

HORIZON BANCORP /IN/  
Form 10-K  
March 12, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the fiscal year ended December 31, 2011

Commission file number 0-10792

**Horizon Bancorp**

(Exact name of registrant as specified in its charter)

**Indiana**  
(State or other jurisdiction of

incorporation or organization)

**515 Franklin Square, Michigan City 46360**

(Address of principal executive offices) (Zip Code)

**219-879-0211**

**35-1562417**  
(I.R.S. Employer

Identification No.)

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Registrant's telephone number, including area code:

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:

None

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company <input checked="" type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, based on the average bid price of such stock as of June 30, 2011, the last day of the registrant's most recently completed second fiscal quarter, was approximately \$80.3 million.

As of March 12, 2012, the registrant had 4,967,196 shares of common stock outstanding.

Part of Form 10-K into which

Documents Incorporated by Reference Document  
Portions of the Registrant's Proxy Statement to be filed for its May 3, 2012 annual meeting of shareholders

portion of document is incorporated  
III



**Table of Contents**

**HORIZON BANCORP**

**2011 Annual Report on Form 10-K**

**Table of Contents**

	<b>Page</b>
<b><u>PART I</u></b>	
Item 1	<u>Business</u> 3
Item 1A	<u>Risk Factors</u> 15
Item 1B	<u>Unresolved Staff Comments</u> 27
Item 2	<u>Properties</u> 27
Item 3	<u>Legal Proceedings</u> 27
Item 4	<u>Mine Safety Disclosures</u> 27
Special Item:	<u>Executive Officers of Registrant</u> 28
<b><u>PART II</u></b>	
Item 5	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 29
Item 6	<u>Selected Financial Data</u> 30
Item 7	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 31
Item 7A	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 52
Item 8	<u>Financial Statements and Supplementary Data</u> 53
Item 9	<u>Changes in and Disagreement with Accountants on Accounting and Financial Disclosure</u> 105
Item 9A	<u>Controls and Procedures</u> 105
Item 9B	<u>Other Information</u> 105
<b><u>PART III</u></b>	
Item 10	<u>Directors, Executive Officers and Corporate Governance</u> 106
Item 11	<u>Executive Compensation</u> 106
Item 12	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> 107
Item 13	<u>Certain Relationships and Related Transactions, and Director Independence</u> 107
Item 14	<u>Principal Accountant Fees and Services</u> 107
<b><u>PART IV</u></b>	
Item 15	<u>Exhibits and Financial Statement Schedules</u> 107
	<u>SIGNATURES</u> 108
	<u>EXHIBIT INDEX</u> 110

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

**PART I**

*In addition to historical information, information included and incorporated by reference in this Annual Report on Form 10-K contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Please refer to the discussion of our forward-looking statements, associated risks and risk factors below in Item 1. Business Forward-Looking Statements and Risk Factors and in Item 1A. Risk Factors.*

**ITEM 1. BUSINESS**

The disclosures in this Item 1 are qualified by the disclosures below in Item 1A, Risk Factors, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operation, and in other cautionary statements set forth elsewhere in this Annual Report on Form 10-K.

**General**

Horizon Bancorp ( Horizon or the Company ) 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 Bank, N.A. (the Bank ) and other affiliated entities. 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.

On June 1, 2010, the Company announced the completion of the purchase of assets and the assumption of liabilities of American Trust & Savings Bank ( American ) in Whiting, Indiana. The transaction was consummated on May 28, 2010. The Company purchased most of the banking-related assets of American, totaling \$107.8 million and assumed all the deposits, federal home loan bank advances, trust preferred securities, and accrued interest payable in the approximate amount of \$110.3 million. The Company paid a deposit premium on core deposits of approximately \$2.1 million and \$500,000 in additional consideration. The Company engaged in this transaction in the expectation that it would realize increased profits through increasing its investment securities, loans, and deposits within a new market area. In total, the Bank maintains 22 full service offices. At December 31, 2011, the Bank had total assets of \$1.55 billion and total deposits of \$1.00 billion. The Bank has three wholly-owned subsidiaries: Horizon Investments, Inc. ( Horizon Investments ), Horizon Insurance Services, Inc. ( Horizon Insurance ) and Horizon Grantor Trust. Horizon Investments manages the investment portfolio of the Bank. Horizon Insurance offered a full line of personal and corporate insurance products until March 2005, at which time the majority of its assets were sold to a third party. Horizon Insurance is no longer an operating subsidiary and is primarily used to collect residual insurance income. Horizon Grantor Trust holds title to certain company owned life insurance policies.

Horizon formed Horizon Bancorp Capital Trust II in 2004 ( Trust II ) and Horizon Bancorp Capital Trust III in 2006 ( Trust III ) for the purpose of participating in pooled trust preferred securities offerings. The Company assumed additional debentures as the result of the acquisition of Alliance Financial Corporation in 2005, which formed Alliance Financial Statutory Trust I ( Alliance Trust ). The Company also assumed additional debentures as the result of the American transaction, which formed Am Tru Statutory Trust I (Am Tru Trust). See Note 12 of the Consolidated Financial Statements for further discussion regarding these previously consolidated entities that are now reported separately. The business of Horizon is not seasonal to any material degree.

No material part of Horizon's business is dependent upon a single or small group of customers, the loss of any one or more of which would have a materially adverse effect on the business of Horizon. In 2011, revenues from loans accounted for 59.3% of the total consolidated revenue, and revenues from investment securities accounted for 16.8% of total consolidated revenue.

## **Table of Contents**

### **HORIZON BANCORP**

(Table dollars in thousands except per share data)

#### **Available Information**

The Company's Internet address is [www.accesshorizon.com](http://www.accesshorizon.com). The Company makes available, free of charge through the Investor Relations SEC Filings section of its Internet website, copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after those reports are filed with or furnished to the SEC.

#### **Employees**

The Bank employed approximately 323 full and part-time employees as of December 31, 2011. Horizon, Horizon Insurance and Horizon Grantor Trust do not have any employees.

#### **Competition**

A high degree of competition exists in all major areas where Horizon engages in business. The Bank's primary market consists of Porter, LaPorte, St. Joseph, Elkhart, and Lake Counties Indiana, and Berrien and Kalamazoo Counties Michigan. The Bank competes with other commercial banks as well as with savings and loan associations, consumer finance companies and credit unions. To a more moderate extent, the Bank competes with Chicago money center banks, mortgage banking companies, insurance companies, brokerage houses, other institutions engaged in money market financial services and certain government agencies.

Based on deposits as of June 30, 2011, Horizon was the largest of the 10 bank and thrift institutions in LaPorte County with a 33.07% market share and the sixth largest of the 14 institutions in Porter County with a 9.49% market share. In Berrien County, Michigan, Horizon was the fourth largest of the 10 bank and thrift institutions with a 7.24% market share. Horizon's market share of deposits in Lake County, Indiana was just over 1% at 1.46%, and less than 1% in each of the counties of St. Joseph and Elkhart Counties in Indiana and Kalamazoo County in Michigan. (Source: FDIC Summary of Deposits Market Share Reports, available at [www.fdic.gov](http://www.fdic.gov)).

#### **Regulation and Supervision**

As a bank holding company, the Company is subject to extensive regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (the Federal Reserve Board or FRB) as its primary federal regulator. The Bank, as a nationally chartered bank, is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency (OCC) as its primary federal regulator and, as to certain matters, by the FRB and the Federal Deposit Insurance Corporation (FDIC). Both federal and state law extensively regulate various aspects of the banking business, such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Branching by the Bank is subject to the jurisdiction and requires notice to, or the prior approval of, the OCC. The Dodd-Frank Act permits the establishment of de novo branches in states where such branches could be opened by a state bank chartered by that state. The consent of the state is no longer required.

#### **The Bank Holding Company Act**

Horizon is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended (BHC Act). Federal Reserve Board policy has historically required bank holding companies to act as a source of financial and management strength for their subsidiary banks. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law on July 21, 2010, codified this policy. Under this requirement, Horizon is required to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which Horizon might not otherwise do so. For this purpose, source of financial strength means Horizon's ability to provide financial assistance to the Bank in the event of the Bank's financial distress.

The BHC Act requires the prior approval of the Federal Reserve to acquire more than a 5% voting interest of any bank or bank holding company. Additionally, the BHC Act restricts Horizon's non-banking activities to those which are determined by the Federal Reserve to be so closely related to banking and a proper incident thereto.

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (the "FDICIA"), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become undercapitalized.

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

(as defined in FDICIA) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency.

Bank holding companies are required to comply with the Federal Reserve's risk-based capital guidelines. The Federal Deposit Insurance Corporation (the FDIC) and the Office of the Comptroller of the Currency (the OCC) also have risk-based capital ratio guidelines to which depository institutions under their respective supervision are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. For Horizon's regulatory capital ratios and regulatory requirements as of December 31, 2011, see the information in Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 below, which is incorporated herein by reference.

**National Bank Act**

As a national bank, the Bank is subject to the provisions of the National Bank Act. The Bank is supervised, regulated, and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve, and the FDIC.

**Deposit Insurance and Assessments**

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

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) has resulted in significant changes to the FDIC's deposit insurance system. Under the Dodd-Frank Act, the FDIC is authorized to set the reserve ratio for the Deposit Insurance Fund at no less than 1.35%, and must achieve the 1.35% designated reserve ratio by September 30, 2020. The FDIC must offset the effect of the increase in the minimum designated reserve ratio from 1.15% to 1.35% on insured depository institutions of less than \$10 billion and may declare dividends to depository institutions when the reserve ratio at the end of a calendar quarter is at least 1.5%, although the FDIC has the authority to suspend or limit such permitted dividend declarations. In December 2010, the FDIC adopted a final rule setting the designated reserve ratio for the deposit insurance fund at 2% of estimated insured deposits.

Also as a consequence of the Dodd-Frank Act, the assessment base for deposit insurance premiums was changed, effective April 1, 2011, from adjusted domestic deposits to average consolidated total assets minus average tangible equity. Tangible equity for this purpose means Tier 1 capital. Effective April 1, 2011, the initial base assessment rates were as follows:

For small Risk Category I banks, such as Horizon, the rates range from 5-9 basis points.

The rates for small institutions in Risk Categories II, III and IV are 14, 23 and 35 basis points, respectively.

For large institutions and large, highly complex institutions, the rate schedule ranges from 5 to 35 basis points.

Adjustments are made to the initial assessment rates based on long-term unsecured debt, depository institution debt, and brokered deposits. Horizon's FDIC deposit insurance expense decreased during 2011 compared to 2010 as the new assessment calculation resulted in lower expense for the Bank. In addition, the Bank used \$2.7 million of the \$5 million of the premiums prepaid on December 30, 2009 to offset assessment for 2011. The FDIC is continuing to offset the regular insurance assessments until the earlier of the exhaustion of an institution's prepaid assessments



## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

or June 30, 2013. Any prepaid assessment remaining after collection of the amount due on June 30, 2013, will be returned to the institution.

The Dodd-Frank Act also extended unlimited insurance on noninterest bearing accounts for no additional charges through December 31, 2012. Under this program, traditional noninterest demand deposit (or checking) accounts that allow for an unlimited number of transfers and withdrawals at any time, whether held for a business, individual, or other type of depositor, are covered. Later, Congress added Lawyers' Trust Accounts (IOLTA) to this unlimited insurance protection through December 31, 2012.

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe and unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital.

FDIC-insured institutions are also subject to the requirement to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ( FICO ), an agency of the Federal government established to recapitalize the predecessor to the SAIF. These assessments will continue until the FICO bonds are repaid between 2017 and 2019. During 2011, the FICO assessment rate ranged between 0.68 and 1.02 basis points for each \$100 of insured deposits per quarter. For the first quarter of 2012, the FICO assessment rate is 0.66 basis points for each \$100 in domestic deposits maintained at an institution.

**Transactions with Affiliates and Insiders**

Horizon and the Bank are subject to the Federal Reserve Act, which restricts financial transactions between banks, affiliated companies and their executive officers, including limits on credit transactions between these parties. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with a bank's extension of credit to an affiliate.

Effective July 21, 2011, among other changes, the Dodd-Frank Act eliminated the exceptions under Section 23A of the Federal Reserve Act for transactions with financial subsidiaries and expanded the scope of transactions treated as covered transactions to include derivatives transactions and securities repurchase agreements. The Dodd-Frank Act also expands the types of transactions subject to insider lending limits.

**Capital Regulation**

The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and account for off-balance sheet items. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk weighted categories of 0%, 20%, 50%, or 100%, with higher levels of capital being required for the categories perceived as representing greater risk.

The capital guidelines divide a bank holding company's or bank's capital into two tiers. The first tier ( Tier I ) includes common equity, certain non-cumulative perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (except mortgage servicing rights and purchased credit card relationships, subject to certain limitations). Supplementary capital ( Tier II ) includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan and lease losses, subject to certain limitations, less required deductions. Banks and bank holding companies are required to maintain a total risk-based capital ratio of at least 8%, of which 4% must be Tier I capital. The federal banking regulators may, however, set higher capital requirements when a bank's particular circumstances warrant. Banks experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

Also required by the regulations is the maintenance of a leverage ratio designed to supplement the risk-based capital guidelines. This ratio is computed by dividing Tier I capital, net of all intangibles, by the quarterly average of total assets. The minimum leverage ratio is 3% for the most highly rated institutions, and 1% to 2% higher for institutions not meeting those standards. Pursuant to the regulations, banks must maintain capital levels commensurate with the level of risk, including the volume and severity of problem loans to which they are exposed.

On November 10, 2010, Horizon repurchased from the U.S. Department of the Treasury (the Treasury ) 6,250 shares, or 25%, of the 25,000 outstanding shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Series A Preferred Stock ), that Horizon had issued to the Treasury in December 2008 in connection with Horizon's participation



**Table of Contents****HORIZON BANCORP**

(Table dollars in thousands except per share data)

in the Troubled Asset Relief Program Capital Purchase Program. On August 25, 2011, Horizon issued 12,500 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series B (the Series B Preferred Stock), for proceeds of \$12.5 million and used those proceeds, together with otherwise available funds, to redeem the remaining 18,750, or 75%, of the outstanding shares of Series A Preferred Stock held by the Treasury.

The following is a summary of Horizon's and the Bank's regulatory capital and capital requirements at December 31, 2011.

	\$000,00.00	\$000,00.00	\$000,00.00	\$000,00.00	\$000,00.00	\$000,00.00
	<b>Actual</b>		<b>For Capital<sup>1</sup></b>		<b>For Well<sup>1</sup></b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<b>As of December 31, 2011</b>						
Total capital <sup>1</sup> (to risk-weighted assets)						
Consolidated	\$ 151,396	14.20%	\$ 85,294	8.00%	N/A	N/A
Bank	139,862	13.12%	85,282	8.00%	\$ 106,602	10.00%
Tier 1 capital <sup>1</sup> (to risk-weighted assets)						
Consolidated	138,001	12.94%	42,659	4.00%	N/A	N/A
Bank	126,467	11.86%	42,653	4.00%	63,980	6.00%
Tier 1 capital <sup>1</sup> (to average assets)						
Consolidated	138,001	9.27%	59,547	4.00%	N/A	N/A
Bank	126,467	8.50%	59,514	4.00%	74,392	5.00%

<sup>1</sup> As defined by regulatory agencies

The Dodd-Frank Act also requires the Federal Reserve to set minimum capital levels for bank holding companies that are as stringent as those required for insured depository subsidiaries, except that bank holding companies with less than \$500 million in assets are exempt from these capital requirements.

**Dividends**

Dividends received from the Bank are the primary source of Horizon's revenues. The Bank's payment of dividends, without prior regulatory approval, is subject to regulatory limitations. Under the National Bank Act, the Bank, as a national bank, is required to obtain the prior approval of the OCC for the payment of dividends if the total of all dividends declared by it in one year would exceed its net profits for the current year plus its retained net profits for the two preceding years, less any required transfers to surplus. In addition, the Bank may only pay dividends to the extent that its retained net profits (including the portion transferred to surplus) exceed statutory bad debts from paying dividends that would be greater than the bank's undivided profits after deducting statutory bad debt in excess of the bank's allowance for loan losses. Under the Federal Deposit Insurance Act, the Bank is prohibited from paying any dividends, making other distributions or paying any management fees if, after such payment, it would fail to satisfy its minimum capital requirements.

