,830 | 3,270,154 |
| Diluted earnings per share | \$ 0.88 | \$ 0.61 | \$ 1.96 | \$ 1.84 |

At September 30, 2010 and 2009, there were 48,000 shares and 30,800 shares that were not included in the computation of diluted earnings per share because they were non-dilutive.

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(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, 2009 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the 2009 consolidated financial statements to be comparable to 2010. These reclassifications had no effect on net income.

Note 2 Securities

The fair value of securities is as follows:

| September 30, 2010 (Unaudited) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|---------------------------|---------------------------------------|--|-----------------------|
| Available for sale | | | | |
| U.S. Treasury and federal agencies | \$ 36,167 | \$ 993 | \$ (1) | \$ 37,159 |
| State and municipal | 112,920 | 4,613 | (120) | 117,413 |
| Federal agency collateralized mortgage obligations | 112,475 | 2,893 | | 115,368 |
| Federal agency mortgage-backed pools | 109,377 | 4,453 | (42) | 113,788 |
| Corporate notes | 489 | | (13) | 476 |
| Total available for sale investment securities | \$371,428 | \$12,952 | \$(176) | \$384,204 |
| Held to maturity, State and Municipal | \$ 13,490 | \$ | \$ | \$ 13,490 |
| | | | | |
| December 31, 2009 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available for sale | | | | |
| U.S. Treasury and federal agencies | \$ 19,612 | \$ 473 | \$ | \$ 20,085 |
| State and municipal | 107,160 | 2,402 | (413) | 109,149 |
| Federal agency collateralized mortgage obligations | 84,001 | 1,121 | (227) | 84,895 |
| Federal agency mortgage-backed pools | 113,633 | 5,028 | | 118,661 |
| Corporate notes | 355 | | (13) | 342 |
| Total available for sale investment securities | \$324,761 | \$9,024 | \$(653) | \$333,132 |
| Held to maturity, State and Municipal | \$ 11,657 | \$ 30 | \$ | \$ 11,687 |

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 September 30, 2010, no individual investment security had an unrealized loss that was determined to be other-than-temporary.

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

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(Table Dollar Amounts in Thousands, Except Per Share Data)

their amortized cost basis, which may be maturity, the Company did not consider those investments to be other-than-temporarily impaired at September 30, 2010.

The amortized cost and fair value of securities available for sale and held to maturity at September 30, 2010 and December 31, 2009, 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.

| | September 30, 2010 (Unaudited) | | December 31, 2009 | |
|--|-----------------------------------|---------------|-------------------|---------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Available for sale | | | | |
| Within one year | \$ 8,660 | \$ 8,662 | \$ 2,658 | \$ 2,691 |
| One to five years | 24,392 | 25,178 | 5,449 | 5,682 |
| Five to ten years | 49,636 | 51,665 | 40,557 | 41,400 |
| After ten years | 66,888 | 69,543 | 78,463 | 79,803 |
| | 149,576 | 155,048 | 127,127 | 129,576 |
| Federal agency collateralized mortgage obligations | 112,475 | 115,368 | 84,001 | 84,895 |
| Federal agency mortgage-backed pools | 109,377 | 113,788 | 113,633 | 118,661 |
| Total available for sale investment securities | \$371,428 | \$384,204 | \$324,761 | \$333,132 |
| Held to maturity | | | | |
| Within one year | \$ 13,295 | \$ 13,295 | \$ 11,462 | \$ 11,484 |
| One to five years | 195 | 195 | 195 | 203 |
| Total held to maturity investment securities | \$ 13,490 | \$ 13,490 | \$ 11,657 | \$ 11,687 |

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.

| September 30, 2010 (Unaudited) | Less than 12 Months | | 12 Months or More | | Total | |
|--|---------------------|----------------------|-------------------|----------------------|---------------|----------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| US Treasury and federal agencies | \$ 8,249 | \$ (1) | \$ | \$ | \$ 8,249 | \$ (1) |
| State and municipal | 7,701 | (113) | 885 | (7) | 8,586 | (120) |
| Federal agency collateralized mortgage obligations | 4,765 | | | | 4,765 | |
| Federal agency mortgage-backed pools | 12,755 | (42) | 35 | | 12,790 | (42) |
| Corporate notes | 19 | (13) | | | 19 | (13) |

| | | | | | | |
|---|---|------------------------------|---|------------------------------|-----------------------|--|
| Total temporarily impaired securities | \$33,489 | \$(169) | \$920 | \$ (7) | \$34,409 | \$(176) |
| | Less than 12 Months Fair Value | Unrealized Losses | 12 Months or More Fair Value | Unrealized Losses | Fair Value | Total Unrealized Losses |
| December 31, 2009 | | | | | | |
| State and municipal Federal agency collateralized mortgage obligations | \$14,757 | \$(216) | \$3,791 | \$(197) | \$18,548 | \$(413) |
| Federal agency mortgage-backed pools | 12,369 | (122) | 1,756 | (105) | 14,125 | (227) |
| Corporate notes | 9 | (13) | 42 | | 42 | (13) |
| Total temporarily impaired securities | \$27,135 | \$(351) | \$5,589 | \$(302) | \$32,724 | \$(653) |

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

| | September 30 2010 (Unaudited) | September 30 2009 (Unaudited) |
|---|--|--|
| Sales of securities available for sale | | |
| Proceeds | \$82,531 | \$ 12,880 |
| Gross gains | 599 | 422 |
| Gross losses | 132 | |
| Note 3 Loans | | |
| | September 30 2010 (Unaudited) | December 31 2009 |
| Real estate loans | | |
| 1-4 family | \$174,112 | \$134,076 |
| Other | 7,604 | 5,519 |
| Total | 181,716 | 139,595 |
| Commercial loans | | |
| Working capital and equipment | 159,766 | 167,149 |
| Real estate, including agriculture | 157,913 | 135,639 |
| Tax exempt | 3,010 | 3,247 |
| Other | 8,541 | 8,482 |
| Total | 329,230 | 314,517 |
| Consumer loans | | |
| Auto | 138,735 | 146,270 |
| Recreation | 6,152 | 5,321 |
| Real estate/home improvement | 30,802 | 32,009 |
| Home equity | 89,834 | 83,412 |
| Unsecured | 3,052 | 2,222 |
| Other | 1,928 | 1,976 |
| Total | 270,503 | 271,210 |
| Mortgage warehouse loans | | |
| Prime | 193,848 | 166,698 |
| Sub-prime | | |
| Total | 193,848 | 166,698 |

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| | | |
|---------------------------|-----------|-----------|
| Total loans | 975,297 | 892,020 |
| Allowance for loan losses | (18,030) | (16,015) |
| Loans, net | \$957,267 | \$876,005 |

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

Note 4 Allowance for Loan Losses

| | Nine Months Ended | |
|-------------------------------|--|-------------------------------------|
| | September 30 2010 (Unaudited) | September 30 2009 (Unaudited) |
| Balances, beginning of period | \$ 16,015 | \$ 11,410 |
| Provision for losses | 8,890 | 9,903 |
| Recoveries on loans | 794 | 952 |
| Loans charged off | (7,669) | (8,341) |
| Balances, end of period | \$ 18,030 | \$ 13,924 |

Note 5 Non-performing Assets and Impaired Loans

The following table shows non-performing loans including loans more than 90 days past due, on non-accrual, and troubled debt restructuring along with other real estate owned and repossessed collateral.