During the period that the Series A Preferred Stock issued to the Treasury was outstanding, Horizon's ability to declare, pay or increase dividends on its shares of common stock was further restricted. These restrictions terminated on August 25, 2011, when Horizon completed the redemption of all of the outstanding shares of Series A Preferred Stock. However, the issuance to the Treasury of the Series B Preferred Stock resulted in the imposition of new limitations on Horizon's ability to pay dividends. Under the terms of the Series B Preferred Stock, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking *pari passu* with the Series B Preferred Stock, junior preferred shares, or other junior securities, including the common stock, during the current quarter and for the next three quarters following the failure to declare and pay dividends on the Series B Preferred Stock, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking *pari passu* may be paid to the extent necessary to avoid any resulting material covenant breach. Horizon does not anticipate that these restrictions will affect its ability to pay the required dividends on the Series B Preferred Stock or its ability to continue to pay dividends on

its common stock.

**Prompt Corrective Regulatory Action.**

Federal law provides the federal banking regulators with broad powers to take prompt corrective action to resolve the problems of undercapitalized institutions. The extent of the regulators' powers depends on whether the institution in question is well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

undercapitalized, as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the submission of a capital restoration plan; (ii) placing limits on asset growth and restrictions on activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions with affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution. At December 31, 2011, the Bank was categorized as well capitalized, meaning that the Bank's total risk-based capital ratio exceeded 10%, the Bank's Tier I risk-based capital ratio exceeded 6%, the Bank's leverage ratio exceeded 5%, and the Bank was not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure.

**Anti-Money Laundering and the USA Patriot Act**

Horizon is subject to the provisions of the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and requires financial institutions to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering, suspicious activities and currency transaction reporting, and currency crimes.

**Sarbanes-Oxley Act of 2002**

Horizon also is subject to the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), which revised the laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act applies to all companies with equity or debt securities registered under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act established: (i) new requirements for audit committees, including independence, expertise and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and their directors and executive officers; and (v) new and increased civil and criminal penalties for violation of the securities laws. Management expects that significant additional efforts and expense will continue to be required to comply with the provisions of the Sarbanes-Oxley Act.

The Securities and Exchange Commission has adopted final rules implementing Section 404 of the Sarbanes-Oxley Act of 2002. In each Form 10-K it files, Horizon is required to include a report of management on Horizon's internal control over financial reporting. The internal control report must include a statement of management's responsibility for establishing and maintaining adequate control over financial reporting of Horizon, identify the framework used by management to evaluate the effectiveness of Horizon's internal control over financial reporting and provide management's assessment of the effectiveness of Horizon's internal control over financial reporting. Significant efforts were required to comply with Section 404 and Horizon anticipates additional efforts will be required in future years.

**Recent Legislative Developments**

On July 21, 2010, President Obama signed into law the Dodd-Frank Act, which significantly changes the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affect how community banks, thrifts, and small bank and thrift holding companies are regulated in the future. Among other things, these provisions have resulted in the abolishment of the Office of Thrift Supervision and the transfer on its functions to the other federal banking agencies, relaxed rules regarding interstate branching, allowed financial institutions to pay interest on business checking accounts, changed the scope of federal deposit insurance coverage and imposed new capital requirements on bank and thrift holding companies.

The Dodd-Frank Act also established the Bureau of Consumer Financial Protection as an independent entity within the Federal Reserve, which has the authority to promulgate consumer protection regulations applicable to all entities offering consumer financial services or products, including banks. Additionally, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards and pre-payments. The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on the operating environment of Horizon in substantial

and unpredictable

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

ways. The nature and extent of future legislative and regulatory changes affecting financial institutions, including as a result of the Dodd-Frank Act, is very unpredictable.

The ultimate effect of the Dodd-Frank Act on the financial services industry in general, and Horizon in particular, remains uncertain. Many aspects of the Dodd-Frank Act are subject to future rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Horizon and the financial services industry more generally. Horizon's management continues to review rules and regulations adopted pursuant to the Dodd-Frank Act and assess their probable impact on the business, financial condition and results of operations of Horizon.

**Other Regulation**

In addition to the matters discussed above, the Bank is subject to additional regulation of its activities, including a variety of consumer protection regulations affecting its lending, deposit, and collection activities and regulations affecting secondary mortgage market activities.

**Effect of Governmental Monetary Policies**

The Bank's earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

**Federal Home Loan Bank System**

The Bank is a member of the FHLB of Indianapolis, which is one of twelve regional FHLBs. Each FHLB serves as a reserve or central bank for its members within its assigned region. The FHLB is funded primarily from funds deposited by banks and savings associations and proceeds derived from the sale of consolidated obligations of the FHLB system. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB. All FHLB advances must be fully secured by sufficient collateral as determined by the FHLB. The Federal Housing Finance Board ( FHFBS ), an independent agency, controls the FHLB System, including the FHLB of Indianapolis.

As a member of the FHLB, the Bank is required to purchase and maintain stock in the FHLB of Indianapolis in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts, or similar obligations at the beginning of each year. At December 31, 2011, the Bank's investment in stock of the FHLB of Indianapolis was \$11.4 million. The FHLB imposes various limitations on advances such as limiting the amount of certain types of real estate related collateral to 30% of a member's capital and limiting total advances to a member. Interest rates charged for advances vary depending upon maturity, the cost of funds to the FHLB of Indianapolis and the purpose of the borrowing.

The FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low and moderate income housing projects. For the year ended December 31, 2011, dividends paid by the FHLB of Indianapolis to the Bank totaled approximately \$277,000, for an annualized rate of 2.61%.

**Limitations on Rates Paid for Deposits**

FDIC regulations place limitations on the interest rates that less than well-capitalized insured depository institutions may pay on deposits. Under these regulations, well-capitalized depository institutions may accept, renew or roll such deposits over without restriction, adequately capitalized



## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

depository institutions may accept, renew or roll such deposits over with a waiver from the FDIC (subject to certain restrictions on payments of rates) and undercapitalized depository institutions may not accept, renew or roll such deposits over. The regulations contemplate that the definitions of well capitalized, adequately capitalized and undercapitalized will be the same as the definition adopted by the agencies to implement the corrective action provisions of federal law. Management does not believe that these regulations will have a materially adverse effect on the Bank's current operations.

**Table of Contents****HORIZON BANCORP**

(Table dollars in thousands except per share data)

**Legislative Initiatives**

Additional legislative and administrative actions affecting the banking industry may be considered by the United States Congress, state legislatures and various regulatory agencies, including those referred to above. It cannot be predicted with certainty whether such legislative or administrative action will be enacted or the extent to which the banking industry in general or Horizon and its affiliates will be affected.

**BANK HOLDING COMPANY STATISTICAL DISCLOSURES****I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL**

Information required by this section of Securities Act Industry Guide 3 is presented in Management's Discussion and Analysis as set forth in Item 7 below, herein incorporated by reference.

**II. INVESTMENT PORTFOLIO**

A. The following is a schedule of the amortized cost and fair value of investment securities available for sale and held to maturity.

	December 31, 2011		December 31, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Available for sale</b>						
U.S. Treasury and federal agencies	\$ 12,693	\$ 13,022	\$ 24,727	\$ 25,251	\$ 19,612	\$ 20,085
State and municipal	135,011	143,890	132,380	131,489	107,160	109,149
Federal agency collateralized mtg. obligations	89,016	91,122	100,106	101,837	76,222	77,289
Federal agency mortgage-backed pools	173,797	179,351	114,390	117,895	113,633	118,661
Private labeled mortgage-backed pools	3,518	3,636	5,197	5,323	7,779	7,606
Corporate notes	32	24	555	549	355	342
<b>Total available for sale</b>	414,067	431,045	377,355	382,344	324,761	333,132
Total held to maturity, state and municipal	7,100	7,134	9,595	9,595	11,657	11,687
<b>Total investment securities</b>	\$ 421,167	\$ 438,179	\$ 386,950	\$ 391,939	\$ 336,418	\$ 344,819

B. The following is a schedule of maturities of each category of available for sale and held to maturity debt securities and the related weighted-average yield of such securities as of December 31, 2011:

One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years
------------------	-----------------------------------	------------------------------------	-----------------

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Available for sale	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury and federal agencies <sup>(1)</sup>	\$	0.00%	\$ 7,907	2.83%	\$ 5,115	2.99%	\$	0.00%
State and municipal	940	2.66%	24,003	3.63%	49,939	3.73%	69,008	3.86%
Federal agency collateralized mtg. obligations <sup>(2)</sup>		0.00%		0.00%	4,969	3.90%	86,153	3.52%
Federal agency mortgage-backed pools <sup>(2)</sup>	162	4.51%	901	4.10%	38,851	3.71%	139,437	3.78%
Private labeled mortgage-backed pools <sup>(2)</sup>		0.00%		0.00%	3,636	4.93%		0.00%
Corporate notes		0.00%		0.00%		0.00%	24	0.00%
<b>Total available for sale</b>	<b>\$ 1,102</b>	<b>2.93%</b>	<b>\$ 32,811</b>	<b>3.45%</b>	<b>\$ 102,510</b>	<b>3.57%</b>	<b>\$ 294,622</b>	<b>3.72%</b>
Total held to maturity, state and municipal	\$ 7,134	2.65%	\$	0.00%	\$	0.00%	\$	0.00%
<b>Total investment securities</b>	<b>\$ 8,236</b>	<b>2.69%</b>	<b>\$ 32,811</b>	<b>3.45%</b>	<b>\$ 102,510</b>	<b>3.57%</b>	<b>\$ 294,622</b>	<b>3.72%</b>

<sup>(1)</sup> Fair value is based on contractual maturity or call date where a call option exists

<sup>(2)</sup> Maturity based upon final maturity date

**Table of Contents****HORIZON BANCORP**

(Table dollars in thousands except per share data)

The weighted-average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount. Yields are not presented on a tax-equivalent basis.

Excluding those holdings of the investment portfolio in Treasury securities and other agencies and corporations of the U.S. Government, there were no investments in securities of any one issuer that exceeded 10% of the consolidated stockholders' equity of Horizon at December 31, 2011.

**III. LOAN PORTFOLIO**

A. **Types of Loans** Total loans on the balance sheet are comprised of the following classifications for the years indicated.

	December 31 2011	December 31 2010	December 31 2009	December 31 2008	December 31 2007
Commercial	\$ 352,376	\$ 330,018	\$ 314,517	\$ 310,842	\$ 307,535
Real estate	157,141	162,435	133,892	167,766	216,019
Mortgage warehouse	208,299	123,743	166,698	123,287	78,225
Consumer	265,377	266,681	271,210	280,072	287,073
	983,193	882,877	886,317	881,967	888,852
Allowance for loan losses	(18,882)	(19,064)	(16,015)	(11,410)	(9,791)
Total loans	\$ 964,311	\$ 863,813	\$ 870,302	\$ 870,557	\$ 879,061

B. **Maturities and Sensitivities of Loans to Changes in Interest Rates** The following is a schedule of maturities and sensitivities of loans to changes in interest rates, excluding real estate mortgage, mortgage warehousing and installment loans, as of December 31, 2011:

	000000000 One Year or Less	000000000 One Through Five Years	000000000 After Five Years	000000000 Total
Maturing or repricing Commercial, financial, agricultural and commercial tax-exempt loans	\$ 280,413	\$ 62,784	\$ 9,179	\$ 352,376

The following is a schedule of fixed-rate and variable-rate commercial, financial, agricultural and commercial tax-exempt loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

	000000000 Fixed Rate	000000000 Variable Rate
Total commercial, financial, agricultural and commercial tax-exempt loans due after one year	\$ 67,518	\$ 4,445



**Table of Contents****HORIZON BANCORP**

(Table dollars in thousands except per share data)

**C. Risk Elements****Non-accrual, Past Due and Restructured Loans** The following schedule summarizes non-accrual, past due and restructured loans.

	December 31 2011	December 31 2010	December 31 2009	December 31 2008	December 31 2007
<b>Non-performing loans</b>					
Commercial					
More than 90 days past due	\$	\$	\$ 1,086	\$ 49	\$
Non-accrual	6,905	7,508	8,143	5,118	1,870
Trouble debt restructuring accruing		574			
Trouble debt restructuring non-accrual	1,053				
Real estate					
More than 90 days past due		222	296	464	
Non-accrual	4,694	5,483	1,257	1,440	512
Trouble debt restructuring accruing	2,682	3,380	3,266		
Trouble debt restructuring non-accrual	1,120	241			
Mortgage warehouse					
More than 90 days past due					
Non-accrual					
Trouble debt restructuring accruing					
Trouble debt restructuring non-accrual					
Consumer					
More than 90 days past due	37	136	376	318	87
Non-accrual	2,769	3,682	2,515	474	480
Trouble debt restructuring accruing	858	165	206		
Trouble debt restructuring non-accrual	25	37			
<b>Total non-performing loans</b>	20,143	21,428	17,145	7,863	2,949
<b>Other real estate owned and repossessed collateral</b>					
Commercial	1,092	1,622	544		
Real estate	1,708	1,042	1,186	2,772	238
Mortgage warehouse					
Consumer	49		23	207	303
<b>Total other real estate owned and repossessed collateral</b>	2,849	2,664	1,753	2,979	541
<b>Total non-performing assets</b>	\$ 22,992	\$ 24,092	\$ 18,898	\$ 10,842	\$ 3,490

0000000000

Gross interest income that would have been recorded on non-accrual loans outstanding as of December 31, 2011, in the period if the loans had been current, in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period.

\$ 1,265

Interest income actually recorded on non-accrual loans outstanding as of December 31, 2011, and included in net income for the period.

481

Interest income not recognized during the period on non-accrual loans outstanding as of December 31, 2011.	\$	784
--	----	-----

**Discussion of Non-Accrual Policy**

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

**Table of Contents****HORIZON BANCORP**

(Table dollars in thousands except per share data)

## 2. Potential Problem Loans:

Impaired and non-accrual loans for which the discounted cash flows or collateral value exceeded the carrying value of the loan totaled \$20.1 million and \$21.4 million at December 31, 2011 and 2010. The allowance for impaired and non-accrual loans, included in the Bank's allowance for loan losses totaled \$4.6 million and \$3.4 million at those respective dates. The average balance of impaired loans during 2011 and 2010 was \$8.2 million and \$8.5 million.

## 3. Foreign Outstandings:

None

## 4. Loan Concentrations:

As of December 31, 2011, there are no significant concentrations of loans exceeding 10% of total loans. See Item III A above for a listing of the types of loans by concentration.

**D. Other Interest-Bearing Assets**

There are no other interest-bearing assets as of December 31, 2011, which would be required to be disclosed under Item III C.1 or 2 if such assets were loans.

**IV. SUMMARY OF LOAN LOSS EXPERIENCE**

A. The following is an analysis of the activity in the allowance for loan losses account:

	000000000 December 31 2011	000000000 December 31 2010	000000000 December 31 2009	000000000 December 31 2008	000000000 December 31 2007
Loans outstanding at the end of the period <sup>(1)</sup>	\$ 983,193	\$ 882,877	\$ 886,317	\$ 886,317	\$ 888,852
Average loans outstanding during the period <sup>(1)</sup>	862,498	878,181	892,431	848,279	853,314

<sup>(1)</sup> Net of unearned income and deferred loan fees

	December 31 2011	December 31 2010	December 31 2009	December 31 2008	December 31 2007
Balance at beginning of the period	\$ 19,064	\$ 16,015	\$ 11,410	\$ 9,791	\$ 8,738
Loans charged-off:					
Commercial	967	3,856	2,461	1,358	
Real estate	956	811	432	351	36



Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Consumer	4,757	5,067	7,354	5,277	2,701
Total loans charged-off	6,680	9,734	10,247	6,986	2,737
Recoveries of loans previously charged-off:					
Commercial	163	233	66	15	48
Real estate	10	1		50	
Consumer	1,043	995	1,183	972	674
Total loan recoveries	1,216	1,229	1,249	1,037	722
Net loans charged-off	5,464	8,505	8,998	5,949	2,015
Provision charged to operating expense	5,282	11,554	13,603	7,568	3,068
Balance at the end of the period	\$ 18,882	\$ 19,064	\$ 16,015	\$ 11,410	\$ 9,791
Percent of net charge-offs to average loans outstanding for the period	0.63%	0.97%	1.01%	0.70%	0.24%

**Table of Contents****HORIZON BANCORP**

(Table dollars in thousands except per share data)

- B. The following schedule is a breakdown of the allowance for loan losses allocated by type of loan and the percentage of loans in each category to total loans.

	December 31 2011		December 31 2010		December 31 2009		December 31 2008		December 31 2007	
	Allowance Amount	% of Total Loans	Allowance Amount	% of Total Loans	Allowance Amount	% of Total Loans	Allowance Amount	% of Total Loans	Allowance Amount	% of Total Loans
Commercial, financial and agricultural	\$ 8,017	36%	\$ 7,554	38%	\$ 5,766	35%	\$ 3,202	35%	\$ 2,656	35%
Real estate	2,472	16%	2,379	18%	1,933	15%	973	19%	779	24%
Mortgage warehousing	1,695	21%	1,435	14%	1,455	19%	1,354	14%	1,309	9%
Consumer	6,698	27%	7,696	30%	6,861	31%	5,881	32%	5,047	32%
Unallocated										
Total	\$ 18,882	100%	\$ 19,064	100%	\$ 16,015	100%	\$ 11,410	100%	\$ 9,791	100%

In 1999, Horizon began a mortgage warehousing program. This program is described in Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 below and in the Notes to the Financial Statements in Item 8 below, which are incorporated herein by reference. The greatest risk related to these loans is transaction and fraud risk. During 2011, Horizon processed approximately \$2.2 billion in mortgage warehouse loans.

**V. DEPOSITS**

Information required by this section is found in Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 below and in the Consolidated Financial Statements and related notes in Item 8 below, which are incorporated herein by reference.

**VI. RETURN ON EQUITY AND ASSETS**

Information required by this section is found in Management's Discussion and Analysis of Financial Condition and Results of Operation in Item 7 below and in the Consolidated Financial Statements and related notes in Item 8 below, which are incorporated herein by reference.

**VII. SHORT TERM BORROWINGS**

The following is a schedule of statistical information relative to securities sold under agreements to repurchase which are secured by Treasury and U.S. Government agency securities and mature within one year. There were no other categories of short-term borrowings for which the average balance outstanding during the period was 30 percent or more of stockholders' equity at the end of the period.

	December 31 2011	December 31 2010
Outstanding at year end	\$ 43,849	\$ 45,394

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Approximate weighted-average interest rate at year-end	0.14%	0.18%
Highest amount outstanding as of any month-end during the year	\$ 43,849	\$ 49,656
Approximate average outstanding during the year	\$ 40,291	\$ 43,599
Approximate weighted-average interest during the year	0.16%	0.19%

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

**FORWARD-LOOKING STATEMENTS AND RISK FACTORS**

**A cautionary note about forward-looking statements:** In its oral and written statements, Horizon from time to time includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements can include statements about estimated cost savings, plans and objectives for future operations and expectations about Horizon's financial and business performance as well as economic and market conditions. They often can be identified by the use of words such as expect, may, could, will, intend, project, estimate, believe, anticipate, and variations of such words and similar expressions.

Horizon may include forward-looking statements in filings with the Securities and Exchange Commission (SEC), such as this Form 10-K, in other written materials, and in oral statements made by senior management to analysts, investors, representatives of the media, and others. It is intended that these forward-looking statements speak only as of the date they are made, and Horizon undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward-looking statement is made or to reflect the occurrence of unanticipated events.

By their nature, forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors, such as the following:

economic conditions and their impact on Horizon and its customers;

changes in interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity;

volatility and disruption in financial markets;

prepayment speeds, loan originations, credit losses and market values on loans, collateral securing loans and other assets;

sources of liquidity;

changes in the competitive environment in Horizon's market areas and among other financial service providers;

legislation and/or regulation affecting the financial services industry as a whole, and Horizon and its subsidiaries in particular;

changes in regulatory supervision and oversight, including monetary policy and capital requirements;

changes in accounting policies or procedures as may be required by regulatory agencies;

rapid technological developments and changes;

containing costs and expenses;

risks of expansion through mergers and acquisitions, including unexpected credit quality problems with acquired loans, difficulty integrating acquired operations and material differences in the actual financial results of such transactions compared with Horizon's initial expectations, including the full realization of anticipated cost savings.

You are cautioned that actual results may differ materially from those contained in the forward-looking statement. The discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this Form 10-K lists some of the factors that could cause Horizon's actual results to vary materially from those expressed in or implied by any forward-looking statements. Your attention is directed to this discussion.

Other risks and uncertainties that could affect Horizon's future performance are set forth immediately below in Item 1A Risk Factors.

#### **ITEM 1A. RISK FACTORS**

An investment in Horizon's securities is subject to risks inherent to our business. The material risks and uncertainties that management believes currently affect Horizon are described below. Before making an investment decision, you should carefully consider these risks as well as information we include or incorporate by reference in this report and other filings we make with the SEC. The risks and uncertainties we have described are not the only ones facing our company.

## Table of Contents

### HORIZON BANCORP

(Table dollars in thousands except per share data)

Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may affect our business operations.

If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, our results could differ materially from the forward-looking statements. All forward-looking statements in this report are current only as of the date on which the statements were made. We do not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any statement is made or to reflect the occurrence of unanticipated events.

### Risks Related to Our Business

As a financial institution, we are subject to a number of risks relating to our daily business. Although we undertake a variety of efforts to manage and control those risks, many of the risks are outside of our control. Among the risks we face are the following:

**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 our 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 our 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 our regulators or additional regulation could hinder our ability to do business profitably.

*The current economic environment poses significant challenges for us and could adversely affect our financial condition and results of operations.*

We are operating in a challenging and uncertain economic environment, including generally uncertain world, national and local conditions in our markets. The capital and credit markets have been experiencing volatility and disruption since 2008. This presents financial institutions with unprecedented circumstances and challenges that in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. Our financial statements have been prepared using values and information currently available to us, but given this volatility, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values and the allowance for loan losses, which could negatively impact our ability to meet regulatory capital requirements and maintain sufficient liquidity. The risks associated with our business become more acute in periods of a slowing economy or slow growth such as we began experiencing in the latter half of 2008 and which continued through 2011. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. While we continue to take steps to decrease and limit our exposure to residential construction and land development loans and home equity loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events.

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job loss, could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. In addition, the national economic recession or further deterioration in local economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following other consequences: increases in loan delinquencies, problem assets and foreclosures; demand for our products and services may decline; deposits may decrease, which would adversely impact our liquidity position; and collateral for our loans, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

***Our financial performance may be adversely impacted if we are unable to continue to grow our commercial and consumer loan portfolios, obtain low-cost funds and compete with other providers of financial services.***

Our ability to maintain our history of record earnings year after year will depend, in large part, on our ability to continue to grow our loan portfolios and obtain low-cost funds. For the past seven years, we focused on increasing consumer loans, and we intend to continue to emphasize and grow consumer, as well as commercial loans in the foreseeable future. This represented a shift in our emphasis from prior years when we focused on mortgage banking services, which generated a large portion of our income during those years.

We have also funded our growth with low-cost consumer deposits, and our ability to sustain our growth will depend in part on our continued success in attracting and retaining such deposits or finding other sources of low-cost funds.

Another factor in maintaining our history of record earnings will be our ability to expand our scope of available financial services to our customers in an increasingly competitive environment. In addition to other banks, our competitors include credit unions, securities brokers and dealers, mortgage brokers, mortgage bankers, investment advisors, and finance and insurance companies. Competition is intense in most of our markets. We compete on price and service with our competitors. Competition could intensify in the future as a result of industry consolidation, the increasing availability of products and services from non-banks, greater technological developments in the industry, and banking reform.

***The recent repeal of federal prohibitions on payment of interest on demand deposits could increase our interest expense.***

All federal prohibitions on the ability of financial institutions to pay interest on demand deposit accounts were repealed as part of the Dodd-Frank Act. As a result, since July 21, 2011, financial institutions can offer interest on demand deposits to compete for customers. We are offering interest on demand deposits, but we do not expect this change to have a material adverse effect on our financial condition and results of operations.

***Our commercial and consumer loans expose us to increased credit risks.***

We have a large percentage of commercial and consumer loans. Commercial loans generally have greater credit risk than residential mortgage loans because repayment of these loans often depends on the successful business operations of the borrowers. These loans also typically have much larger loan balances than residential mortgage loans. Consumer loans generally involve greater risk than residential mortgage loans because they are unsecured or secured by assets that depreciate in value. Although we undertake a variety of underwriting, monitoring and reserving protections with respect to these types of loans, there can be no guarantee that we will not suffer unexpected losses, and recently, we have experienced an increase in the default rates in our consumer loan portfolio, particularly relating to indirect auto loans.

***Our holdings of construction, land and home equity loans may pose more credit risk than other types of mortgage loans.***

In light of current economic conditions, construction loans, loans secured by commercial real estate and home equity loans are considered more risky than other types of mortgage loans. Due to the disruptions in credit and housing markets, real estate values have decreased in most areas of the U.S., and many of the developers to whom we lend experienced a decline in sales of new homes from their projects. As a result of this market disruption, some of our land and construction loans have become non-performing as developers are unable to build and sell homes in volumes large enough for orderly repayment of loans and as other owners of such real estate (including homeowners) were unable to keep up with their payments. We believe we have established adequate reserves on our financial statements to cover the credit risk of these loan portfolios. However, there can be no assurance that losses will not exceed our reserves, and ultimately result in a material level of charge-offs, which could adversely impact our results of operations, liquidity and capital.



---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

***The allowance for loan losses may prove inadequate or be negatively affected by credit risk exposures.***

Our business depends on the creditworthiness of our customers. We periodically review the allowance for loan and lease losses for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans and non-performing assets. There is no certainty that the allowance for loan losses will be adequate over time to cover credit losses in the portfolio because of unanticipated adverse changes in the economy, market conditions or events adversely affecting specific customers, industries or markets. If the credit quality of the customer base materially decreases, if the risk profile of a market, industry or group of customers changes materially, or if the allowance for loan losses is not adequate, our business, financial condition, liquidity, capital, and results of operations could be materially adversely affected.

***Changes in market interest rates could adversely affect our financial condition and results of operations.***

Our financial condition and results of operations are significantly affected by changes in market interest rates. Our results of operations depend substantially on our net interest income, which is the difference between the interest income that we earn on our interest-earning assets and the interest expense that we pay on our interest-bearing liabilities. Our profitability depends on our ability to manage our assets and liabilities during periods of changing market interest rates. If rates increase rapidly as a result of an improving economy, we may have to increase the rates paid on our deposits and borrowed funds more quickly than loans and investments re-price, resulting in a negative impact on interest spreads and net interest income. The impact of rising rates could be compounded if deposit customers move funds from savings accounts to higher rate certificate of deposit accounts. Conversely, should market interest rates fall below current levels, our net interest margin could also be negatively affected, as competitive pressures could keep us from further reducing rates on our deposits, and prepayments and curtailments on assets may continue. Such movements may cause a decrease in our interest rate spread and net interest margin, and therefore, decrease our profitability.

Changes in interest rates also could affect loan volume. For instance, an increase in interest rates could cause a decrease in the demand for mortgage loans (and other loans), which could result in a significant decline in our revenue stream.

We also are subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage-related securities. Increases in interest rates may decrease loan demand and/or may make it more difficult for borrowers to repay adjustable rate loans. Decreases in interest rates often result in increased prepayments of loans and mortgage-related securities, as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments in loans or other investments that have interest rates that are comparable to the interest rates on existing loans and securities.

***A continued economic slowdown in Northwestern Indiana and Southwestern Michigan could affect our business.***

Our primary market area for deposits and loans consists of LaPorte and Porter Counties in Northwestern Indiana and Berrien County in Southwestern Michigan. During 2011, unemployment rates remained at elevated levels in our primary market area, resulting in continued high levels of consumer delinquencies and bankruptcy filings. The continued economic slowdown could hurt our business. The possible consequences of such a continued downturn could include the following:

increases in loan delinquencies and foreclosures;

declines in the value of real estate and other collateral for loans;

an increase in loans charged off;

an increase in the Company's expense to fund loan loss reserves;

an increase in collection costs;

a decline in the demand for our products and services;

an increase in non-accrual loans and other real estate owned.

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

***The loss of key members of our senior management team could affect our ability to operate effectively.***

We depend heavily on the services of our existing senior management team, particularly our CEO Craig M. Dwight, to carry out our business and investment strategies. As we continue to grow and expand our business and our locations, products and services, we will increasingly need to rely on Mr. Dwight's experience, judgment and expertise as well as that of the other members of our senior management team and will also need to continue to attract and retain qualified banking personnel at all levels. Competition for such personnel is intense in our geographic market areas. If we are unable to attract and retain talented people, our business could suffer. The loss of the services of any senior management personnel, particularly Mr. Dwight, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our consolidated results of operations, financial condition and prospects.

***We may need to raise additional capital in the future, and such capital may not be available when needed or at all.***

We may need to raise additional capital in the future to fund acquisitions and to provide us with sufficient capital resources and liquidity to meet our commitments, regulatory capital requirements and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Although we are currently, and have historically been, well capitalized for regulatory purposes, our capital levels are not far in excess of the well capitalized threshold, and in the past we have been required to maintain increased levels of capital in connection with certain acquisitions. Additionally, we periodically explore acquisition opportunities with other financial institutions, some of which are in distressed financial condition. Any future acquisition, particularly the acquisition of a significantly troubled institution or an institution of comparable size to us, may require us to raise additional capital in order to obtain regulatory approval and/or to remain well capitalized.

Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. Economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve.

We cannot guaranty that such capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, our depositors or counterparties participating in the capital markets may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our businesses, financial condition and results of operations and may restrict our ability to grow.

***Potential acquisitions may disrupt our business and dilute stockholder value.***

We periodically evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. We generally seek merger or acquisition partners that are culturally similar and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

Potential exposure to unknown or contingent liabilities of the target company,

Exposure to potential asset quality issues of the target company,

Potential disruption to our business,

Potential diversion of our management's time and attention away from day-to-day operations,

The possible loss of key employees, business and customers of the target company,

Difficulty in estimating the value of the target company, and

Potential problems in integrating the target company's systems, customers and employees with ours.

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving the payment of cash or the issuance of our debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. To the extent we were to issue additional common shares in any such transaction, our current shareholders would be diluted and such an issuance may have the effect of decreasing our stock price, perhaps significantly. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

***The preparation of our financial statements requires the use of estimates that may vary from actual results.***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates that affect the financial statements. One of our most critical estimates is the level of the allowance for loan losses. Due to the inherent nature of these estimates, we cannot provide absolute assurance that we will not have to increase the allowance for loan losses and/or sustain loan losses that are significantly higher than the provided allowance.

***Our mortgage warehouse and indirect lending operations are subject to a higher fraud risk than our other lending operations.***

We buy loans originated by mortgage bankers and automobile dealers. Because we must rely on the mortgage bankers and automobile dealers in making and documenting these loans, there is an increased risk of fraud to us on the part of the third-party originators and the underlying borrowers. In order to guard against this increased risk, we perform investigations on the mortgage companies with whom we do business, and we review the loan files and loan documents we purchase to attempt to detect any irregularities or legal noncompliance. However, there is no guarantee that our procedures will detect all cases of fraud or legal noncompliance.

***Our mortgage lending profitability could be significantly reduced if we are not able to resell mortgages or experience other problems with the secondary market process or are unable to retain our mortgage loan sales force due to regulatory changes.***

Currently, we sell a substantial portion of the mortgage loans we originate. The profitability of our mortgage banking operations depends in large part upon our ability to aggregate a high volume of loans and to sell them in the secondary market at a gain. Thus, we are dependent upon the existence of an active secondary market and our ability to profitably sell loans into that market.

Our ability to sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by Fannie Mae, Freddie Mac and Ginnie Mae (the Agencies) and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Some of the largest participants in the secondary market, including the Agencies, are government-sponsored enterprises whose activities are governed by federal law. Any future changes in laws that significantly affect the activity of such government-sponsored enterprises could, in turn, adversely affect our operations.