| | September 30 2010 (Unaudited) | December 31 2009 |
|--|--|------------------------|
| Non-performing loans | | |
| Commercial | | |
| More than 90 days past due | \$ 12 | \$ 1,086 |
| Non-accrual | 8,416 | 8,143 |
| Trouble debt restructuring accruing | | |
| Trouble debt restructuring non-accrual | 427 | |
| Residential mortgage | | |
| More than 90 days past due | 537 | 296 |
| Non-accrual | 4,652 | 1,257 |
| Trouble debt restructuring accruing | 3,278 | 3,266 |
| Trouble debt restructuring non-accrual | | |
| Mortgage warehouse | | |
| More than 90 days past due | | |
| Non-accrual | | |
| Trouble debt restructuring accruing | | |
| Trouble debt restructuring non-accrual | | |
| Installment | | |
| More than 90 days past due | 284 | 376 |
| Non-accrual | 3,872 | 2,515 |
| Trouble debt restructuring accruing | 165 | 206 |
| Trouble debt restructuring non-accrual | 37 | |

| | | |
|---|----------|----------|
| Total non-performing loans | 21,680 | 17,145 |
| Other real estate owned and repossessed collateral | | |
| Commercial | 2,751 | 544 |
| Residential mortgage | 1,283 | 1,186 |
| Mortgage warehouse | | |
| Installment | 107 | 23 |
| Total other real estate owned and repossessed collateral | 4,141 | 1,753 |
| Total non-performing assets | \$25,821 | \$18,898 |

Table of Contents**HORIZON BANCORP AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements**

(Table Dollar Amounts in Thousands, Except Per Share Data)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms 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.

If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value.

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method. The following table shows the Company's impaired loans.

| Impaired loans | Carrying Value | Average Balance | Specific Reserves | Interest Collected |
|-----------------------------|-----------------------|------------------------|--------------------------|---------------------------|
| September 30, 2010 | | | | |
| (Nine months ending) | | | | |
| Commercial | \$ 8,841 | \$ 8,619 | \$1,527 | \$181 |
| Residential mortgage | 3,279 | 3,376 | 65 | 96 |
| Mortgage warehouse | | | | |
| Installment | 202 | 204 | | 7 |
| Total | \$12,322 | \$12,199 | \$1,592 | \$284 |
| December 31, 2009 | | | | |
| Commercial | \$ 9,685 | \$11,647 | \$1,675 | \$389 |
| Residential mortgage | 3,472 | 2,481 | 84 | 184 |
| Mortgage warehouse | | | | |
| Installment | 206 | 159 | | 15 |
| Total | \$13,363 | \$14,287 | \$1,759 | \$588 |

There were \$5.5 million and \$4.8 million of impaired loans without a specific reserve at September 30, 2010 and December 31, 2009. Interest income not recognized on the non-performing loans totaled approximately \$442,000 for the nine months ending September 30, 2010 and \$712,000 for the year ending December 31, 2009. Accrued interest on impaired loans is reversed from interest income when a loan is determined to be impaired and is a non-accrual loan.

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 September 30, 2010. 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 September 30, 2010, 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.

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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 September 30, 2010, 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 \$41.5 million at September 30, 2010.

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 September 30, 2010, the Company's fair value of these derivatives were recorded and over the next 12 months are 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:

| Derivatives designated as hedging instruments | Asset Derivative September 30, 2010 (Unaudited) | | Liability Derivatives September 30, 2010 (Unaudited) | |
|--|---|---------------|--|---------------|
| | Balance Sheet | Fair Value | Balance Sheet | Fair Value |
| | Location | | Location | |
| Interest rate contracts | Loans | \$ 2,914 | Other liabilities | \$ 2,914 |
| Interest rate contracts | Other Assets | | Other liabilities | 3,565 |
| Total derivatives designated as hedging instruments | | 2,914 | | 6,479 |
| | | | | |
| Derivatives not designated as hedging instruments | | | | |
| Mortgage loan contracts | Other assets | 690 | Other liabilities | |
| Total derivatives not designated as hedging instruments | | 690 | | |
| Total derivatives | | \$ 3,604 | | \$ 6,479 |

| Derivatives designated as hedging instruments | Asset Derivative December 31, 2009 | | Liability Derivatives December 31, 2009 | |
|--|---------------------------------------|---------------|--|---------------|
| | Balance Sheet | Fair Value | Balance Sheet | Fair Value |
| | Location | | Location | |
| Interest rate contracts | Loans | \$ 1,141 | Other liabilities | \$ 1,141 |
| Interest rate contracts | Other Assets | 1,038 | Other liabilities | 611 |
| Total derivatives designated as hedging instruments | | 2,179 | | 1,752 |
| | | | | |
| Derivatives not designated as hedging instruments | | | | |
| Mortgage loan contracts | Other assets | 265 | | 135 |

| | | |
|--|----------|----------------------|
| | | Other liabilities |
| Total derivatives not designated as hedging instruments | 265 | 135 |
| Total derivatives | \$ 2,444 | \$ 1,887 |

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

| Derivative in cash flow hedging relationship | Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion) Three Months Ended September 30, | | Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion) Nine Months Ended September 30, | |
|--|--|---------------------|---|---------------------|
| | 2010 (Unaudited) | 2009 (Unaudited) | 2010 (Unaudited) | 2009 (Unaudited) |
| Interest rate contracts | \$(900) | \$ (11) | \$ (1,557) | \$ 68 |
| Total | \$(900) | \$ (11) | \$ (1,557) | \$ 68 |

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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.

| Derivative in fair value hedging relationship | Location of gain (loss) recognized on derivative | Amount of Gain (Loss) Recognized on Derivative Three Months Ended September 30, | | Amount of Gain (Loss) Recognized on Derivative on Derivative Nine Months Ended September 30, | |
|--|---|---|---------------------|---|---------------------|
| | | 2010 (Unaudited) | 2009 (Unaudited) | 2010 (Unaudited) | 2009 (Unaudited) |
| Interest rate contracts | Interest income loans | \$ 560 | \$ (141) | \$ 1,773 | \$ 419 |
| Interest rate contracts | Interest income loans | (560) | 141 | (1,773) | (419) |
| Total | | \$ | \$ | \$ | \$ |

| Derivative not designated as hedging relationship | Location of gain (loss) recognized on derivative | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------------------------------|---------------------|------------------------------------|---------------------|
| | | 2010 (Unaudited) | 2009 (Unaudited) | 2010 (Unaudited) | 2009 (Unaudited) |
| Mortgage contracts | Other income gain on sale of loans | \$(40) | \$ 321 | \$ 560 | \$ 177 |
| Total | | \$(40) | \$ 321 | \$ 560 | \$ 177 |

Note 7 Disclosures about fair value of assets and liabilities

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

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

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

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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

Available for sale securities

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

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model processes, such as an option adjusted spread model is used to develop prepayment and interest rate scenarios for securities with prepayment features.

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) |
|--|------------|--|---|--|
| September 30, 2010 (Unaudited) | | | | |
| Available-for-sale securities | | | | |
| U.S. Treasury and federal agencies | \$ 37,159 | \$ | \$ 37,159 | \$ |
| State and municipal | 117,413 | | 117,413 | |
| Federal agency collateralized mortgage obligations | 115,368 | | 115,368 | |
| Federal agency mortgage-backed pools | 113,788 | | 113,788 | |
| Corporate notes | 476 | 456 | 20 | |
| Total available-for-sale securities | 384,204 | 456 | 383,748 | |
| Hedged loans | 51,358 | | | 51,358 |
| Forward sale commitments | 690 | | | 690 |
| Interest rate swap agreements | (6,479) | | | (6,479) |
| December 31, 2009 | | | | |
| Available-for-sale securities | | | | |
| U.S. Treasury and federal agencies | \$ 20,085 | \$ | \$ 20,085 | \$ |
| State and municipal | 109,149 | | 109,149 | |
| Federal agency collateralized mortgage obligations | 84,895 | | 84,895 | |
| Federal agency mortgage-backed pools | 118,661 | | 118,661 | |
| Corporate notes | 342 | 323 | 19 | |

| | | | |
|-------------------------------------|---------|-----|---------|
| Total available-for-sale securities | 333,132 | 323 | 332,809 |
| Hedged loans | 31,153 | | 31,153 |
| Forward sale commitments | 265 | | 265 |
| Interest rate swap agreements | (715) | | (715) |
| Commitments to originate loans | (135) | | (135) |