In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the U.S. government. Although to date, the conservatorship has not had a significant or adverse effect on our operations, and during 2010 and 2011 the Federal Housing Administration Agency indicated that the Treasury Department is committed to fund Fannie Mae and Freddie Mac to levels needed in order to sufficiently meet their funding needs; it is currently unclear whether further changes would significantly and adversely affect our operations. In addition, our ability to sell mortgage loans readily is dependent upon our ability to remain eligible for the programs offered by the Agencies and other institutional and non-institutional investors. Our ability to remain eligible may also depend on having an acceptable peer-relative delinquency

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

ratio for Federal Housing Authority ( FHA ) and maintaining a delinquency rate with respect to Ginnie Mae pools that are below Ginnie Mae guidelines. In the case of Ginnie Mae pools, we have repurchased delinquent loans from them in the past to maintain compliance with the minimum required delinquency ratios. Although these loans are typically insured as to principal by the FHA, such repurchases increase our capital and liquidity needs, and there can be no assurance that we will have sufficient capital or liquidity to continue to purchase such loans out of the Ginnie Mae pools if required to do so.

Any significant impairment of our eligibility with any of the Agencies could materially and adversely affect our operations. Further, the criteria for loans to be accepted under such programs may be changed from time-to-time by the sponsoring entity which could result in a lower volume of corresponding loan originations. The profitability of participating in specific programs may vary depending on a number of factors, including our administrative costs of originating and purchasing qualifying loans and our costs of meeting such criteria.

The banking industry s methodology for paying its mortgage loan sales force is currently under regulatory scrutiny and dependent upon the outcome may materially change the manner in how the sales force is paid. This change in compensation may make it difficult for banks to retain their sales force, which in turn may affect future retail mortgage volume.

***We are exposed to intangible asset risk in that our goodwill may become impaired.***

As of December 31, 2011, we had \$8.2 million of goodwill and other intangible assets. A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, or slower growth rates could result in further impairment of goodwill. If we were to conclude that a future write-down of our goodwill is necessary, then we would record the appropriate charge, which could be materially adverse to our operating results and financial position. For further discussion, see Notes 1 and 9, Nature of Operations and Summary of Significant Accounting Policies and Intangible Assets , to the Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2011.

***We are subject to extensive regulation and changes in laws and regulatory policies could adversely affect our business.***

Our operations are subject to extensive regulation by federal agencies. See Supervision and Regulation in the description of our Business in Item 1 of Part I of this report for detailed information on the laws and regulations to which we are subject. Changes in applicable laws, regulations or regulator policies can materially affect our business. The likelihood of any major changes in the future and their effects are impossible to determine. As an example, the Bank could experience higher credit losses because of federal or state legislation or by regulatory or bankruptcy court action that reduces the amount the Bank s borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Bank could experience higher credit losses because of federal or state legislation or regulatory action that limits its ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

Legislation enacted in recent years, together with additional actions announced by the U.S. Treasury and other regulatory agencies, continue to develop. It is not clear at this time what impact the Dodd-Frank Act, other recent legislation and liquidity and funding initiatives of the U.S. Treasury and other bank regulatory agencies, and additional programs that may be initiated in the future will have on the financial markets and the financial services industry. The extreme levels of volatility and limited credit availability currently being experienced could continue to effect the U.S. banking industry and the broader U.S. and global economies, which will have an effect on all financial institutions, including Horizon.

***Our inability to continue to accurately process large volumes of transactions could adversely impact our business and financial results.***

In the normal course of business, we process large volumes of transactions. If systems of internal control should fail to work as expected, if systems are used in an unauthorized manner, or if employees subvert the system of internal controls, significant losses could result.

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

We process large volumes of transactions on a daily basis and are exposed to numerous types of operational risk. Operational risk resulting from inadequate or failed internal processes, people and systems includes the risk of fraud by persons inside or outside Horizon, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards.

We establish and maintain systems of internal operational controls that are designed to provide us with timely and accurate information about our level of operational risk. While not foolproof, these systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures also exist that are designed to ensure that policies relating to conduct, ethics and business practices are followed. From time to time, losses from operational risk may occur, including the consequences of operational errors.

While we continually monitor and improve the system of internal controls, data processing systems and corporate-wide processes and procedures, there can be no assurance that future losses will not occur.

***Our information systems may experience an interruption or breach in security.***

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately or timely addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have a material adverse effect on our financial condition and results of operations.

***We continually encounter technological changes.***

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements, and we may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

***Damage to our reputation could damage our business.***

Our business depends upon earning and maintaining the trust and confidence of our customers, investors and employees. Damage to our reputation could cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, compliance failures, litigation or regulatory outcomes or governmental investigations. In addition, a failure to deliver appropriate standards of service and quality, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Adverse publicity about Horizon, whether or not true, may result in harm to our prospects. Should any events or factors that can undermine our reputation occur, there is no assurance that the additional costs and expenses that we may need to incur to address the issues giving rise to the reputational harm would not adversely affect our earnings and results of operations.

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

***The soundness of other financial institutions could adversely affect us.***

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

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

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

***A world crisis could affect the U.S. economy and liquidity markets for community banks.***

Current worldwide events may lead to further erosion in the U.S. economy and limit community banks' access to the liquidity markets. These events include possible regional conflicts that may interrupt the supply of energy products; European contagion that may affect the liquidity markets and increasing dependence upon Asian investors which may affect the bond markets and long-term interest rates.

**Risks Related to our Common Stock**

***The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell our common stock at times or at prices you find attractive.***

Although our common stock is listed on the NASDAQ Global Market, our stock price constantly changes, and we expect our stock price to continue to fluctuate in the future. Our stock price is impacted by a variety of factors, some of which are beyond our control.

These factors include:

variations in our operating results or the quality of our assets;

operating results that vary from the expectations of management, securities analysts and investors;

increase in loan losses, non-performing loans and other real estate owned;



## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

changes in expectations as to our future financial performance;

announcements of new products, strategic developments, acquisitions and other material events by us or our competitors;

the operating and securities price performance of other companies that investors believe are comparable to us;

actual or anticipated sales of our equity or equity-related securities;

our past and future dividend practice;

our creditworthiness;

interest rates;

the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing;

developments with respect to financial institutions generally; and

economic, financial, geopolitical, regulatory, congressional or judicial events that affect us or the financial markets.

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

In addition the stock market in general has recently experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies and particularly those in the financial services and banking sector, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, notwithstanding our operating results.

***Because our stock is thinly traded, it may be more difficult for you to sell your shares or buy additional shares when you desire to do so and the price may be volatile.***

Although our common stock has been listed on the NASDAQ stock market since December 2001, our common stock is thinly traded. The prices of thinly traded stocks, such as ours, are typically more volatile than stocks traded in a large, active public market and can be more easily impacted by sales or purchases of large blocks of stock. Thinly traded stocks are also less liquid, and because of the low volume of trades, you may be unable to sell your shares when you desire to do so.

***Our participation in the Small Business Lending Fund program restricts our ability to pay dividends and to repurchase our securities and could have other negative effects.***

On August 25, 2011, we sold 12,500 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series B ( Series B Preferred Stock ), to the U.S. Treasury pursuant to the Small Business Lending Fund program, a \$30 billion fund established under the Small Business Jobs Act of 2010 that encourages lending to small businesses by providing capital to qualified community banks with assets of less than \$10 billion. The terms of the Series B Preferred Stock impose limits on our ability to pay dividends and repurchase shares of common stock. Under the terms of the Series B Preferred Stock, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking *pari passu* with the Series B Preferred Stock, junior preferred shares, or other junior securities (including our common stock) during the current quarter and for the next three quarters following the failure to declare and pay dividends on the Series B Preferred Stock, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking *pari passu* may be paid to the extent necessary to avoid any resulting material covenant breach. In addition, we may declare and pay a dividend on our common stock or other stock ranking junior to the Series B Preferred Stock, or repurchase shares of any such class or series of stock, only if, after payment of such dividend, the dollar amount of the Company's Tier 1 Capital would be at least 90% of the Signing Date Tier 1 Capital, which was \$118,724,000, excluding any subsequent net charge-offs and any redemption of the Series B Preferred Stock. Horizon does not anticipate that these restrictions will affect its ability to pay dividends on its common stock; however, given the possibility of unforeseen developments or events, there can be no guarantee that Horizon will be able to pay dividends on its common stock.

***Provisions in our articles of incorporation, our by-laws, and Indiana law may delay or prevent an acquisition of us by a third party.***

Our articles of incorporation and by-laws and Indiana law contain provisions that have certain anti-takeover effects. While the purpose of these provisions is to strengthen the negotiating position of the board in the event of a hostile takeover attempt, the overall effects of these provisions may be to render more difficult or discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a larger block of our shares, and the removal of incumbent directors and key management.

Our articles of incorporation provide for a staggered board, which means that only one-third of our board can be replaced by shareholders at any annual meeting. Our articles also provide that our directors may only be removed without cause by shareholders owning 70% or more of our outstanding common stock. Furthermore, our articles provide that only our board of directors, and not our shareholders, may adopt, alter, amend and repeal our by-laws.

---

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

Our articles also preempt Indiana law with respect to business combinations with a person who acquires 10% or more of our common stock and provide that such transactions are subject to independent and super-majority shareholder approval requirements unless certain pricing and board pre-approval requirements are satisfied.

Our by-laws do not permit cumulative voting of shareholders in the election of directors, allowing the holders of a majority of our outstanding shares to control the election of all our directors, and our directors are elected by plurality (not majority) voting. Our by-laws also establish detailed procedures that shareholders must follow if they desire to nominate directors for election or otherwise present issues for consideration at a shareholders' meeting. We also have a mandatory retirement age for directors.

These and other provisions of our governing documents and Indiana law are intended to provide the board of directors with the negotiating leverage to achieve a more favorable outcome for our shareholders in the event of an offer for the company. However, there is no assurance that these same anti-takeover provisions could not have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interest of our shareholders.

**Risks Related to the Series B Preferred Stock**

***The Series B Preferred Stock is equity and is subordinate to all of our existing and future indebtedness; regulatory and contractual restrictions may limit or prevent us from paying dividends on the Series B Preferred Stock; and the Series B Preferred Stock places no limitations on the amount of indebtedness we and our subsidiaries may incur in the future.***

Shares of the Series B Preferred Stock are equity interests in Horizon and do not constitute indebtedness. As such, the Series B Preferred Stock, like our common stock, ranks junior to all indebtedness and other non-equity claims against Horizon with respect to assets available to satisfy claims against Horizon, including in a liquidation of Horizon. Additionally, unlike indebtedness, where principal and interest would customarily be payable on specified due dates, in the case of preferred stock like the Series B Preferred Stock, dividends are payable only when, as and if authorized and declared by, our Board of Directors and depend on, among other things, our results of operations, financial condition, debt service requirements, other cash needs and any other factors our Board of Directors deems relevant. The current terms of the Series B Preferred Stock require dividends to be paid in arrears on January 1, April 1, July 1 and October 1 of each year.

Horizon is an entity separate and distinct from the Bank, our principal subsidiary, and derives a significant portion of its revenue in the form of dividends from the Bank. Accordingly, Horizon is and will be dependent upon dividends from the Bank to pay the principal of, and interest on, its indebtedness, to satisfy its other cash needs and to pay dividends on the Series B Preferred Stock. Horizon's ability to pay dividends is subject to its ability to earn net income and to meet certain regulatory requirements while maintaining its required capital. In the event the Bank is unable to pay dividends to Horizon, Horizon may not be able to pay dividends on the Series B Preferred Stock. In addition, the Series B Preferred Stock does not limit the amount of debt or other obligations we or our subsidiaries may incur in the future. Accordingly, we and our subsidiaries may incur substantial amounts of additional debt and other obligations that will rank senior to the Series B Preferred Stock or to which the Series B Preferred Stock will be structurally subordinated.

***An active trading market for the Series B Preferred Stock does not currently exist and is unlikely to develop.***

The Series B Preferred Stock is not currently listed on any national securities exchange, and we do not intend to list the Series B Preferred Stock on a national securities exchange unless we are requested to do so by the U.S. Treasury. Even if requested to do so by the U.S. Treasury, it is not certain that such a listing can be achieved given the current exchange listing requirements, and even if listing is achieved, it is unlikely that an active trading market for the Series B Preferred Stock will develop, or, if developed, that an active trading market will be maintained. If an active trading market does not develop, the market value and liquidity of the Series B Preferred Stock may be adversely affected.

***Dividends on the Series B Preferred Stock are non-cumulative.***

Dividends on the shares of Series B Preferred Stock are non-cumulative. If our Board of Directors does not authorize and declare a dividend on the Series B Preferred Stock for any dividend period, such unpaid dividend will not accrue and will not be payable to holders of the Series B Preferred Stock even if dividends are declared for any subsequent dividend period. However, a failure to pay dividends on the Series B Preferred

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Stock will restrict our ability to pay dividends with respect to and repurchase shares of other classes and series of stock.

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

***Initially the dividend rate on the Series Preferred Stock will fluctuate based on our level of Qualified Small Business Lending as compared to our Small Business Lending Baseline.***

The per annum dividend rate on the shares of Series B Preferred Stock applicable to the first quarter is 5%. For the second through tenth quarters, the rate will be adjusted quarterly to reflect the percent of change in our Qualified Small Business Lending from our Small Business Lending baseline and may fluctuate between 1% and 5% per annum. The dividend rate will be a fixed rate for the eleventh quarter through the date that is four-and-a-half years from the issuance date of the shares of Series B Preferred Stock and will be based on the rate in effect for the tenth quarter. Depending on the percentage increase in our Qualified Small Business Lending over our Small Business Lending baseline, the fixed rate will be between 1% and 5% per annum. If there has been no increase (or a decrease) in our Qualified Small Business Lending over our Small Business Lending baseline, the fixed rate will be 7% per annum. For all quarters subsequent to the four-and-one-half year anniversary of issuance, the rate will be 9% per annum.

***Holders of the Series B Preferred Stock have limited voting rights.***

Holders of the Series B Preferred Stock only have the right to vote as a separate class on certain matters relating to the rights of holders of Series B Preferred Stock and on certain corporate transactions. Except with respect to such matters, the Series B Preferred Stock does not have voting rights. The matters on which the holders of Series B Preferred Stock would have the right to vote include amendments to Horizon's Articles of Incorporation adversely affecting the Series B Preferred Stock or certain fundamental transactions affecting the Series B Preferred Stock, and in connection with the authorization of stock senior to the Series B Preferred Stock. If Horizon misses five dividend payments on the Series B Preferred Stock, whether or not consecutive, the holder of the Series B Preferred Stock will have the right, but not the obligation, to appoint a representative as an observer who will attend all meetings of Horizon's Board of Directors, but such observer will not have the right to vote.

**Table of Contents****HORIZON BANCORP**

(Table dollars in thousands except per share data)

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

The main office and full service branch of Horizon and the Bank is located at 515 Franklin Square, Michigan City, Indiana. The building located across the street from the main office of Horizon and the Bank, at 502 Franklin Square, houses the credit administration, operations, facilities and purchasing, and information technology departments of the Bank. In addition to these principal facilities, the Bank has 21 sales offices located at:

3631 South Franklin Street	Michigan City	Indiana
113 West First Street	Wanatah	Indiana
1500 West Lincolnway	LaPorte	Indiana
423 South Roosevelt Street	Chesterton	Indiana
4208 North Calumet	Valparaiso	Indiana
902 Lincolnway	Valparaiso	Indiana
2650 Willowcreek Road	Portage	Indiana
8590 Broadway	Merrillville	Indiana
10429 Calumet Avenue	Munster	Indiana
17400 State Road 23	South Bend	Indiana
1909 East Bristol Street	Elkhart	Indiana
4574 Elkhart Road	Goshen	Indiana
1321 119 <sup>th</sup> Street	Whiting	Indiana
1349 Calumet Avenue	Hammond	Indiana
1300 North Main Street	Crown Point	Indiana
811 Ship Street	St. Joseph	Michigan
2608 Niles Road	St. Joseph	Michigan
1041 East Napier Avenue	Benton Harbor	Michigan
500 West Buffalo Street	New Buffalo	Michigan
6801 West U.S. 12	Three Oaks	Michigan
3250 Centre Avenue	Portage	Michigan

Horizon also maintains a trust office in Indianapolis, Indiana. That office, located at 9465 Counselors Row, Suite 200, Indianapolis, Indiana 46240, was opened in the fall of 2011 and is staffed by an Investment and Trust Officer. Horizon owns all of the facilities except for the Indianapolis, Indiana office which is leased. The Portage, Michigan office was leased until March 2012.

**ITEM 3. 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.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable

**Table of Contents**

**HORIZON BANCORP**

(Table dollars in thousands except per share data)

**SPECIAL ITEM: EXECUTIVE OFFICERS OF REGISTRANT**

Robert C. Dabagia	73	Chairman of Horizon since 1998; Chief Executive Officer of Horizon and the Bank until July 1, 2001.
Craig M. Dwight	55	Chairman and Chief Executive Officer of the Bank since January 2003; President and Chief Executive Officer of Horizon and the Bank since July 1, 2001.
Thomas H. Edwards	59	President and Chief Operating Officer of the Bank since January 2003.
Mark E. Secor	45	Chief Financial Officer of Horizon and the Bank since January 2009. Vice President, Chief Investment and Asset Liability Manager since June 2007, Chief Financial Officer of St. Joseph Capital Corp., Mishawaka, Indiana since January 2004.
James D. Neff	52	Corporate Secretary of Horizon since 2007; Executive Vice President-Mortgage Banking of the Bank since January 2004; Senior Vice President of the Bank since October 1999.

28



**Table of Contents****HORIZON BANCORP**

(Table dollars in thousands except per share data)

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Repurchases of Securities**

There were no purchases by the Company of its common stock during the fourth quarter of 2011.

**Performance Graph**

The Securities and Exchange Commission requires Horizon to include a line graph comparing Horizon's cumulative five-year total shareholder returns on the common shares with market and industry returns over the past five years. SNL Financial LC prepared the following graph. The return represented in the graph assumes the investment of \$100 on January 1, 2007, and further assumes reinvestment of all dividends. The Company's common stock began trading on the NASDAQ Global Market February 1, 2007. Prior to that date, the common stock was traded on the NASDAQ Capital Market.

Index	Period Ending					
	December 31 2006	December 31 2007	December 31 2008	December 31 2009	December 31 2010	December 31 2011
Horizon Bancorp	100.00	95.56	48.66	66.11	111.73	112.06
Russell 2000	100.00	98.43	65.18	82.89	105.14	100.75
SNL Bank \$1B-\$5B	100.00	72.84	60.42	43.31	49.09	44.77
SNL Micro Cap Bank	100.00	83.59	51.74	38.15	39.27	37.35

Source : SNL Financial LC, Charlottesville, VA

© 2011

www.snl.com

**Table of Contents****HORIZON BANCORP**

(Table dollars in thousands except per share data)

The following chart, prepared by the investment banking firm of Keefe, Bruyette and Woods compares the change in market price of Horizon's common stock to that of publicly traded banks in Indiana and Michigan.

Index	Period Ending					
	December 31 2006	December 31 2007	December 31 2008	December 31 2009	December 31 2010	December 31 2011
Horizon Bancorp	100.00	93.51	45.57	59.13	96.97	94.77
Indiana Banks	100.00	75.92	87.25	56.06	65.38	67.31
Michigan Banks	100.00	52.77	24.58	14.45	13.92	15.39

The other information regarding Horizon's common stock is included under the caption "Horizon's Common Stock and Related Stockholders Matters" in Item 8 below, which is incorporated by reference.

**ITEM 6. SELECTED FINANCIAL DATA**

The information required under this item is incorporated by reference to the information appearing under the caption "Summary of Selected Financial Data" in Item 8 of this Form 10-K.

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

**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 and banking environment. Within the Company's primary market areas of Northwest Indiana and Southwest Michigan, unemployment rates increased during 2008 and have remained at elevated levels during 2009, 2010 and 2011. This rise in unemployment has been driven by factors including slowdowns in the steel and recreational vehicle industries as well as a continued lower activity in the housing industry. The Company's higher than historical levels of non-performing loans at December 31, 2011 and over the past two years can be attributed to the continued slow economy and continued high local unemployment causing lower business revenues and increased bankruptcies. Despite these economic factors, Horizon continued to post record positive results. All share data included below has been adjusted to reflect Horizon's three-for-two stock split paid on December 9, 2011.

Following are some highlights of Horizons financial performance during 2011:

Horizon's 2011 results represent the Company's 12th consecutive year of record earnings.

The fourth quarter 2011 net income was \$3.5 million or \$.68 diluted earnings per share was the highest quarterly net income and diluted earnings per share in the Company's history.

For the year ending December 31, 2011, net income was \$12.8 million or \$2.27 diluted earnings per share, a 22% increase in net income from 2010 and the highest annual net income and diluted earnings per share in the Company's history.

Total loans increased \$100.3 million during the year to \$983.2 million at December 31, 2011.

Total assets grew to a record \$1.55 billion at December 31, 2011.

Net interest income, after provisions for loan losses, for the twelve months of 2011 was \$42.8 million compared with \$36.1 million for the same period in the prior year.

The provision for loan losses decreased to \$5.3 million for the twelve months of 2011 compared to \$11.6 million for the same period in 2010.

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Horizon's 30 to 89 day loan delinquencies decreased to 0.33% of total loans at December 31, 2011 compared to 0.66% of total loans at December 31, 2010.

Return on average common equity was 11.20% for 2011.

During the fourth quarter of 2011 the Company announced a 3-for-2 stock split and shares were issued for the split on December 9, 2011.

The Company increased its cash dividend in 2011 and paid its 104<sup>th</sup> consecutive quarterly dividend to shareholders.

Horizon's tangible book value per share rose to \$20.37 compared with \$17.36 (split adjusted) at the end of 2011.

In 2011 the Company redeemed all of its preferred shares issued to the U.S. Treasury Department under its TARP Capital Purchase Program ( CPP ).

Horizon's capital ratios, including Tier 1 Capital to total risk weighted assets of 11.86% as of December 31, 2011, continue to be well above the regulatory standards for well-capitalized banks.

### **Critical Accounting Policies**

The notes to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for 2011 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

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

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.

***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 December 31, 2011, Horizon had core deposit intangibles of \$2.3 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 December 31, 2011 was \$17.33 per share compared to a tangible book value of \$20.37 per common share. Horizon reported record earnings for the 12th consecutive year in 2011 and believes the below book market price relates to an overall decline in the financial industry sector and is not specific to Horizon.

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

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

***Mortgage Servicing Rights***

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

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

value to the extent of the impairment allowance but cannot recognize an asset in excess of its amortized book value. Future changes in management's assessment of the impairment of these servicing assets, as a result of changes in observable market data relating to market interest rates, loan prepayment speeds, and other factors, could impact Horizon's financial condition and results of operations either positively or negatively.

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

***Derivative Instruments***

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

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

***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.





---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

**Analysis of Financial Condition**

Horizon's total assets were \$1.55 billion as of December 31, 2011, an increase of \$146.2 million from December 31, 2010.

***Investment Securities***

Investment securities totaled \$438.1 million at December 31, 2011, and consisted of Treasury and federal agency securities of \$13.0 million (3.0%); state and municipal securities of \$151.0 million (\$143.9 million are available for sale and \$7.1 million are held to maturity) (34.5%); federal agency mortgage-backed pools of \$183.0 million and federal agency collateralized mortgage obligations of \$91.1 million (62.4%); and corporate securities of \$24,000 (0.1%).

As indicated above, 62.4% of the investment portfolio consists of mortgage-backed securities and collateralized mortgage obligations. Approximately 0.8% of the portfolio or \$3.6 million are private label collateralized mortgage obligations, the remainder are issued by agencies of the Federal Government. Horizon had four private label CMOs at December 31, 2011, with an amortized cost of \$3.5 million and carried at a market value of \$3.6 million. The gross unrealized gain on these investments at December 31, 2011 was approximately \$118,000. The private label securities generally have loan to value ratios of approximately 50% and management feels these securities are not impaired. These instruments are secured by residential mortgages of varying maturities. Principal and interest payments are received monthly as the underlying mortgages are repaid. These payments also include prepayments of mortgage balances as borrowers either sell their homes or refinance their mortgages. Therefore, mortgage-backed securities and collateralized mortgage obligations have maturities that are stated in terms of average life. The average life is the average amount of time that each dollar of principal is expected to be outstanding. As of December 31, 2011, the mortgage-backed securities and collateralized mortgage obligations in the investment portfolio had an average life of 2.6 years. Securities that have interest rates above current market rates are purchased at a premium. These securities may experience a significant increase in prepayments when lower market interest rates create an incentive for the borrower to refinance the underlying mortgage as occurred during 2010 and 2011. This may result in a decrease of current income, however, this risk is mitigated by a shorter average life. Management monitors these investments periodically for other than temporary impairment by obtaining and reviewing the underlying collateral details and has concluded at December 31, 2011 this unrealized loss is temporary and that the Company has the intent and ability to hold these investments to maturity.

Available-for-sale municipal securities are priced by a third party using a pricing grid which estimates prices based on recent sales of similar securities. All municipal securities are investment grade or local non-rated issues and management does not believe there is other than temporary deterioration in market value.

At December 31, 2011, 98.4% and at December 31, 2010, 97.6% of investment securities were classified as available for sale. Securities classified as available for sale are carried at their fair value, with both unrealized gains and losses recorded, net of tax, directly to stockholders equity. Net appreciation on these securities totaled \$17.0 million, which resulted in a balance of \$11.0 million, net of tax, included in stockholders' equity at December 31, 2011. This compared to a \$3.2 million, net of tax, included in stockholders' equity at December 31, 2010.

Fair value is defined 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. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. 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.

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

- 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.

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include Treasury securities and corporate notes. 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 Federal agency securities, State and municipal securities, Federal agency collateralized mortgage obligations and Federal agency mortgage-backed pools. For level 2 securities, Horizon uses a third party service to determine fair value. In performing the valuations, the pricing service relies on models that consider security-specific details as well as relevant industry and economic factors. The most significant of these inputs are quoted market prices, interest rate spreads on relevant benchmark securities and certain prepayment assumptions. To verify the reasonableness of the fair value determination by the service, Horizon has a portion of the level 2 securities priced by an independent securities broker dealer.

Unrealized gains and losses on available-for-sale securities, deemed temporary, are recorded, net of income tax, in a separate component of other comprehensive income on the balance sheet. No unrealized losses were deemed to be other-than-temporary.

As a member of the Federal Reserve and Federal Home Loan Bank systems, Horizon is required to maintain an investment in the common stock of each entity. The investment in common stock is based on a predetermined formula. At December 31, 2011 Horizon had investments in the common stock of the Federal Reserve and Federal Home Loan Banks totaling \$12.4 million and at December 31, 2010 investments totaled \$13.7 million.

At December 31, 2011, Horizon does not maintain a trading account.

For more information about securities, see Note 3 (Investment Securities) to the consolidated financial statements.

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

**Loans**

Total loans, net of deferred fees/costs, the principal earning asset of the Bank, were \$983.2 million at December 31, 2011. The current level of loans is an increase of 11.4% from the December 31, 2010, level of \$882.9 million. The table below provides comparative detail on the loan categories.

	December 31 2011	December 31 2010	Dollar Change	Percent Change
<b>Commercial</b>				
Working capital and equipment	\$ 170,325	\$ 151,414	\$ 18,911	12.5%
Real estate, including agriculture	172,910	167,785	5,125	3.1%
Tax exempt	3,818	2,925	893	30.5%
Other	5,323	7,894	(2,571)	-32.6%
<b>Total</b>	<b>352,376</b>	<b>330,018</b>	<b>22,358</b>	<b>6.8%</b>
<b>Real estate</b>				
1-4 family	153,039	157,478	(4,439)	-2.8%
Other	4,102	4,957	(855)	-17.2%
<b>Total</b>	<b>157,141</b>	<b>162,435</b>	<b>(5,294)</b>	<b>-3.3%</b>
<b>Consumer</b>				
Auto	134,686	136,014	(1,328)	-1.0%
Recreation	4,737	6,086	(1,349)	-22.2%
Real estate/home improvement	27,729	29,184	(1,455)	-5.0%
Home equity	92,249	90,580	1,669	1.8%
Unsecured	3,183	3,091	92	3.0%
Other	2,793	1,726	1,067	61.8%
<b>Total</b>	<b>265,377</b>	<b>266,681</b>	<b>(1,304)</b>	<b>-0.5%</b>
<b>Mortgage warehouse</b>	<b>208,299</b>	<b>123,743</b>	<b>84,556</b>	<b>68.3%</b>
<b>Total</b>	<b>208,299</b>	<b>123,743</b>	<b>84,556</b>	<b>68.3%</b>
<b>Total loans</b>	<b>983,193</b>	<b>882,877</b>	<b>100,316</b>	<b>11.4%</b>
Allowance for loan losses	(18,882)	(19,064)	182	
<b>Loans, net</b>	<b>\$ 964,311</b>	<b>\$ 863,813</b>	<b>\$ 100,498</b>	

The acceptance and management of credit risk is an integral part of the Bank's business as a financial intermediary. The Bank has established underwriting standards including a policy that monitors the lending function through strict administrative and reporting requirements as well as an internal loan review of consumer and small business loans. The Bank also uses an independent third-party loan review function that regularly

reviews asset quality.

***Real Estate Loans***

Real estate loans totaled \$157.1 million or 16.0% of total loans as of December 31, 2011, compared to \$162.4 million or 18.4% of total loans as of December 31, 2010. This category consists of home mortgages that generally require a loan to value of no more than 80%. Some special guaranteed or insured real estate loan programs do permit a higher loan to collateral value ratio. The decrease during 2011 was primarily related to refinancing existing loans and selling them into the secondary market and principal reductions from payments.

In addition to the customary real estate loans described above, the Bank also has outstanding on December 31, 2011, \$92.2 million in home equity lines of credit compared to \$90.6 million at December 31, 2010. Credit lines normally limit the loan to collateral value to no more than 89%. These loans are classified as consumer loans in the table above and in Note 4 of the consolidated financial statements.

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

Residential real estate lending is a highly competitive business. As of December 31, 2011, the real estate loan portfolio reflected a wide range of interest rates and repayment patterns, but could generally be categorized as follows:

	December 31, 2011			December 31, 2010		
	Amount	Percent of Portfolio	Yield	Amount	Percent of Portfolio	Yield
Fixed rate						
Monthly payment	\$ 57,219	36.4%	5.34%	\$ 64,599	39.8%	5.48%
Biweekly payment	677	0.4%	6.34%	920	0.6%	6.29%
Adjustable rate						
Monthly payment	99,245	63.2%	4.72%	96,916	59.7%	5.29%
Biweekly payment		0.0%	0.00%		0.0%	0.00%
<b>Sub total</b>	<b>157,141</b>	<b>100.0%</b>	<b>4.95%</b>	<b>162,435</b>	<b>100.0%</b>	<b>5.37%</b>
Loans held for sale	14,090			18,833		
<b>Total real estate loans</b>	<b>\$ 171,231</b>			<b>\$ 181,268</b>		

The decrease in fixed rate loans during 2011 was primarily due to the refinancing of existing loans and the sale of those loans into the secondary market. In addition to the real estate loan portfolio, the Bank originates and sells real estate loans and retains the servicing rights. During 2011 and 2010, approximately \$275.9 million and \$281.7 million of residential mortgages were sold into the secondary market. Loans serviced for others are not included in the consolidated balance sheets. The unpaid principal balances of loans serviced for others totaled approximately \$598.7 million and \$463.5 million at December 31, 2011 and 2010.

The Bank began capitalizing mortgage servicing rights during 2000, and the aggregate fair value of capitalized mortgage servicing rights at December 31, 2011, totaled approximately \$5.4 million. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates, were used to stratify the originated mortgage servicing rights.

	December 31 2011	December 31 2010	December 31 2009
<b>Mortgage servicing rights</b>			
Balances, January 1	\$ 4,175	\$ 3,010	\$ 732
Servicing rights capitalized	1,866	2,000	2,807
Amortization of servicing rights	(992)	(835)	(529)
	5,049	4,175	3,010
Impairment allowance	(856)	(803)	(139)

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Balances, December 31	\$ 4,193	\$ 3,372	\$ 2,871
-----------------------	----------	----------	----------

***Commercial Loans***

Commercial loans totaled \$352.4 million, or 35.8% of total loans as of December 31, 2011, compared to \$330.0 million, or 36.6% as of December 31, 2010.