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, 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) | |
| Total realized and unrealized gains and losses Included in net income | 560 | (40) | (560) | |
| Included in other comprehensive income, gross | | | (1,385) | |
| Purchases, issuances, and settlements | 7,135 | | | |
| Principal payments | (235) | | | |
| Ending balance September 30, 2010 | \$51,358 | \$ 690 | \$ (6,479) | \$ |

| | Hedged Loans | Forward Sale Commitments | Interest Rate Swaps | Commitments to Originate Loans |
|--|-------------------------|---|------------------------------------|---|
| Beginning balance December 31, 2008 | \$25,033 | \$ 670 | \$ (2,557) | \$ (438) |
| Total realized and unrealized gains and losses Included in net income | 24 | (226) | (24) | 258 |
| Included in other comprehensive income, gross | | | (73) | |
| Purchases, issuances, and settlements | 2,901 | | | |
| Principal payments | (167) | | | |
| Ending balance March 31, 2009 | 27,791 | 444 | (2,654) | (180) |
| Total realized and unrealized gains and losses | | | | |

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| | | | | |
|--|----------|--------|-----------|-------|
| Included in net income | (584) | (214) | 584 | 37 |
| Included in other comprehensive income, gross | | | 194 | |
| Principal payments | (190) | | | |
| Ending balance June 30, 2009 | 27,017 | 230 | (1,876) | (143) |
| Total realized and unrealized gains and losses | | | | |
| Included in net income | 141 | 136 | (141) | 185 |
| Included in other comprehensive income, gross | | | (16) | |
| Principal payments | (187) | | | |
| Ending balance September 30, 2009 | \$26,971 | \$ 366 | \$(2,033) | \$ 42 |

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 (Unaudited) | Period Ended September | |
|--|-------------------------------|-------------|
| | 2010 | 2009 |
| Total gains and losses from: | | |
| Hedged loans | \$ 560 | \$(141) |
| Fair value interest rate swap agreements | (560) | 141 |
| Derivative loan commitments | (40) | 321 |
| | \$ (40) | \$ 321 |

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

| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------------------|------------|--|---|--|
| September 30, 2010 (Unaudited) | | | | |
| Impaired loans | \$ 12,322 | \$ | \$ | \$ 12,322 |
| December 31, 2009 | | | | |
| Impaired loans | \$ 13,363 | \$ | \$ | \$ 13,363 |

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 September 30, 2010 and December 31, 2009. 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.

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

Loans Held for Sale The carrying amounts approximate fair value.

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

The carrying amounts of loans held for sale approximate fair value.

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

Interest Receivable/Payable The carrying amounts approximate fair value.

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

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

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:

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| | September 30, 2010 | | December 31, 2009 | |
|--|---------------------------|--------------|--------------------------|--------------|
| | (Unaudited) | | | |
| | Carrying | Fair | Carrying | Fair |
| | Amount | Value | Amount | Value |
| Assets | | | | |
| Cash and due from banks | \$ 18,203 | \$ 18,203 | \$ 68,702 | \$ 68,702 |
| Investment securities available for sale | 384,204 | 384,204 | 333,132 | 333,132 |
| Investment securities held to maturity | 13,490 | 13,490 | 11,657 | 11,687 |
| Loans held for sale | 16,483 | 16,483 | 5,703 | 5,703 |
| Loans, net | 940,784 | 977,844 | 870,302 | 885,625 |
| Stock in FHLB and FRB | 14,603 | 14,603 | 13,189 | 13,189 |
| Interest receivable | 6,720 | 6,720 | 5,986 | 5,986 |
| Liabilities | | | | |
| Non-interest bearing deposits | \$ 105,376 | \$ 105,376 | \$ 84,357 | \$ 84,357 |
| Interest-bearing deposits | 894,107 | 888,072 | 867,351 | 830,621 |
| Borrowings | 318,516 | 351,799 | 284,016 | 304,000 |
| Subordinated debentures | 30,562 | 30,011 | 27,837 | 27,817 |
| Interest payable | 766 | 766 | 1,135 | 1,135 |

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Note 9 Other Comprehensive Income (Loss)

| | Three Months Ended | |
|---|---|---|
| | September 30, 2010 (Unaudited) | September 30, 2009 (Unaudited) |
| Unrealized gains on securities: | | |
| Unrealized holding gains arising during the period | \$ 3,494 | \$ 8,070 |
| Less: reclassification adjustment for gains (losses) realized in net income | 336 | 422 |
| | 3,158 | 7,648 |
| Unrealized loss on derivative instruments | (1,385) | (17) |
| Net unrealized gains (losses) | 1,773 | 7,631 |
| Tax expense (benefit) | (621) | (2,671) |
| Other comprehensive income (loss) | \$ 1,152 | \$ 4,960 |

| | Nine Months Ended | |
|--|---|---|
| | September 30, 2010 (Unaudited) | September 30, 2009 (Unaudited) |
| Unrealized gains on securities: | | |
| Unrealized holding gains arising during the period | \$ 4,875 | \$ 8,919 |
| Less: reclassification adjustment for gains realized in net income | 467 | 422 |
| | 4,408 | 8,497 |
| Unrealized loss on derivative instruments | (3,992) | 105 |
| Net unrealized gains (losses) | 416 | 8,602 |
| Tax expense (benefit) | (146) | (3,011) |
| Other comprehensive income (loss) | \$ 270 | \$ 5,591 |

The components of accumulated other comprehensive income included in capital are as follows:

| | September 30, 2010 (Unaudited) | December 31 2009 |
|--|---|---------------------------------|
| Unrealized holding gain on securities available for sale | \$ 8,306 | \$ 5,441 |
| Unrealized gain (loss) on derivative instruments | (2,317) | 278 |

| | | |
|--|----------|----------|
| Total accumulated other comprehensive income | \$ 5,989 | \$ 5,719 |
|--|----------|----------|

Note 10 Subsequent Events

On November 3, 2010, the Company received approval to redeem 25%, or \$6.25 million, of the US Treasury's original \$25.0 million preferred stock investment in the Company from the Capital Purchase Program, which is a program of the Troubled Assets Relief Program (TARP). On November 10, 2010, the Company completed the redemption process reducing the US Treasury's preferred stock investment in the Company to \$18.75 million. This repurchase will result in annual savings of \$312,500 or \$0.11 per share, due to the elimination of the associated preferred dividends. The Company's plan is to repurchase the remaining preferred shares over the next three years from the Company's earnings.

Note 11 Future accounting matters

FASB ASU 2009-16, Transfers and Servicing (Topic 860); Accounting for Transfers of Financial Assets ASU 2009-16 requires more information about transfers of financial assets, including securitization transactions, and where entities have continued exposure to the risks related to transferred assets. The Company adopted ASU 2009-16 effective January 1, 2010 and adoption did not have a material effect on its financial position or results of operations.

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ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. ASU 2010-06 revises two disclosure requirements concerning fair value measurements and clarifies two others. It requires separate presentation of significant transfers into and out of Levels 1 and 2 of the fair value hierarchy and disclosure of the reasons for such transfers. It will also require the presentation of purchases, sales, issuances, and settlements within Level 3 on a gross basis rather than a net basis. The amendments also clarify that disclosures should be disaggregated by class of asset or liability and that disclosures about inputs and valuation techniques should be provided for both recurring and non-recurring fair value measurements. The Company's disclosures about fair value measurements are presented in Note 7 Disclosures About Fair Value of Assets and Liabilities. These new disclosure requirements were effective for the period ended March 31, 2010, except for the requirement concerning gross presentation of Level 3 activity, which is effective for fiscal years beginning after December 15, 2010. There was no significant effect to the Company's financial statement disclosure upon adoption of this ASU.

ASU No. 2010-09, Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements. ASU 2010-09 amends the subsequent events disclosure guidance. The amendments include a definition of an SEC filer, requires an SEC filer or conduit bond obligor to evaluate subsequent events through the date the financial statements are issued, and removes the requirement for an SEC filer to disclose the date through which subsequent events have been evaluated. ASU 2010-09 was effective upon issuance for the Company. The impact of ASU 2010-09 on the Company's disclosures is reflected in Subsequent Events footnote.

FASB ASU 2010-18 Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset. This Update clarifies that modifications of loans that are accounted for within a pool under Subtopic 310-30, which provides guidance on accounting for acquired loans that have evidence of credit deterioration upon acquisition, do not result in the removal of those loans from the pool even if the modification would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. The amendments do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40. The Company has adopted ASU 2010-18, but does not anticipate that its adoption will have an impact on its financial statements.

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 will need 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 anticipates that adoption of these additional disclosures will not have a material effect on its financial position or results of operations.

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

Forward Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to Horizon Bancorp (Horizon or the Company) and Horizon Bank, N.A. (the Bank). Horizon intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and is including this statement for the purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies and expectations of Horizon, are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project or similar expressions. 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.

These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements.

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 the first nine months of 2010. 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 increase in the Company's non-performing loans over the past year 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 nine months of 2010.

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Following are some highlights of Horizons financial performance through the third quarter of 2010:

Horizon's third quarter 2010 net income was \$3.3 million or \$.88 diluted earnings per share, a 30.3% increase in net income from the previous quarter and a 39.1% increase from the same period in 2009.

Horizon's net income for the nine months ended September 30, 2010, was \$7.6 million or \$1.96 diluted earnings per share compared to \$7.1 million or \$1.84 diluted earnings per share for the same period of the prior year.

The net interest margin increased to 3.84% for the three months ending September 30, 2010 as the rate paid on interest bearing liabilities decreased during the quarter more than the yield received on interest earning assets.

An increase in mortgage warehouse lending caused an increase in the average loan balance during the quarter, increasing interest income.

Horizon continued to experience strong residential mortgage loan activity during the third quarter providing \$2.5 million of income from the gain on sale of mortgage loans.

Horizon's quarterly provision for loan losses decreased by approximately \$343,000 from the provision taken during the second quarter of 2010.

The ratio of allowance for loan losses to total loans increased to 1.85% from 1.77% at June 30, 2010 as Horizon loan and lease loss reserve increases for probable incurred losses inherent in the portfolio.

Horizon's net loans charged off declined during the third quarter to \$1.2 million compared to \$2.6 million during the second quarter of 2010.

Horizon's balance of Other Real Estate Owned (OREO) and repossessed assets increased approximately \$1.2 million, to \$4.1 million, during the third quarter as certain non-performing loans were transferred to OREO.

Horizon's non-performing loans increased approximately \$507,000 from June 30, 2010 to September 30, 2010 and 30 to 89 days delinquent loans increased \$447,000 during the same period.

Horizon's 30 to 89 day total loan delinquency remained steady at 0.93% and 0.92% of total loans at September 30, 2010 and June 30, 2010, respectively.

Horizon's non-performing loans to total loans ratio as of September 30, 2010 was 2.22%, which compares favorably to National and State of Indiana peer averages¹ of 4.77% and 2.78%, respectively, as of June 30, 2010, the most recent data available.

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

Critical Accounting Policies

The notes to the consolidated financial statements included in Item 8 of the Company's Annual Report on Form 10-K for 2009 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.

- ¹ National peer group: Consists of all insured commercial banks having assets between \$1 Billion and \$10 Billion as reported by the Uniform Bank Performance Report as of June 30, 2010. Indiana peer group: Consists of 17 publicly traded banks all headquartered in the State of Indiana as reported by the Uniform Bank Performance Reports as of June 30, 2010.

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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 September 30, 2010, Horizon had core deposit intangibles of \$2.9 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 September 30, 2010 was \$22.25 per share compared to a book value of \$29.18 per common share. Horizon reported record earnings for the tenth consecutive year in 2009 and believes the decline in market price relates to an overall decline in the financial industry sector and is not specific to Horizon. Horizon engaged a third party to perform an impairment test of its goodwill in 2009. The evaluation included three approaches: an income approach using a discounted cash flow based on earnings capacity as a long term investment; price to earnings multiples; and price to book value ratios. The impairment test was performed as of November 30, 2009 and provided support that no impairment to the Company's goodwill was required based on its results.

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).

There were no significant changes in the Company's stock price, book value, or earnings as of September 30, 2010 that would change the results of the evaluation completed at the end of 2009. Horizon has concluded that, based on its own internal evaluation and the independent impairment test conducted by a third party, 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

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underlying financial assets. Servicing assets are evaluated regularly for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying servicing rights by predominant characteristics, such as interest rates, original loan terms and whether the loans are fixed or adjustable rate mortgages. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. When the book value of an individual stratum exceeds its fair value, an impairment reserve is recognized so that each individual 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 the 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

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establishes the method it uses for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The ineffective portion of the hedge, if any, is recognized currently in the consolidated statements of income. Horizon excludes the time value expiration of the hedge when measuring ineffectiveness.

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 September 30, 2010, Horizon's total assets were \$1.5 billion, an increase of \$98.0 million from December 31, 2009. Total assets increased primarily due to the purchase of assets and assumption of liabilities of American Trust & Savings Bank during the second quarter of 2010 and an increase in mortgage warehouse loans from December 31, 2009.

Excess cash and cash equivalents held at year end decreased during the year as investment securities were purchased and as mortgage warehouse balances increased. At September 30, 2010, cash and cash due from banks was at a normalized operating level for the Company.

Investment securities were comprised of the following as of:

| September 30, 2010 (Unaudited) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--|---------------------------|---------------------------------------|--|-----------------------|
| Available for sale | | | | |
| U.S. Treasury and federal agencies | \$ 36,167 | \$ 993 | \$ (1) | \$ 37,159 |
| State and municipal | 112,920 | 4,613 | (120) | 117,413 |
| Federal agency collateralized mortgage obligations | 112,475 | 2,893 | | 115,368 |
| Federal agency mortgage-backed pools | 109,377 | 4,453 | (42) | 113,788 |
| Corporate notes | 489 | | (13) | 476 |
| Total available for sale investment securities | \$ 371,428 | \$ 12,952 | \$ (176) | \$ 384,204 |
| Held to maturity, State and Municipal | \$ 13,490 | \$ | \$ | \$ 13,490 |

Investment securities increased by approximately \$52.9 million compared to the end of 2009. This growth was the result of the Company deploying excess cash held during the first quarter in cash and cash due from banks into investment securities along with acquiring \$39.2 million in investment securities from the American Trust & Savings Bank asset purchase. The investment securities acquired from American Trust & Savings Bank were primarily federal agencies and agencies mortgage-backed pools.

Net loans increased \$70.5 million since December 31, 2009. This increase was primarily the result of \$56.6 million in loans from American Trust & Savings Bank partially along with an increase in mortgage warehouse

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lending and commercial loans during the year. Horizon's residential mortgage and consumer loans have decreased slightly during 2010 as new loan production has not completely replaced all of the loan run-off from scheduled amortization and pay-offs.

Total deposits increased \$47.8 million during the first nine months of 2010 primarily due to the assumption of \$97.4 million of deposits from American Trust & Savings Bank offset by the reduction in municipal deposit accounts as disbursements were made to other municipalities.

The Company's borrowings increased \$34.5 million since December 31, 2009. At September 30, 2010, \$87.0 million of the Company's borrowings were short-term federal funds, compared to \$0 at December 31, 2009. Short-term borrowings are used primarily when mortgage warehouse lending increases as it has during 2010. Since December 31, 2009, \$54.1 million of Federal Home Loan Bank (FHLB) advances have matured, and the Company has decided not to take additional advances and has used long-term brokered certificates of deposit to replace any required long-term debt. This generates additional liquidity by not using available collateral to secure the borrowings.