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

Commercial loans consisted of the following types of loans at December 31:

	December 31, 2011			December 31, 2010		
	Number	Amount	Percent of Portfolio	Number	Amount	Percent of Portfolio
SBA guaranteed loans	118	\$ 20,646	5.9%	93	\$ 14,909	4.5%
Municipal government	2	831	0.2%	1	918	0.3%
Lines of credit	357	45,072	12.8%	355	41,607	12.6%
Real estate and equipment term loans	912	285,827	81.1%	944	272,583	82.6%
<b>Total</b>	<b>1,389</b>	<b>\$ 352,376</b>	<b>100.0%</b>	<b>1,393</b>	<b>\$ 330,017</b>	<b>100.0%</b>

Fixed rate term loans with a book value of \$52.2 million and a fair value of \$50.0 million have been swapped to a variable rate using derivative instruments. The loans are carried at fair value in the financial statements and the related swap is carried at fair value and is included with other liabilities in the balance sheet. The recognition of the loan and swap fair values are recorded in the income statement and for 2011 equally offset each other. Fair values are determined by the counter party using a proprietary model that uses live market inputs to value interest rate swaps. The model is subject to daily market tests as current and future positions are priced and valued. These are level 3 inputs under the fair value hierarchy as described above.

At December 31, 2011 the commercial loan portfolio had \$76.9 million of adjustable rate loans that had interest rate floors in the terms of the note. Of the commercial loans with interest rate floors, loans totaling \$70.7 million were at their floor at December 31, 2010.

**Consumer Loans**

Consumer loans totaled \$265.4 million, or 27.0% of total loans as of December 31, 2011, compared to \$266.7 million, or 29.6% as of December 31, 2010. The total consumer loan portfolio decreased 0.5% in 2011. The decline occurred primarily in the indirect automobile and direct installment loan segments. The slowdown in the economy has contributed to the reduction in loans, as existing loans paid off at a faster rate than new loans were booked.

**Mortgage Warehouse Loans**

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



term between each loan funding and related payoff is typically less than 30 days.

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

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

***Allowance and Provision for Loan Losses/Critical Accounting Policy***

At December 31, 2011, the allowance for loan losses was \$18.9 million, or 1.89% of total loans outstanding, compared to \$19.1 million, or 2.11% at December 31, 2010. During 2011, the expense for provision for loan losses totaled \$5.3 million compared to \$11.6 million in 2010.

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (ALLL) by regularly reviewing the performance of all of its loan portfolios. As a result of its quarterly reviews, a provision for loan losses is determined to bring the total ALLL to a level called for by the analysis. For the year 2011, the provision of \$5.3 million is a 54.3% decrease from the prior year due to a reduction in net charge-offs. Loan charge-offs continue to require provisions for loan losses during the year but appeared to be stabilizing as the amount of charge-offs have decreased during 2011 compared to 2010. As non-performing loans decrease and charge-off experience improves, the assessment for the adequacy of the ALLL reduces the ALLL balance resulting in provision expense less than charge-offs.

Despite the decreased allowance, 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 adequate to cover losses inherent in the loan portfolio as of December 31, 2011.

***Non-performing Loans***

Non-performing loans are defined as loans that are greater than 90 days delinquent or have had the accrual of interest discontinued by management. Management continues to work diligently toward returning non-performing loans to an earning asset basis. Non-performing loans for the previous three years ending December 31 are as follows:

	<b>December 31 2011</b>	<b>December 31 2010</b>	<b>December 31 2009</b>
Non-performing loans	\$ 20,143	\$ 21,428	\$ 17,145

Non-performing loans total 106.7%, 112.4% and 107.1% of the allowance for loan losses at December 31, 2011, 2010 and 2009, respectively. Non-performing loans at December 31, 2011 totaled \$20.1 million, which was 2.02% of total loans. This is a decrease from a balance of \$21.4 million on December 31, 2010, which was 2.38% of total loans.

Non-performing commercial loans decreased slightly from \$8.1 million at December 31, 2010 to \$8.0 million at December 31, 2011. Non-accrual commercial loans decrease \$600,000 from December 2010, however commercial troubled debt restructured (TDR's) loans increased \$500,000. Non-accrual commercial loans secured by retail income properties, the largest concentration, totaled \$3.2 million. Economic conditions are the primary reason for causing distressed demand for real estate and durable goods, and many real estate developers and small businesses are continuing to experience declines in revenue.

As of December 31, 2011, non-performing loans include \$1.5 million of real estate loans and \$2.0 million of consumer loans that were in bankruptcy, a decline from the December 31, 2010 amounts of \$1.8 million and \$2.3 million respectively. The majority of the borrowers under Chapter 13 repayment plans are paying as agreed, but these loans remain on non-accrual status until six consecutive payments are made as agreed under the plan. Because of the time it takes for repayment plans to be approved and the six consecutive payments to be made, the level of non-performing consumer installment loans has increased as the level of charge-offs in the consumer portfolio has decreased.

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

The Company saw an increase in TDR s during 2011 from \$4.4 million at December 31, 2010 to \$5.7 million at December 31, 2011. The balance of TDR s as of December 31, 2011 that were accruing interest was \$3.5 million, primarily in real estate loans, and \$2.2 million on non-accrual.

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

Non-accrual loans, excluding non-accrual TDRs, were \$14.4 million on December 31, 2011, down from \$16.7 million on December 31, 2010. Non-accrual commercial loans were the largest component at \$6.9 million. Non-accrual commercial loans secured by retail income properties, the largest concentration, totaled \$3.2 million. Mortgage loans on non-accrual totaled \$4.7 million at December 31, 2011, down from \$5.5 million at December 31, 2010. Consumer loans on non-accrual decreased to \$2.8 million from \$3.7 million at December 31, 2010.

Loans 90 days delinquent but still accruing interest totaled \$37,000 on December 31, 2011, down from \$358,000 on December 31, 2010. Horizon's policy is to place loans over 90 days delinquent on non-accrual unless they are in the process of collection and a full recovery is expected.

A loan becomes impaired when, based on current information, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is classified as impaired, the degree of impairment must be recognized by estimating future cash flows from the debtor. The present value of these cash flows is computed at a discount rate based on the interest rate contained in the loan agreement. However, if a particular loan has a determinable market value, the creditor may use that value. Also, if the loan is secured and considered collateral dependent, the creditor may use the fair value of the collateral. (See Note 6 of the audited financial statements for further discussion of impaired loans.)

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

Other Real Estate Owned (OREO) net of any related allowance for OREO losses for the previous three years ending December 31 were as follows:

	December 31 2011	December 31 2010	December 31 2009
Other real estate owned	\$ 2,800	\$ 2,664	\$ 1,730

OREO totaled \$2.8 million on December 31, 2011 up from \$2.7 million on December 31, 2010. On December 31, 2011, OREO was comprised of 26 properties. Of these, four totaling \$1.1 million were commercial and 22 totaling \$1.7 million were residential real estate. In addition, Horizon currently has outstanding offers to purchase on approximately \$1.8 million of its \$2.8 million in OREO properties.

No mortgage warehouse loans were non-performing or OREO as of December 31, 2011, 2010 or 2009.

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

**Deferred Tax**

Horizon had a deferred tax liability at December 31, 2011 totaling \$485,000 and a deferred tax asset at December 31, 2010 totaling \$2.0 million. The following table shows the major components of deferred tax:

	December 31 2011	December 31 2010
<b>Assets</b>		
Allowance for loan losses	\$ 7,079	\$ 6,946
Director and employee benefits	1,150	1,371
Other	534	102
<b>Total assets</b>	<b>8,763</b>	<b>8,419</b>
<b>Liabilities</b>		
Depreciation	(1,545)	(1,147)
Difference in expense recognition	(66)	(51)
Federal Home Loan Bank stock dividends	(272)	(298)
Difference in basis of intangible assets	(1,843)	(1,682)
FHLB Penalty	(965)	(1,417)
Unrealized gain on securities available for sale	(4,222)	(1,746)
Other	(335)	(80)
<b>Total liabilities</b>	<b>(9,248)</b>	<b>(6,421)</b>
<b>Net deferred tax asset (liability)</b>	<b>\$ (485)</b>	<b>\$ 1,998</b>

Horizon anticipates continued earnings and therefore determined there is no impairment to this asset.

**Deposits**

The primary source of funds for the Bank comes from the acceptance of demand and time deposits. However, at times the Bank will use its ability to borrow funds from the Federal Home Loan Bank and other sources when it can do so at interest rates and terms that are superior to those required for deposited funds or loan demand is greater than the ability to grow deposits. Total deposits were \$1.0 billion at December 31, 2011, compared to \$985.5 million at December 31, 2010, or an increase of 2.5%. Average deposits and rates by category for the three years ended December 31, 2011 are as follows:

Average Balance Outstanding for the Year Ending December 31	Average Rate Paid for the Year Ending December 31
--	--

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

	2011	2010	2009	2011	2010	2009
Noninterest-bearing demand deposits	\$ 119,504	\$ 97,665	\$ 84,209			
Interest-bearing demand deposits	376,383	359,411	261,411	0.15%	0.22%	0.57%
Savings deposits	83,374	61,175	35,828	0.16%	0.23%	0.18%
Money market	83,958	78,561	121,983	0.12%	0.16%	0.83%
Time deposits	343,972	372,379	381,033	2.19%	2.60%	3.21%
Total deposits	\$ 1,007,191	\$ 969,191	\$ 884,464			

The \$38.0 million increase in average deposits during 2011 was primarily from the increase in transactional accounts as the average balances for these lower cost funding sources increased \$66.4 million and the average balances for higher cost time deposits declined \$28.4 million. Horizon continually enhances its interest-bearing consumer and commercial demand deposit products based on local market conditions and its need for funding to support various types of assets.

Certificates of deposit of \$100,000 or more, which are considered to be rate sensitive and are not considered a part of core deposits, mature as follows as of December 31, 2011:

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

Due in three months or less	\$ 72,052
Due after three months through six months	20,159
Due after six months through one year	11,230
Due after one year	100,093
<b>Total</b>	<b>\$ 203,534</b>

Interest expense on time certificates of \$100,000 or more was approximately \$3.6 million, \$4.5 million, and \$6.3 million for 2011, 2010, and 2009.

**Off-Balance Sheet Arrangements**

As of December 31, 2011, Horizon does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, change in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement, or other contractual arrangement to which an entity unconsolidated with the Company is a party and under which the Company has (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

**Contractual Obligations**

The following tables summarize Horizon's contractual obligations and other commitments to make payment as of December 31, 2011:

	<b>Total</b>	<b>Within One Year</b>	<b>One to Three Years</b>	<b>Three to Five Years</b>	<b>After Five Years</b>
Deposits	\$ 341,103	\$ 168,005	\$ 85,318	\$ 43,732	\$ 44,048
Borrowings <sup>(1)</sup>	370,111	212,609	467	71,619	85,416
Subordinated debentures <sup>(2)</sup>	30,676				30,676

<sup>(1)</sup> Includes debt obligations to the Federal Home Loan Bank and term repurchase agreements with maturities beyond one year borrowed by Horizon's banking subsidiary. See Note 11 in Horizon's Consolidated Financial Statements.

<sup>(2)</sup> Includes Trust Preferred Capital Securities issued by Horizon Statutory Trusts II and III and those assumed in the acquisition of Alliance Bank in 2005. See Note 12 in Horizon's Consolidated Financial Statements.

	<b>Expiration by Period</b>	
	<b>Within One Year</b>	<b>Greater Than One Year</b>
Letters of credit	\$ 374	\$ 683
Unfunded loan commitments	83,594	215,424

*Capital Resources*

The capital resources of Horizon and the Bank exceed regulatory capital ratios for well capitalized banks at December 31, 2011. Stockholders equity totaled \$121.5 million as of December 31, 2011, compared to \$112.3 million as of December 31, 2010. At year-end 2011, the ratio of stockholders equity to assets was 7.85%, compared to 8.01% for 2010. Tangible equity to tangible assets was 6.55% at December 31, 2011, compared to 6.13% at December 31, 2010. Book value per common share at December 31, 2011 increased to \$22.02, compared to \$19.12 at December 31, 2010. Horizon's capital increased during 2011 as a result of earnings, an increase in other comprehensive income and the exercise of stock options, net of tax, and offset by dividends declared and the redemption of preferred stock.



---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

In December 2008, Horizon received an investment of \$25 million through participation in the U.S. Department of Treasury's (Treasury) Capital Purchase Program. Under the program, the Treasury acquired 25,000 Series A shares of Horizon's Fixed Rate Cumulative Perpetual Preferred Stock (Series A Preferred Stock), which was required to pay a 5% per annum dividend for the first five years of the investment (a total of \$1,250,000 a year) and 9% per annum thereafter (a total of \$2,250,000 a year) until Horizon redeemed the shares. The preferred shares qualified as Tier I capital. As part of its investment, the Treasury also received a warrant to purchase 318,156 shares of common stock of Horizon, with an exercise price of \$11.79 per share. On August 25, 2011, the Company completed the redemption of the Series A Preferred Stock.

On August 25, 2011, the Company sold 12,500 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series B (Series B Preferred Stock), for aggregate consideration of \$12.5 million, to the U.S. Treasury pursuant to the Small Business Lending Fund program. Concurrently with this transaction, we redeemed all 18,750 shares of our Series A Preferred Stock that remained outstanding under the Treasury's Capital Purchase Program. The redemption of the Series A Preferred stock was funded by the \$12.5 million in proceeds from the sale of the Series B Preferred Stock together with other available funds.

Horizon declared dividends in the amount of \$.47 per share in 2011, \$.45 per share in 2010, and \$.45 per share in 2009. The dividend payout ratio (dividends as a percent of net income) was 20.1% for 2011, 24.6% for 2010, and 28.7% for 2009. For additional information regarding dividend conditions, see Note 1 of the Notes to the Consolidated Financial Statements.

In October of 2004, Horizon formed Horizon Statutory Trust II (Trust II), a wholly owned statutory business trust. Trust II issued \$10.3 million of Trust Preferred Capital Securities as a participant in a pooled trust preferred securities offering. The proceeds from the sale of the trust preferred securities were used by the trust to purchase an equivalent amount of subordinated debentures from Horizon. The junior subordinated debentures are the sole assets of Trust II and are fully and unconditionally guaranteed by Horizon. The junior subordinated debentures and the trust preferred securities pay interest and dividends on a quarterly basis. The junior subordinated debentures and the securities bear interest at a rate of 90 day LIBOR plus 1.95% and mature on October 21, 2034, and are non-callable for five years from the issue date. After that period, the securities may be called at any quarterly interest payment date at par. Costs associated with the issuance of the securities totaling \$17,500 were capitalized and are being amortized to the first call date of the securities.

In December of 2006, Horizon formed Horizon Bancorp Capital Trust III (Trust III), a wholly owned statutory business trust. Trust III issued \$12.4 million of Trust Preferred Capital Securities as a participant in a pooled trust preferred securities offering. The proceeds from the sale of the trust preferred securities were used by the trust to purchase an equivalent amount of subordinated debentures from Horizon. The junior subordinated debentures are the sole assets of Trust III and are fully and unconditionally guaranteed by Horizon. The junior subordinated debentures and the trust preferred securities pay interest and dividends on a quarterly basis. The junior subordinated debentures and the securities bear interest at a rate of 90 day LIBOR plus 1.65% and mature on January 30, 2037, and are non-callable for five years from the issue date. After that period, the securities may be called at any quarterly interest payment date at par. Costs associated with the issuance of the securities totaling \$12,647 were capitalized and are being amortized to the first call date of the securities. The proceeds of this issue were used to redeem the securities issued by Trust I on March 26, 2007.

The Company assumed additional debentures as the result of the acquisition of Alliance in 2005. In June 2004, Alliance formed Alliance Financial Statutory Trust I a wholly owned business trust (Alliance Trust) to sell \$5.2 million in trust preferred securities. The proceeds from the sale of the trust preferred securities were used by the trust to purchase an equivalent amount of subordinated debentures from Alliance. The junior subordinated debentures are the sole assets of Alliance Trust and are fully and unconditionally guaranteed by Horizon. The junior subordinated debentures and the trust preferred securities pay interest and dividends on a quarterly basis. The junior subordinated debentures and the securities bear interest at a rate of 90-day LIBOR plus 2.65%, mature in June 2034, and are non-callable for five years from the issue date. After that period, the securities may be called at any quarterly interest payment date at par.