Other liabilities increased \$7.9 million since December 31, 2009 primarily due to a \$4.7 million increase in the liability carried for the fair value of the Company's derivative instruments, \$1.1 million related to the settlement of an investment security, and an increase in the Company's operating accruals.

Stockholders' equity totaled \$120.1 million at September 30, 2010 compared to \$114.6 million at December 31, 2009.

The increase in stockholders' equity during the period was the result of generating net income reduced by dividends declared. For the nine-months ended September 30, 2010, the ratio of average stockholders' equity to average assets was 8.32% compared to 8.61% for the quarter ending December 31, 2009. Book value per common share at September 30, 2010 increased to \$29.18 compared to \$27.67 at December 31, 2009.

Results of Operations

Overview

Consolidated net income for the three-month period ended September 30, 2010 was \$3.3 million, an increase of 39.1% from the \$2.4 million for the same period in 2009. Earnings per common share for the three months ended September 30, 2010 increased to \$0.89 basic and \$0.88 diluted, compared to \$0.62 basic and \$0.61 diluted for the same three-month period in 2009. Diluted earnings per share for both periods were reduced by \$0.11 per share due to the preferred stock dividends and the accretion of the discount on preferred stock, which was issued in the fourth quarter of 2008.

Consolidated net income for the nine-month period ended September 30, 2010 was \$7.6 million, an increase of 7.5% compared to \$7.1 million for the same period in 2009. Earnings per common share for the nine months ended September 30, 2010 increased to \$1.99 basic and \$1.96 diluted, compared to \$1.86 basic and \$1.84 diluted for the same nine-month period in 2009. Basic and diluted earnings per share were reduced by \$0.33 per share due to the preferred stock dividends and the accretion of the discount on preferred stock, which was issued in the fourth quarter of 2008. The results from the first nine months of 2010 were impacted by the transaction costs expensed during the first half of 2010 from the purchase and assumption of American Trust & Savings Bank, those costs totaled \$664,000 for the nine months.

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

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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.

During the third quarter of 2010, the on-going low interest rate environment influenced the rates paid on the Company's interest bearing liabilities more than the yields received on the Company's interest earning assets resulting in an increase of the net interest margin. Management believes that the current level of interest rates are driven by external factors and therefore impacts the results of the Company's net interest margin.

Net interest income during the three months ended September 30, 2010 was \$12.6 million, an increase of \$1.9 million or 17.7% over the \$10.7 million earned during the same period in 2009. Yields on the Company's interest-earning assets decreased by 44 basis points to 5.39% for the three months ended September 30, 2010, from 5.83% for the same period in 2009. Interest income increased \$391,000 from \$17.5 million for the three months ended September 30, 2009 to \$17.9 million for the same period in 2010. This increase was primarily due to higher interest earning assets from the purchase and assumption of assets from American Trust & Savings Bank and an increase in balance of mortgage warehouse lending partially offset by a decrease in the yield on new and repriced earning assets. However, the asset yields on loans receivable has not declined at the same pace as some market indices partially due to interest rate floors that are in place on approximately \$376.8 million of the Company's \$506.1 million of adjustable rate loans.

Rates paid on interest-bearing liabilities decreased by 71 basis points for the three months ended September 30, 2010 compared to the same period in 2009 due to the lower interest rate environment. Interest expense decreased \$1.5 million from \$6.8 million for the three-months ended September 30, 2009 to \$5.3 million for the same period in 2010. This decrease was due to the lower rates being paid on the Company's interest bearing liabilities. Due to a more significant decrease in the rates paid on the Company's interest-bearing liabilities compared to the decrease in the yields received on the Company's interest-earning assets which helped offset the decrease in the Company's earning assets, the net interest margin increased 20 basis points from 3.64% for the three months ended September 30, 2009 to 3.84% for the same period in 2010.

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

| | Three Months Ended September 30, 2010 | | | Three Months Ended September 30, 2009 | | |
|--|--|-----------------|-------------------------|--|-----------------|-------------------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| ASSETS | | | | | | |
| Interest-earning assets | | | | | | |
| Federal funds sold | \$ 12,273 | \$ 4 | 0.13% | \$ 10,711 | \$ 7 | 0.26% |
| Interest-earning deposits | 15,349 | 4 | 0.10% | 7,783 | | 0.00% |
| Investment securities taxable | 298,152 | 2,423 | 3.22% | 248,165 | 2,666 | 4.26% |
| Investment securities non-taxable (1) | 102,885 | 979 | 5.32% | 102,286 | 1,015 | 5.97% |
| Loans receivable (2) | 918,930 | 14,466 | 6.25% | 857,801 | 13,797 | 6.39% |
| Total interest-earning assets (1) | 1,347,589 | 17,876 | 5.39% | 1,226,746 | 17,485 | 5.83% |
| Noninterest-earning assets | | | | | | |
| Cash and due from banks | 16,518 | | | 15,277 | | |
| Allowance for loan losses | (17,137) | | | (12,513) | | |
| Other assets | 97,460 | | | 77,734 | | |
| | \$ 1,444,430 | | | \$ 1,307,244 | | |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing deposits | \$ 913,473 | \$ 2,769 | 1.20% | \$ 756,567 | \$ 3,528 | 1.85% |
| Borrowings | 258,476 | 2,026 | 3.11% | 317,224 | 2,897 | 3.62% |
| Subordinated debentures | 34,946 | 461 | 5.23% | 27,837 | 341 | 4.86% |
| Total interest-bearing liabilities | 1,206,895 | 5,256 | 1.73% | 1,101,628 | 6,766 | 2.44% |
| Noninterest-bearing liabilities | | | | | | |
| Demand deposits | 106,152 | | | 84,897 | | |
| Accrued interest payable and other liabilities | 11,204 | | | 9,238 | | |

| | | | | |
|---|--------------|-------|--------------|-------|
| Shareholders equity | 120,179 | | 111,481 | |
| | \$ 1,444,430 | | \$ 1,307,244 | |
| Net interest income/spread | \$ 12,620 | 3.66% | \$ 10,719 | 3.39% |
| Net interest income as a percent of average interest earning assets (1) | | 3.84% | | 3.64% |

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

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

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Net interest income during the nine months ended September 30, 2010 was \$34.5 million, an increase of \$1.1 million or 3.4% over the \$33.4 million earned during the same period in 2009. Yields on the Company's interest-earning assets decreased by 50 basis points to 5.41% for the nine months ended September 30, 2010 from 5.91% for the same period in 2009. Interest income decreased \$4.2 million from \$55.0 million for the nine months ended September 30, 2009 to \$50.8 million for the same period in 2010. This decrease was due to the decrease in the yield on interest earning assets.

Rates paid on interest-bearing liabilities decreased by 62 basis points for the nine months ended September 30, 2010 compared to the same period in 2009 due to the lower interest rate environment. Interest expense decreased \$5.3 million from \$21.6 million for the nine-months ended September 30, 2009 to \$16.3 million for the same period in 2010. This decrease was due to the lower rates being paid on the Company's interest bearing liabilities. Due to a more significant decrease in the rates paid on the Company's interest-bearing liabilities compared to the decrease in the yield on the Company's interest-earning assets the net interest margin increased eight basis points from 3.64% for the nine months ended September 30, 2009 to 3.72% for the same period in 2010. During August and September of 2010 Horizon reduced the cost of brokered and wholesale funding by replacing maturing and certain existing instruments with lower cost funding. This action resulted in an approximate 100 basis point reduction in interest cost on approximately \$290.0 million of wholesale funding.

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| | Nine Months Ended September 30, 2010 | | | Nine Months Ended September 30, 2009 | | |
|--|---|-----------|-----------------|---|-----------|-----------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| ASSETS | | | | | | |
| Interest-earning assets | | | | | | |
| Federal funds sold | \$ 30,279 | \$ 13 | 0.06% | \$ 27,647 | \$ 9 | 0.04% |
| Interest-earning deposits | 9,213 | 38 | 0.55% | 6,979 | 54 | 1.03% |
| Investment securities taxable | 278,790 | 7,343 | 3.52% | 247,168 | 8,270 | 4.47% |
| Investment securities non-taxable (1) | 108,666 | 3,138 | 5.36% | 94,473 | 2,882 | 5.91% |
| Loans receivable (2) | 860,253 | 40,283 | 6.27% | 898,876 | 43,793 | 6.52% |
| Total interest-earning assets (1) | 1,287,201 | 50,815 | 5.41% | 1,275,143 | 55,008 | 5.91% |
| Noninterest-earning assets | | | | | | |
| Cash and due from banks | 15,101 | | | 15,370 | | |
| Allowance for loan losses | (16,625) | | | (11,742) | | |
| Other assets | 91,630 | | | 76,613 | | |
| | \$ 1,377,307 | | | \$ 1,355,384 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing deposits | \$ 861,296 | \$ 8,238 | 1.28% | \$ 797,523 | \$ 11,517 | 1.93% |
| Borrowings | 264,333 | 6,807 | 3.44% | 328,763 | 9,011 | 3.66% |
| Subordinated debentures | 31,014 | 1,229 | 5.30% | 27,837 | 1,082 | 5.20% |
| Total interest-bearing liabilities | 1,156,643 | 16,274 | 1.88% | 1,154,123 | 21,610 | 2.50% |
| Noninterest-bearing liabilities | | | | | | |
| Demand deposits | 93,123 | | | 82,548 | | |
| Accrued interest payable and other liabilities | 9,627 | | | 9,180 | | |
| Shareholders' equity | 117,914 | | | 109,533 | | |
| | \$ 1,377,307 | | | \$ 1,355,384 | | |
| Net interest income/spread | | \$ 34,541 | 3.53% | | \$ 33,398 | 3.41% |

| | | |
|---|-------|-------|
| Net interest income as a percent of average interest earning assets (1) | 3.72% | 3.64% |
|---|-------|-------|

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

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

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Provision for Loan Losses

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (ALLL) by regularly reviewing the performance of its loan portfolios. During the third quarter of 2010, a provision for loan losses of \$2.7 million was required to adequately fund the ALLL compared to a provision of \$3.4 million for the third quarter of 2009. The 2010 third quarter provision was the lowest compared to any of the previous four quarters as net charge-offs also declined to their lowest level over that same period. The provision for the current quarter resulted from losses primarily in the commercial and installment loan portfolios due to current economic conditions and the need for specific reserves due to non-performing loans. Commercial loan net charge-offs during the third quarter of 2010 were \$485,000, residential mortgage loan net charge-offs were \$86,000, and installment loans net charge-offs were \$599,000.

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 September 30, 2010.

For the nine months ended September 30, 2010, the provision for loan losses totaled \$8.9 million compared to \$9.9 million in the prior year for the same period. Commercial loan charge-offs during the first nine months of 2010 were \$3.2 million, real estate loan charge-offs were \$683,000, and installment loan charge-offs were \$3.0 million. The \$3.0 million in installment loan net charge-offs were comprised of \$1.5 million of indirect automobile loans, \$669,000 of revolving home equity lines, and \$785,000 primarily of closed-end home equity loans.

Non-performing loans totaled \$21.7 million on September 30, 2010, up slightly from \$21.2 million on June 30, 2010 and up from \$16.5 million on September 30, 2009. As a percentage of total loans non-performing loans were 2.22% on September 30, 2010, down from 2.26% on June 30, 2010, but up from 1.87% on September 30, 2009. Horizon's non-performing loans to total loans ratio as of September 30, 2010 compared favorably to National and State of Indiana peer averages¹ of 4.77% and 2.78%, respectively, as of June 30, 2010, the most recent data available.

The increase of non-performing loans from the prior quarter was due to an increase in residential mortgage and consumer installment non-performing loans, partially offset by lower commercial (which includes commercial real estate) non-performing loans. Residential mortgage non-performing loans increased from \$8.0 million on June 30, 2010 to \$8.5 million on September 30, 2010. Consumer installment non-performing loans increased from \$3.3 million on June 30, 2010 to \$4.4 million on September 30, 2010. Non-performing commercial loans declined from \$9.8 million on June 30, 2010, to \$8.9 million on September 30, 2010. The change in non-performing commercial loans during the quarter was the result of moving four non-performing loans totaling \$2.0 million to OREO, \$471,000 of charged off, and \$856,000 in principal pay downs. There were nine new non-performing loans added totaling \$1.9 million and one new troubled debt restructure (TDR) for \$427,000. The new non-performing loans during the quarter included a \$910,000 restaurant loan secured by a leasehold mortgage, business personal property, and the personal guaranty of the owner.

Residential mortgage and consumer installment non-performing loans at September 30, 2010 include \$896,000 and \$2.3 million, respectively, of loans in bankruptcy. This compares to \$261,000 and \$1.8 million at June 30, 2010. These loans are not considered TDR's while they are going through bankruptcy. The bankruptcy process can take six to eighteen months. Therefore, the number and dollar amount of loans in bankruptcy included in the Company's non-performing loans continue to increase, which indicates that this cycle probably has not peaked. The Company's experience with bankrupt loans has demonstrated that some continue to make payments during the bankruptcy process, many reaffirm when they come out of

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**HORIZON BANCORP AND SUBSIDIARIES
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bankruptcy, and some are discharged or restructured by the court. The Company accumulates historical data on the performance of loans going through the bankruptcy process and utilizes that data in the calculation for allowance for loan losses. Currently there are no commercial loans in bankruptcy.

TDR's are loans that the Company has made a concession to the customer that is outside of its normal course of lending. All concession made by the Company at September 30, 2010, have been temporary rate reductions which lower the customers monthly payment. These loans are included in the Company's non-performing loans. TDR's increased from \$3.4 million at June 30, 2010 to \$3.9 million on September 30, 2010. Of these, \$3.3 million were residential mortgage loans, \$427,000 were commercial loans, and \$202,000 were consumer installment loans. The increase was primarily due to the addition of one commercial loan totaling \$427,000. These TDR's were accruing interest and were not over 30 days delinquent based on their restructured terms, except for one consumer installment loan for \$37,000, and the new commercial loan for \$427,000, both of which were on non-accrual. At September 30, 2010, all loan modifications providing concessions loan customers outside of the Company's normal loan practice and policy were included with TDR's.

A TDR, or restructured loan, is returned to accruing status after six consecutive monthly payments under its restructured terms. However, it remains in the non-performing loan category as a TDR. At September 30, 2010, the Company has experienced three TDR loans that have redefaulted for a total of approximately \$424,000. All TDR's reviewed during the analysis of the allowance for loan losses and if required a specific reserves are applied. At September 30, 2010, \$150,000 of specific reserves were allocated to TDR's.

Non-accrual loans totaled \$16.8 million on September 30, 2010, down from \$17.7 million on June 30, 2010, but up from \$15.7 million on September 30, 2009. On September 30, 2010, nonaccrual loans to hotel owners totaled \$4.6 million, to home builders and land developers \$1.2 million, and to restaurant operators \$1.0 million.

Loans 90 days delinquent but still on accrual totaled \$833,000 on September 30, 2010, up from \$77,000 on June 30, 2010, and \$856,000 on September 30, 2009. Horizon's policy is to place loans over 90 days delinquent on non-accrual unless they are well secured and in the process of collection.