---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

The Company assumed additional debentures as the result of the American Trust & Savings Bank purchase and assumption in 2010. In March 2004, Am Tru Inc., the holding company for American Trust & Savings Bank, formed Am Tru Statutory Trust I a wholly owned business trust (Am Tru Trust) to sell \$3.6 million in trust preferred securities. The proceeds from the sale of the trust preferred securities were used by the trust to purchase an equivalent amount of subordinated debentures from Am Tru Inc. The junior subordinated debentures are the sole assets of Am Tru Trust and are fully and unconditionally guaranteed by Horizon. The junior subordinated debentures and the trust preferred securities pay interest and dividends on a quarterly basis. The junior subordinated debentures and the securities bear interest at a rate of 90-day LIBOR plus 2.85%, mature in March 2034, and are non-callable for five years. After that period, the securities may be called at any quarterly interest payment date at par.

The Trust Preferred Capital Securities, subject to certain limitations, are included in Tier 1 Capital for regulatory purposes. Dividends on the Trust Preferred Capital Securities are recorded as interest expense.

**Results of Operations**

***Net Income***

Consolidated net income was \$12.8 million or \$2.27 per diluted share in 2011, \$10.5 million or \$1.81 per diluted share in 2010, and \$9.1 million or \$1.58 per share in 2009. Diluted earnings per share were reduced by \$0.26 for the twelve months ending December 31, 2011 and \$0.43 for the twelve months ending December 31, 2010 and 2009 resulting from the preferred stock dividends and the accretion of the discount on the preferred stock.

***Net Interest Income***

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

The reduction in interest rates during 2011 and 2010 has influenced the yields received on the Company's interest earning assets more significantly than the reduction in cost of the Company's interest bearing liabilities, resulting in a decrease of the net interest margin during 2011 and 2010. Management believes that the current level of interest rates is driven by external factors and therefore impacts the results of the Company's net interest margin. Management does not expect a significant rise in interest rates in the short term, but an increase in rates is expected at some time in the future due to the current historically low interest rate environment.

Net interest income during 2011 was \$48.1 million, an increase of \$500,000 or 1.1% over the \$47.6 million earned in 2010. Yields on the Company's interest-earning assets decreased by 42 basis points to 4.98% during 2011 from 5.40% in 2010. Interest income decreased \$3.9 million to \$64.6 million for 2011 from \$68.5 million in 2010. This decrease was due to the lower yield on interest earning assets partially offset by the increased volume in interest earning assets.

Rates paid on interest-bearing liabilities decreased by 39 basis points during the same period due to the lower interest rate environment. Interest expense decreased \$4.4 million from \$20.9 million for 2010 to \$16.5 million in 2011. This decrease was due to the lower rates being paid on the Company's interest bearing liabilities but offset by the increased volume of interest bearing liabilities. Due to a larger decrease in the yield on the Company's interest-earning assets compared to the decrease in the rates paid on the Company's interest-bearing liabilities, offset with the growth

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

of the Company's interest earning assets and interest bearing liabilities, the net interest margin decreased 6 basis points from 3.80% for 2010 to 3.74% in 2011.

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

	Twelve Months Ended			Twelve Months Ended			Twelve Months Ended		
	December 31, 2011			December 31, 2010			December 31, 2009		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<b>ASSETS</b>									
Interest-earning assets									
Federal funds sold	\$ 20,307	\$ 49	0.24%	\$ 23,917	\$ 53	0.22%	\$ 25,551	\$ 56	0.22%
Interest-earning deposits	7,262	2	0.03%	8,684	17	0.20%	7,170	16	0.22%
Investment securities - taxable	332,551	10,150	3.05%	282,507	9,535	3.38%	247,903	10,813	4.36%
Investment securities - non-taxable (1)(2)	111,934	4,073	5.20%	108,809	4,148	5.45%	97,913	3,942	5.75%
Loans receivable (2)(3)(4)	862,498	50,340	5.84%	878,181	54,738	6.24%	892,431	57,836	6.49%
Total interest-earning assets (1)	1,334,552	64,614	4.98%	1,302,098	68,491	5.40%	1,270,968	72,663	5.85%
Noninterest-earning assets									
Cash and due from banks	15,834			15,341			15,344		
Allowance for loan losses	(19,047)			(17,058)			(12,372)		
Other assets	98,069			93,671			77,215		
	\$ 1,429,408			\$ 1,394,052			\$ 1,351,155		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
Interest-bearing liabilities									
Interest-bearing deposits	\$ 887,687	\$ 8,346	0.94%	\$ 871,526	\$ 10,711	1.23%	\$ 800,255	\$ 14,792	1.85%
Borrowings	261,255	6,334	2.42%	264,293	8,476	3.21%	318,661	11,696	3.67%
Subordinated debentures	31,446	1,821	5.79%	32,005	1,688	5.27%	27,837	1,406	5.05%
Total interest-bearing liabilities	1,180,388	16,501	1.40%	1,167,824	20,875	1.79%	1,146,753	27,894	2.43%
Noninterest-bearing liabilities									
Demand deposits	119,504			97,665			84,209		
Accrued interest payable and other liabilities	10,841			10,466			9,215		
Shareholders' equity	118,675			118,097			110,978		
	\$ 1,429,408			\$ 1,394,052			\$ 1,351,155		
Net interest income/spread		\$ 48,113	3.58%		\$ 47,616	3.61%		\$ 44,769	3.42%
Net interest income as a percent of average interest earning assets <sup>(1)</sup>			3.74%			3.80%			3.66%

(1) Horizon has no foreign office and, accordingly, no assets or liabilities to foreign operations. Horizon's subsidiary bank had no funds invested in Eurodollar Certificates of Deposit at December 31, 2011.

(2) Yields are presented on a tax-equivalent basis.

(3) Non-accruing loans for the purpose of the computations above are included in the daily average loan amounts outstanding. Loan totals are shown net of unearned income and deferred loans fees.

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

(4) Loan fees and late fees included in interest on loans aggregated \$3.5 million, \$3.9 million, and \$4.2 million in 2011, 2010, and 2009.

	2011 - 2010			2010 - 2009		
	Total Change	Change Due To Volume	Change Due To Rate	Total Change	Change Due To Volume	Change Due To Rate
<b>Interest Income</b>						
Federal funds sold	\$ (4)	\$ (8)	\$ 4	\$ (3)	\$ (4)	\$ 1
Interest-earning deposits	(15)	(2)	(13)	1	3	(2)
Investment securities taxable	615	1,584	(969)	(1,278)	1,379	(2,657)
Investment securities non-taxable	(75)	167	(242)	206	604	(398)
Loans receivable	(4,398)	(965)	(3,433)	(3,098)	(914)	(2,184)
<b>Total interest income</b>	<b>(3,877)</b>	<b>776</b>	<b>(4,653)</b>	<b>(4,172)</b>	<b>1,068</b>	<b>(5,240)</b>
<b>Interest Expense</b>						
Interest-bearing deposits	(2,365)	195	(2,560)	(4,081)	1,225	(5,306)
Borrowings	(2,142)	(96)	(2,046)	(3,220)	(1,851)	(1,369)
Subordinated debentures	133	(30)	163	282	218	64
<b>Total interest expense</b>	<b>(4,374)</b>	<b>69</b>	<b>(4,443)</b>	<b>(7,019)</b>	<b>(408)</b>	<b>(6,611)</b>
<b>Net interest income</b>	<b>\$ 497</b>	<b>\$ 707</b>	<b>\$ (210)</b>	<b>\$ 2,847</b>	<b>\$ 1,476</b>	<b>\$ 1,371</b>

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

Net interest income during 2010 was \$47.6 million, an increase of \$2.8 million or 6.3% over the \$44.8 million earned in 2009. Yields on the Company's interest-earning assets decreased by 45 basis points to 5.40% during 2010 from 5.85% in 2009. Interest income decreased \$4.2 million to \$68.5 million for 2010 from \$72.7 million in 2009. This decrease was due to the lower yield on interest earning assets partially offset by the increased volume in interest earning assets.

Rates paid on interest-bearing liabilities decreased by 64 basis points during the same period due to the lower interest rate environment. Interest expense decreased \$7.0 million from \$27.9 million for 2009 to \$20.9 million in 2010. This decrease was due to the lower rates being paid on the Company's interest bearing liabilities but offset by the increased volume of 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, offset with the growth of the Company's interest earning assets and interest bearing liabilities, the net interest margin increased 14 basis points from 3.66% for 2009 to 3.80% in 2010.

Changes in the mix of the loan portfolio averages are shown in the following table.

	December 31 2011	December 31 2010	December 31 2009
Commercial	\$ 339,072	\$ 320,783	\$ 313,623
Real estate	170,790	163,597	147,765
Mortgage warehouse	90,316	124,787	157,057
Consumer	262,320	269,014	273,986
<b>Total average loans</b>	<b>\$ 862,498</b>	<b>\$ 878,181</b>	<b>\$ 892,431</b>

***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 2011 the provision for loan losses totaled \$5.3 million, compared to \$11.6 million in the prior year. Commercial loan net charge-offs during 2011 were \$804,000, residential mortgage loan net charge-offs were \$946,000, and installment loan net charge-offs were \$3.7 million. Loan charge-offs continue to require provisions for loan losses during the year but appeared to be decreasing as the amount of charge-offs have decreased during 2011 compared to 2010.

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

**Non-interest Income**

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

	2010 to 2011				2009 to 2010		
	December 31 2011	December 31 2010	Amount Change	Percent Change	December 31 2009	Amount Change	Percent Change
<b>Non-interest income</b>							
Service charges on deposit accounts	\$ 3,164	\$ 3,607	\$ (443)	-12.3%	\$ 3,858	\$ (251)	-6.5%
Wire transfer fees	619	756	(137)	-18.1%	921	(165)	-17.9%
Interchange fees	2,594	2,247	347	15.4%	1,864	383	20.5%
Fiduciary activities	3,983	3,979	4	0.1%	3,336	643	19.3%
Gain on sale of securities	1,777	533	1,244	233.4%	795	(262)	-33.0%
Gain on sale of mortgage loans	6,449	7,538	(1,089)	-14.4%	6,107	1,431	23.4%
Mortgage servicing net of impairment	267	(565)	832	-147.3%	(134)	(431)	321.6%
Increase in cash surrender value of bank owned life insurance	891	803	88	11.0%	720	83	11.5%
Death benefit on officer life insurance	453		453	100.0%			0.0%
Other income	102	1,008	(906)	-89.9%	389	619	159.1%
<b>Total non-interest income</b>	<b>\$ 20,299</b>	<b>\$ 19,906</b>	<b>\$ 393</b>	<b>2.0%</b>	<b>\$ 17,856</b>	<b>\$ 2,050</b>	<b>11.5%</b>

The decrease in service charge income has been the result of reduced overdraft fee income as the number of consumer overdrafts has decreased. Wire transfer fee income decreased compared to the prior year as the Company's mortgage warehouse lending had less activity due to decreased residential mortgage loan refinancing volume compared to 2010. During 2011, the Company originated approximately \$275.9 million of mortgage loans to be sold on the secondary market, compared to \$281.7 million last year. More competitive pricing in the secondary market generated lower percentage gains on the sale of mortgage loans compared to 2010, lowering the overall gain on sale of mortgage loans compared to the prior year. Other income for 2011 included \$206,000 from the loss on sale of OREO compared to a \$393,000 gain on the sale of OREO in 2010. These decreases were offset by increases in interchange fees due to higher levels of activity in ATM and debit card transactions and mortgage servicing income greater than impairment charges during 2011. Also, the net gain on the sale of securities of \$1.8 million was the result of reallocating select municipal securities to reduce concentration risks, an analysis that determined that market conditions provided the opportunity to add gains to capital without negatively impacting long term earnings and utilizing the gains to offset a \$798,000 pre-payment penalty, included in other losses, for the repayment of an FHLB advance before its scheduled maturity. The company also recognized a \$453,000 death benefit on officer life insurance during 2011.

**Non-interest Expense**

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

2010 to 2011

2009 to 2010



Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

	December 31 2011	December 31 2010	Amount Change	Percent Change	December 31 2009	Amount Change	Percent Change
<b>Non-interest expense</b>							
Salaries	\$ 15,254	\$ 14,396	\$ 858	6.0%	\$ 12,518	\$ 1,878	15.0%
Commission and bonuses	3,277	3,731	(454)	-12.2%	3,221	510	15.8%
Employee benefits	4,344	3,963	381	9.6%	3,465	498	14.4%
Net occupancy expenses	4,267	4,195	72	1.7%	3,796	399	10.5%
Data processing	2,006	1,925	81	4.2%	1,582	343	21.7%
Professional fees	1,497	1,701	(204)	-12.0%	1,413	288	20.4%
Outside services and consultants	1,741	1,694	47	2.8%	1,471	223	15.2%
Loan expense	3,586	3,208	378	11.8%	2,611	597	22.9%
FDIC deposit insurance	1,220	1,635	(415)	-25.4%	2,126	(491)	-23.1%
Other losses	2,383	504	1,879	372.8%	510	(6)	-1.2%
Other expenses	6,572	5,619	953	17.0%	5,099	520	10.2%
<b>Total non-interest expense</b>	<b>\$ 46,147</b>	<b>\$ 42,571</b>	<b>\$ 3,576</b>	<b>8.4%</b>	<b>\$ 37,812</b>	<b>\$ 4,759</b>	<b>12.6%</b>

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

Salaries, commission and bonuses, and employee benefits, net, increased during 2011 compared to 2010. This increase is the result of additional payroll expense from the consolidation of the American Trust & Savings Bank transaction that closed at the end of the second quarter of 2010, the expansion into Portage, Michigan, annual merit pay increases, and an increase in employee health insurance expense. Loan expense increased in 2011 compared to 2010 due to problem loan, bankruptcy, and collection costs. Professional fees were lower in 2011 compared to 2010 due to the costs from American Trust & Savings Bank acquisition being included in the 2010 expense. FDIC deposit insurance expense decreased during 2011 compared to 2010 as the new assessment calculation resulted in lower expense for the Bank. Other losses included \$798,000 pre-payment penalty for the repayment of an FHLB advance before its scheduled maturity, \$597,000 in OREO write downs, \$528,000 from write downs on two bank-owned properties from branches that were closed in 2010 and \$210,000 lawsuit settlement.

***Income Taxes***

Income tax expense for 2011 was \$4.2 million, compared to \$2.9 million of tax expense for during 2010. The effective tax rate for 2011 was 24.6% compared to 22.0% in 2010 and 18.5% in 2009. The increase in the effective tax rates in 2011 was primarily due to higher income before income tax.

***Liquidity and Rate Sensitivity Management***

Management and the Board of Directors meet regularly to review both the liquidity and rate sensitivity position of Horizon. Effective asset and liability management ensures Horizon's ability to monitor the cash flow requirements of depositors along with the demands of borrowers and to measure and manage interest rate risk. Horizon utilizes an interest rate risk assessment model designed to highlight sources of existing interest rate risk and consider the effect of these risks on strategic planning. Management maintains (within certain parameters) an essentially balanced ratio of interest sensitive assets to liabilities in order to protect against the effects of wide interest rate fluctuations.

***Liquidity***

The Bank maintains a stable base of core deposits provided by long standing relationships with consumers and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon include earnings, loan repayments, investment security sales and maturities, sale of real estate loans and borrowing relationships with correspondent banks, including the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank (FRB). At December 31, 2011, Horizon had available approximately \$288.7 million in available credit from various money center banks, including the FHLB and the FRB Discount Window. Factors which could impact Horizon's funding needs in the future include:

Horizon has outstanding borrowings of over \$174.3 million with the FHLB and total borrowing capacity with the FHLB of \$292.1 million. Generally, the loan terms from the FHLB are better than the terms Horizon can receive from other sources, making it less expensive to borrow money from the FHLB. Continued and additional financial difficulties at the FHLB could reduce or eliminate Horizon's additional borrowing capacity with the FHLB or FHLB could change collateral requirements which could lower the Company's borrowing availability.

If residential mortgage loan rates remain low, Horizon's mortgage warehouse loans could create an additional need for funding.

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Horizon has a total of \$119.0 million of Federal Fund lines from various money center banks. These are uncommitted lines and could be drawn upon at any time by the correspondent banks.

Horizon has a total of \$94.4 million of available collateral at the Federal Reserve Bank secured by municipal securities. These securities may mature, call, or be sold, which would reduce the available collateral.

A downgrade in Horizon's public credit rating by a rating agency due to factors such as deterioration in asset quality, a large charge to earnings, a decline in profitability or other financial measures, or a significant merger or acquisition.