The increase in the Company's non-performing loans over the past year can be attributed to the continued slow economy and continued high local unemployment causing an increase in consumer bankruptcies. Business conditions in our markets are improving but remain weak.

Other Real Estate Owned (OREO) totaled \$3.9 million on September 30, 2010, up from \$2.8 million on June 30, 2010, and \$1.7 million on September 30, 2009. During the quarter, 24 properties with a book value of \$1.6 million on June 30, 2010 were sold. Another nine properties with a book value of \$3.0 million on September 30, 2010 were transferred into OREO. On September 30, 2010, OREO was comprised of 29 properties. Of these, 9 totaling \$2.5 million were commercial and 20 totaling \$1.5 million were residential. Repossessed personal property totaled \$107,000 on September 30, 2010, up from \$70,000 on June 30, 2010.

No mortgage warehouse loans were non-performing as of September 30, 2010, June 30, 2010, or September 30, 2009.

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Non-Interest Income

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

| | Three Months Ended | | Amount Change | Percent Change |
|--|-------------------------|-------------------------|------------------|-------------------|
| | September 30 2010 | September 30 2009 | | |
| Non-interest income | | | | |
| Service charges on deposit accounts | \$ 921 | \$ 972 | \$ (51) | -5.2% |
| Wire transfer fees | 211 | 201 | 10 | 5.0% |
| Interchange fees | 649 | 514 | 135 | 26.3% |
| Fiduciary activities | 934 | 745 | 189 | 25.4% |
| Gain (loss) on sale of securities | 336 | 422 | (86) | 100.0% |
| Gain on sale of mortgage loans | 2,473 | 1,277 | 1,196 | 93.7% |
| Mortgage servicing net of impairment | (331) | 35 | (366) | -1045.7% |
| Increase in cash surrender value of bank owned life insurance | 246 | 206 | 40 | 19.4% |
| Other income | 209 | 170 | 39 | 22.9% |
| Total non-interest income | \$5,648 | \$ 4,542 | \$ 1,106 | 24.4% |

Residential mortgage loan refinancing continued to generate strong gain on sale of loans during the third quarter and was a 93.7% increase over the same period in 2009. The Company's residential mortgage loan division continues to provide customers with the needed service to lower their mortgage interest rates. During the third quarter of 2010, the Company originated approximately \$83.0 million of mortgage loans to be sold on the secondary market compared to \$61.3 million for the same period last year. Better pricing and execution in the secondary market has generated a higher percentage gain on sale of mortgage loans in 2010 compared to the same period in 2009.

The decrease in service charge income has been the result of reduced overdraft fee income as the number of consumer overdrafts has gone down. Also, due to the low interest rate environment, refinancing activity, and lower origination volume, the mortgage servicing right asset had net impairment during the quarter. These decreases were offset by increases in fiduciary income from the trust department due to improved market values of managed assets and an increase in the interchange fees due to higher levels of activity in ATM and debit card transactions. The net gain on the sale of securities of \$336,000 was the result of reallocating select municipal securities to reduce concentration risks as well as an analysis that determined that market conditions provided the opportunity to add gains to capital without negatively impacting long term earnings.

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| | Nine Months Ended | | Amount Change | Percent Change |
|--|-------------------------|-------------------------|------------------|-------------------|
| | September 30 2010 | September 30 2009 | | |
| Non-interest income | | | | |
| Service charges on deposit accounts | \$ 2,750 | \$ 2,880 | \$ (130) | -4.5% |
| Wire transfer fees | 536 | 709 | (173) | -24.4% |
| Interchange fees | 1,663 | 1,358 | 305 | 22.5% |
| Fiduciary activities | 2,936 | 2,486 | 450 | 18.1% |
| Gain (loss) on sale of securities | 467 | 422 | 45 | 100.0% |
| Gain on sale of mortgage loans | 5,529 | 4,861 | 668 | 13.7% |
| Mortgage servicing net of impairment | (363) | (131) | (232) | 177.1% |
| Increase in cash surrender value of bank owned life insurance | 599 | 547 | 52 | 9.5% |
| Other income | 828 | 420 | 408 | 97.1% |
| Total non-interest income | \$14,945 | \$ 13,552 | \$1,393 | 10.3% |

During the first nine months of 2010, the Company originated approximately \$182.7 million of mortgage loans to be sold on the secondary market compared to \$267.8 million for the same period last year. Better pricing and execution in the secondary market has generated higher percentage gains on the sale of mortgage loans compared to the same period in 2009 in addition to a higher overall gain on sale of mortgage loans compared to the prior year. Wire transfer fee income decreased compared to the prior year as the Company's mortgage warehouse business line has had less activity due to decreased residential mortgage loan refinancing volume compared to the same period in 2009. The decrease in service charge income has been the result of reduced overdraft fee income as the number of consumer overdrafts has gone down. Also, due to the low interest rate environment, refinancing activity, and lower origination volume, the mortgage servicing right asset had net impairment during the period. These decreases were offset by increases in fiduciary income from the trust department due to improved market values of managed assets and an increase in the interchange fees due to higher levels of activity in ATM and debit card transactions. The net gain on the sale of securities of \$363,000 was the result of reallocating select municipal securities to reduce concentration risks as well an analysis that determined that market conditions provided the opportunity to add gains to capital without negatively impacting long term earnings Other income for 2010 included \$185,000 from the gain on sale of OREO compared to a \$92,000 loss on the sale of OREO for the same period in 2009.

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Non-Interest Expense

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

| Non-interest expense | Three Months Ended | | Amount Change | Percent Change |
|-----------------------------------|-------------------------|-------------------------|------------------|-------------------|
| | September 30 2010 | September 30 2009 | | |
| Salaries and employee benefits | \$ 5,985 | \$ 4,539 | \$1,446 | 31.9% |
| Net occupancy expenses | 1,036 | 941 | 95 | 10.1% |
| Data processing | 502 | 419 | 83 | 19.8% |
| Professional fees | 417 | 316 | 101 | 32.0% |
| Outside services and consultants | 374 | 366 | 8 | 2.2% |
| Loan expense | 855 | 631 | 224 | 35.5% |
| FDIC deposit insurance | 423 | 400 | 23 | 5.8% |
| Other losses | 143 | (25) | 168 | -672.0% |
| Other expenses | 1,522 | 1,342 | 180 | 13.4% |
| Total non-interest expense | \$11,257 | \$ 8,929 | \$2,328 | 26.1% |

Salaries and employee benefits increased during the three months ended September 30, 2010 compared to the same period in 2009. 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, the expansion into Kalamazoo, Michigan, higher commissions paid on mortgage originations, and an increase in bonus accruals based on the Company's performance through nine months of 2010. Loan expense increased during the third quarter of 2010 compared to the same period in 2009 due to problem loan, bankruptcy, and collection costs. Professional fees were higher compared to last year due to litigation costs and increasing rules and regulations requiring additional professional assistance. Other losses include approximately \$67,000 in other real estate owned write-downs. All other categories of non-interest expense did not have a significant change from the prior year.

| Non-interest expense | Nine Months Ended | | Amount Change | Percent Change |
|----------------------------------|-------------------------|-------------------------|------------------|-------------------|
| | September 30 2010 | September 30 2009 | | |
| Salaries and employee benefits | \$15,973 | \$ 14,264 | \$1,709 | 12.0% |
| Net occupancy expenses | 3,077 | 2,872 | 205 | 7.1% |
| Data processing | 1,474 | 1,194 | 280 | 23.5% |
| Professional fees | 1,418 | 1,021 | 397 | 38.9% |
| Outside services and consultants | 1,163 | 1,043 | 120 | 11.5% |
| Loan expense | 2,376 | 1,841 | 535 | 29.1% |
| FDIC deposit insurance | 1,219 | 1,751 | (532) | -30.4% |
| Other losses | 180 | 442 | (262) | -59.3% |
| Other expenses | 4,115 | 3,826 | 289 | 7.6% |

| | | | | |
|-----------------------------------|-----------------|----------|---------|------|
| Total non-interest expense | \$30,995 | \$28,254 | \$2,741 | 9.7% |
|-----------------------------------|-----------------|----------|---------|------|

During the first nine months of 2010, the Company expensed \$664,000 of transaction costs related to the purchase and assumption of American Trust & Savings Bank. These one time expenses impacted salaries and employee benefits by \$145,000, data processing by \$170,000, professional fees by \$232,000, outside services and consultants by \$60,000, and other expenses by \$57,000. Salaries and employee benefits increased during the nine months ended September 30, 2010 compared to the same period in 2009. This increase is the result of additional payroll expense from the consolidation of the American Trust & Savings Bank transaction that

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closed at the end of the second quarter, the expansion into Kalamazoo, Michigan, an increase in bonus accruals based on the Company's performance through nine months of 2010, and higher health care costs. Loan expense increased in 2010 compared to the same period in 2009 due to problem loan, bankruptcy, and collection costs. Professional fees were higher compared to last year due to litigation costs and increasing rules and regulations requiring additional professional assistance and as a result of the American Trust & Savings Bank acquisition. The Company's FDIC expense decreased due to the \$663,000 recorded in the second quarter of 2009 for the special FDIC assessment. Other losses during the first quarter of 2009 included a one-time charge of \$210,000 for a wire transfer fraud perpetrated on the bank. All other categories of non-interest expense did not have a significant change from the prior year.

Income Taxes

Income tax expense for the third quarter of 2010 was \$1.1 million compared to \$559,000 of tax expense for the third quarter of 2009. The effective tax rate for the third quarter of 2010 was 24.7% compared to 19.2% in 2009. The increase in the effective tax rate is primarily due to higher income before income tax for the third quarter of 2010 compared to the same period in 2009 with a similar amount of tax exempt income.

Income tax expense for the nine-month period ending September 30, 2010 was \$2.0 million compared to \$1.7 million of tax expense for the same period in 2009. The effective tax rate for the nine-month period ending September 30, 2010 was 21.0% compared to 19.8% for the same period in 2009. The higher effective tax rate in 2010 can be attributed to higher income before income taxes compared to 2009 with a similar amount of tax exempt income.

Liquidity

The Bank maintains a stable base of core deposits provided by long standing relationships with individuals and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon include earnings, loan repayment, investment security sales and maturities, sale of residential mortgage loans, and borrowing relationships with correspondent banks, including the FHLB. During the nine months ended September 30, 2010, cash and cash equivalents decreased by approximately \$50.5 million. The decrease was primarily due to the growth in investment securities and an increase in mortgage warehouse balances. At September 30, 2010, in addition to liquidity available from the normal operating, funding, and investing activities of Horizon, the Bank had approximately \$405.1 million in unused credit lines with various money center banks, including the FHLB at September 30, 2010 compared to \$289.7 million at December 31, 2009 and \$291.4 million at September 30, 2009.

Capital Resources

The capital resources of Horizon and the Bank exceeded regulatory capital ratios for well capitalized banks at September 30, 2010. Stockholders' equity totaled \$120.1 million as of September 30, 2010, compared to \$114.6 million as of December 31, 2009. For the nine-months ended September 30, 2010, the ratio of average stockholders' equity to average assets was 8.32% compared to 8.61% for the quarter ending December 31, 2009. Horizon's capital increased during the nine months as a result of increased earnings net of dividends declared and the amortization of unearned compensation. On November 10, 2010, the Company redeemed \$6.25 million of the US Treasury's \$25.0 million preferred stock investment in the Company from the Capital Purchase Program, which is a program of the Troubled Assets Relief Program (TARP).

Horizon declared dividends in the amount of \$0.51 per share during the first nine months of 2010 which was the same amount for the same period of 2009. The dividend payout ratio (dividends as a percent of basic earnings per share) was 25.6% and 27.4% for the first nine months of 2010 and 2009, respectively. Horizon is a participant in the Capital Purchase Program, which is a program of the TARP established by the United

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States Department of the Treasury (the "U.S. Treasury") pursuant to the Emergency Economic Stabilization Act of 2008 ("EESA"). Pursuant to the agreements Horizon entered into as part of the Capital Purchase Program, Horizon is not permitted to increase dividends on its common shares above the amount of the last quarterly cash dividend per common share declared prior to October 14, 2008 (\$0.17 per common share) without the U.S. Treasury's approval until December 23, 2011, unless all of the Series A Preferred Shares issued to the U.S. Treasury pursuant to the Capital Purchase Program have been redeemed or transferred by the U.S. Treasury to unaffiliated third parties. For additional information regarding dividend conditions, see Horizon's Annual Report on Form 10-K for 2009.

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Quantitative and Qualitative Disclosures About Market Risk
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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to Horizon's 2009 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 2009 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 September 30, 2010, 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 Controls

Horizon's management, including its Chief Executive Officer and Chief Financial Officer, also have concluded that during the fiscal quarter ended September 30, 2010, 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
For the Nine Months Ended September 30, 2010

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. In addition, Horizon is engaged in the following legal proceedings:

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 secrets, and civil conspiracy. The temporary restraining order and preliminary injunction primarily sought to restrain the ex-employees from soliciting or doing business with any of Michigan Commerce Bank's customers and from using or disclosing any of Michigan Commerce Bank's confidential information. A hearing on the preliminary injunction was held, and the court dissolved the temporary restraining order and denied the preliminary injunction. After the temporary restraining order was dissolved, Plaintiffs stipulated to the dismissal of all the ex-employees on September 9, 2010, except one. In addition, Capitol Bancorp and Michigan Commerce Bank have amended their complaint to reflect the dismissal of these ex-employees as defendants but have yet to file the amended complaint pending the parties' settlement discussions.

As a result, this matter now primarily involves damage claims against one of the ex-employees for alleged breaches of his duty of loyalty to Michigan Commerce Bank and alleged breaches of the confidentiality agreement he signed while employed at Michigan Commerce Bank and claims against Horizon for alleged breaches of an employee non-solicitation provision contained in a confidentiality agreement between Horizon, Capitol Bancorp and certain of its affiliates (which was entered into in 2009 in connection with Horizon's investigation of potentially purchasing two affiliate banks of Capitol Bancorp) and similar claims relating to the hiring of the ex-employee who remains a party to the lawsuit. As mentioned above, the parties are currently in settlement negotiations. But should settlement negotiations fail, Horizon will continue to vigorously defend this matter.

On July 23, 2010, the bankruptcy trustee for AmerLink, LTD., filed a Complaint in the United States Bankruptcy Court of the Eastern District of North Carolina, Wilson Division seeking to recover up to \$25,000,000 in alleged damages and related costs from multiple defendants, including Horizon Bank, N.A. (f/k/a Horizon Trust & Investment Management) arising out of the bankruptcy of AmerLink. The Complaint primarily alleges that the prior owners of AmerLink engaged in a series of fraudulent and/or improper transactions in connection with the formation of AmerLink's Employee Stock Ownership Plan (ESOP). Horizon served as the ESOP trustee for AmerLink's ESOP plan. Horizon is vigorously defending the action and is actively pursuing a motion to dismiss itself from the action.

ITEM 1A. RISK FACTORS

No material changes from the factors included in the 2009 Annual Report on Form 10-K

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

Not Applicable

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HORIZON BANCORP AND SUBSIDIARIES

Part II Other Information

For the Nine Months Ended September 30, 2010

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. (REMOVED AND RESERVED)

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit 31.1 Certification of Craig M. Dwight

Exhibit 31.2 Certification of Mark E. Secor

Exhibit 32 Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

HORIZON BANCORP

Dated: November 12, 2010

/s/ Craig M. Dwight
Craig M. Dwight
Chief Executive Officer

Dated: November 12, 2010

/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.

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