An act of terrorism or war, natural disasters, political events, or the default or bankruptcy of a major corporation, mutual fund, hedge fund or a government agency.

Market speculation or rumors about Horizon or the banking industry in general may adversely affect the cost and availability of normal funding sources.

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of****Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

Horizon anticipates spending \$3.0 million for premises and equipment during 2012, including two full service offices. These purchases will be funded through normal operations.

Horizon anticipates spending \$7.2 million to purchase TARP preferred shares of Heartland Bancshares, Inc. plus other transaction costs related to the merger announced on February 9, 2012.

If any of these events occur, they could force Horizon to borrow money from other sources including negotiable certificates of deposit. Such other monies may only be available at higher interest rates and on less advantageous terms, which will impact our net income and could impact our ability to grow. Management believes Horizon has adequate funding sources to meet short and long term needs.

Horizon maintains a liquidity contingency plan that outlines the process for addressing a liquidity crisis. The plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and responsibilities for effectively managing liquidity through a problem period.

During 2011, cash flows were generated primarily from the sales, maturities, and prepayments of investment securities of \$168.2 million, increase in deposits by \$24.4 million and the increase in borrowings by a net \$109.5 million. Cash flows were used to purchase investments totaling \$203.0 million reduce and increase in loans totaling \$105.7 million. The net cash and cash equivalent position increased by \$4.8 million during 2011.

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2011. Interest on subordinated debentures and long-term borrowed funds is calculated based on current contractual interest rates.

(dollars in thousands)	Total	Within one year	After one but within three years	After three but within five years	After five years
Remaining contractual maturities of time deposits	\$ 341,109	\$ 168,011	\$ 85,318	\$ 43,732	\$ 44,048
Borrowings	370,111	243,285	467	71,619	54,740
Subordinated debentures	30,676				30,676
Loan Commitments	299,018	299,018			
Preferred stock	12,500	6,250	6,250		
Letters of credit	1,057	1,057			
<b>Total</b>	<b>\$ 1,054,471</b>	<b>\$ 717,621</b>	<b>\$ 92,035</b>	<b>\$ 115,351</b>	<b>\$ 129,464</b>

**Interest Sensitivity**

The degree by which net interest income may fluctuate due to changes in interest rates is monitored by Horizon using computer simulation models, incorporating not only the current GAP position but the effect of expected repricing of specific financial assets and liabilities. When repricing opportunities are not properly aligned, net interest income may be affected when interest rates change. Forecasting results of the possible outcomes determines the exposure to interest rate risk inherent in Horizon's balance sheet. The goal is to manage imbalanced positions that arise when the total amount of assets that reprice or mature in a given time period differs significantly from liabilities that reprice or mature in the same time period. The theory behind managing the difference between repricing assets and liabilities is to have more assets repricing in a

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

rising rate environment and more liabilities repricing in a declining rate environment. Based on one model that assumes a lag in repricing, at December 31, 2011, the amount of assets that reprice within one year was 183% of liabilities that reprice within one year. At December 31, 2010, this same model, reported that the amount of assets that reprice within one year was approximately 193% of the amount of liabilities that reprice within the same time period. The year 2010 was a declining rate environment and the rates on liabilities continued to reprice at lower rates due to management's ability to lower those rates. The impact of the interest rate reduction along with interest rate floors on certain loans positively impacted the net interest margin during 2011.

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

	Rate Sensitivity				Total
	3 Months or Less	> 3 Months & < 6 Months	> 6 Months & < 1 Year	Greater Than 1 Year	
Loans	\$ 518,760	\$ 90,172	\$ 126,680	\$ 261,671	\$ 997,283
Federal Funds Sold	1,514				1,514
Interest-Bearing balances with Banks	2,101				2,101
Investment securities with FRB and FHLB stock	35,712	41,261	41,035	332,527	450,535
Other assets	30,918			64,809	95,727
Total Assets	\$ 589,005	\$ 131,433	\$ 167,715	\$ 659,007	\$ 1,547,160
Noninterest-bearing deposits	\$ 8,419	\$ 7,421	\$ 13,157	\$ 101,676	\$ 130,673
Interest-bearing deposits	128,184	63,537	87,341	600,129	879,191
Borrowed Funds	119,848	42,143	14,073	224,723	400,787
Other Liabilities				15,045	15,045
Stockholders' equity				121,464	121,464
Total liabilities and stockholders' equity	\$ 256,451	\$ 113,101	\$ 114,571	\$ 1,063,037	\$ 1,547,160
GAP	\$ 332,554	\$ 18,332	\$ 53,144	\$ (404,030)	
Cumulative GAP	\$ 332,554	\$ 350,886	\$ 404,030		

Included in the GAP analysis are certain interest-bearing demand accounts and savings accounts. These interest-bearing accounts are subject to immediate withdrawal. However, Horizon considers approximately 83% of these deposits to be insensitive to gradual changes in interest rates and generally to behave like deposits with longer maturities based upon historical experience and management's ability to change rates. Due to management's ability to change some deposit rates along with \$388.6 million of Horizon's adjustable rate loans at their floor, another model was developed to better assist management in determining the balance sheet repricing sensitivity to these variables. This model reported that the amount of assets that reprice within one year was approximately 85% of the amount of liabilities that reprice within the same time period. Management utilizes both models to best determine its balance sheet management strategy.

	Repricing Sensitivity				Total
	3 Months or Less	> 3 Months & < 6 Months	> 6 Months & < 1 Year	Greater Than 1 Year	
Loans	\$ 518,760	\$ 90,172	\$ 126,680	\$ 261,671	\$ 997,283
Federal Funds Sold	1,514				1,514
Interest-Bearing balances with Banks	2,101				2,101
Investment securities with FRB and FHLB stock	35,712	41,261	41,035	332,527	450,535
Other assets	30,918			64,809	95,727
Total Assets	\$ 589,005	\$ 131,433	\$ 167,715	\$ 659,007	\$ 1,547,160
Noninterest-bearing deposits	\$ 130,673	\$	\$	\$	\$ 130,673
Interest-bearing deposits	632,646	38,437	35,011	173,097	879,191

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Borrowed Funds	161,509	40,598	10,502	188,178	400,787
Other Liabilities				15,045	15,045
Stockholders' equity				121,464	121,464
Total liabilities and stockholders' equity	\$ 924,828	\$ 79,035	\$ 45,513	\$ 497,784	\$ 1,547,160
GAP	\$ (335,823)	\$ 52,398	\$ 122,202	\$ 161,223	
Cumulative GAP	\$ (335,823)	\$ (283,425)	\$ (161,223)		

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Management's Discussion and Analysis of**

**Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

***Quantitative and Qualitative Disclosures about Market Risk***

Horizon's primary market risk exposure is interest rate risk. Interest rate risk (IRR) is the risk that Horizon's earnings and capital will be adversely affected by changes in interest rates. The primary approach to IRR management is one that focuses on adjustments to the asset/liability mix in order to limit the magnitude of IRR.

Horizon's exposure to interest rate risk arises from repricing or mismatch risk, embedded options risk, and yield curve risk. Repricing risk is the risk of adverse consequence from a change in interest rates that arise because of differences in the timing of when those interest rate changes affect Horizon's assets and liabilities. Basis risk is the risk that the spread, or rate difference, between instruments of similar maturities will change. Options risk arises whenever products give the customer the right, but not the obligation, to alter the quantity or timing of cash flows. Yield curve risk is the risk that changes in prevailing interest rates will affect instruments of different maturities by different amounts. Horizon's objective is to remain reasonably neutral with respect to IRR. Horizon utilizes a variety of strategies to maintain this position including the sale of mortgage loans on the secondary market, hedging certain balance sheet items using derivatives, varying maturities of FHLB advances, certificates of deposit funding and investment securities.

The table, which follows, provides information about Horizon's financial instruments that were sensitive to changes in interest rates as of December 31, 2011. The table incorporates Horizon's internal system generated data related to the maturity and repayment/withdrawal of interest-earning assets and interest-bearing liabilities. For loans, securities and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities as well as the historical experience of Horizon related to the impact of interest rate fluctuations on the prepayment of residential loans and mortgage-backed securities. From a risk management perspective, Horizon believes that repricing dates are more relevant than contractual maturity dates when analyzing the value of financial instruments. For deposits with no contractual maturity dates, the table presents principal cash flows and weighted average rate, as applicable, based upon Horizon's experience and management's judgment concerning the most likely withdrawal behaviors.



**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of  
Financial Condition and Results of Operations**

(Table dollars in thousands except per share data)

**Quantitative Disclosure of Market Risk**

	2012	2013	2014	2015	2016	2017 & Beyond	Total	Fair Value December 31 2011
<b>Rate-sensitive assets</b>								
Fixed interest rate loans	\$ 239,288	\$ 89,135	\$ 50,309	\$ 29,754	\$ 16,491	\$ 33,246	\$ 458,223	\$ 423,671
Average interest rate	5.82%	6.33%	6.20%	6.02%	5.87%	6.53%	6.03%	
Variable interest rate loans	496,323	19,321	8,363	5,294	6,449	3,309	539,059	588,702
Average interest rate	4.81%	4.98%	4.75%	4.60%	4.31%	4.33%	4.80%	
Total loans	735,611	108,456	58,672	35,048	22,940	36,555	997,282	1,012,373
Average interest rate	5.14%	6.09%	5.99%	5.80%	5.43%	6.33%	5.36%	
Securities, including FRB and FHLB stock	118,008	66,356	47,688	40,701	45,249	132,533	450,535	450,536
Average interest rate	3.47%	3.80%	3.83%	3.81%	3.88%	4.01%	3.79%	
Other interest-bearing assets	3,615						3,615	3,615
Average interest rate	0.13%	0.00%	0.00%	0.00%	0.00%	0.00%	0.13%	
Total earnings assets	\$ 857,234	\$ 174,813	\$ 106,359	\$ 75,749	\$ 68,189	\$ 169,087	\$ 1,451,432	\$ 1,466,524
Average interest rate	4.89%	5.22%	5.03%	4.73%	5.22%	4.52%	4.86%	
<b>Rate-sensitive liabilities</b>								
Noninterest-bearing deposits	\$ 27,999	\$ 22,000	\$ 17,286	\$ 13,582	\$ 10,672	\$ 39,134	\$ 130,673	\$ 130,673
NOW accounts	56,424	46,011	43,135	40,809	30,521	152,013	368,914	359,428
Average interest rate	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	0.13%	
Savings and money market accounts	46,105	32,404	23,964	15,752	11,102	37,329	166,656	165,775
Average interest rate	0.11%	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%	
Certificates of deposit	170,525	52,517	32,801	20,659	23,073	44,048	343,622	348,957
Average interest rate	0.96%	1.88%	1.92%	2.21%	3.35%	2.83%	1.67%	
Total deposits	301,053	152,932	117,186	90,802	75,368	272,524	1,009,865	1,004,833
Average interest rate	0.59%	0.71%	0.61%	0.58%	1.10%	0.55%	0.64%	
Fixed interest rate borrowings	168,760	268	199	71,482	136	85,416	326,262	354,940
Average interest rate	0.52%	4.56%	4.68%	2.90%	4.77%	3.59%	1.86%	
Variable interest rate borrowings	74,525						74,525	73,932
Average interest rate	2.42%	0.00%	0.00%	0.00%	0.00%	0.00%	2.42%	
Total funds	\$ 544,338	\$ 153,200	\$ 117,385	\$ 162,284	\$ 75,504	\$ 357,940	\$ 1,410,651	\$ 1,433,705
Average interest rate	0.82%	0.72%	0.62%	1.60%	1.10%	1.27%	1.01%	

**Recent Developments**

On February 9, 2012, Horizon entered into an Agreement and Plan of Merger (Merger Agreement) providing for Horizon's acquisition of Heartland Bancshares, Inc., an Indiana corporation (Heartland). Pursuant to the Merger Agreement, Heartland will merge with and into Horizon,

with Horizon surviving the merger, and Heartland Community Bank, an Indiana-chartered commercial bank and wholly owned subsidiary of Heartland, will merge with and into the Bank, with the Bank as the surviving bank. In connection with the Merger, each Heartland shareholder will receive 0.54 shares of Horizon common stock for each share of Heartland common stock owned by them, subject to adjustment. The Merger Agreement also provides that, prior to consummation of the merger, Horizon will fund the purchase of the shares of preferred stock that Heartland issued to the Treasury pursuant to the Capital Purchase Program. Those preferred shares have an aggregate liquidation value of \$7.248 million.

Based on Horizon's February 8, 2012 closing price of \$18.00 per share as reported on the NASDAQ Global Market, the transaction value is estimated at \$14.0 million. Subject to the approval of the merger by Heartland's shareholders, regulatory approvals and other closing conditions, the parties anticipate completing the merger during the second quarter of 2012. For additional information, see Note 26 of the Consolidated Financial Statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information required under this item is incorporated by reference to the information appearing in management's discussion and analysis of financial condition and results of operation included in Item 7.

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**HORIZON BANCORP AND SUBSIDIARIES**

**Consolidated Financial Statements**

**Table of Contents**

Consolidated Financial Statements	Page
<u>Balance Sheets</u>	54
<u>Statements of Income</u>	55
<u>Statements of Stockholders' Equity</u>	56
<u>Statements of Cash Flows</u>	57
<u>Notes to Financial Statements</u>	58
<b><u>Report of Independent Registered Public Accounting Firm Other Information</u></b>	101
<u>Management's Report on Financial Statements</u>	102
<u>Summary of Selected Financial Data</u>	103
<u>Horizon's Common Stock and Related Stockholders' Matters</u>	104

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Consolidated Balance Sheets**

(Dollar Amounts in Thousands)

	December 31 2011	December 31 2010
<b>Assets</b>		
Cash and due from banks	\$ 20,447	\$ 15,683
Investment securities, available for sale	431,045	382,344
Investment securities, held to maturity	7,100	9,595
Loans held for sale	14,090	18,833
Loans, net of allowance for loan losses of \$18,882 and \$ 19,064	964,311	863,813
Premises and equipment	34,665	34,194
Federal Reserve and Federal Home Loan Bank stock	12,390	13,664
Goodwill	5,910	5,910
Other intangible assets	2,292	2,741
Interest receivable	6,671	6,519
Cash value life insurance	30,190	27,195
Other assets	18,051	20,428
<b>Total assets</b>	<b>\$ 1,547,162</b>	<b>\$ 1,400,919</b>
<b>Liabilities</b>		
Deposits		
Non-interest bearing	\$ 130,673	\$ 107,606
Interest bearing	879,192	877,892
<b>Total deposits</b>	<b>1,009,865</b>	<b>985,498</b>
Borrowings	370,111	260,741
Subordinated debentures	30,676	30,584
Interest payable	596	781
Other liabilities	14,449	11,032
<b>Total liabilities</b>	<b>1,425,697</b>	<b>1,288,636</b>
<b>Commitments and contingent liabilities</b>		
<b>Stockholders Equity</b>		
Preferred stock, \$.01 par value, \$1,000 liquidation value		
Authorized, 1,000,000 Series A shares		
Issued 0 and 18,750 shares		18,217
Preferred stock, \$.01 par value, \$1,000 liquidation value		
Authorized, 1,000,000 Series B shares		
Issued 12,500 and 0 shares	12,500	
Common stock, \$.3333 stated value		
Authorized, 22,500,000 shares		
Issued, 4,967,196 and 4,950,989 shares	1,126	1,122
Additional paid-in capital	10,610	10,356
Retained earnings	89,387	80,240
Accumulated other comprehensive income	7,842	2,348
<b>Total stockholders equity</b>	<b>121,465</b>	<b>112,283</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,547,162</b>	<b>\$ 1,400,919</b>

See notes to consolidated financial statements

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Consolidated Statements of Income**

(Dollar Amounts in Thousands, Except Per Share Data)

	Years Ended December 31		
	2011	2010	2009
<b>Interest Income</b>			
Loans receivable	\$ 50,340	\$ 54,738	\$ 57,836
Investment securities			
Taxable	10,201	9,605	10,885
Tax exempt	4,073	4,148	3,942
Total interest income	64,614	68,491	72,663
<b>Interest Expense</b>			
Deposits	8,346	10,711	14,792
Borrowed funds	6,334	8,476	11,696
Subordinated debentures	1,821	1,688	1,406
Total interest expense	16,501	20,875	27,894
<b>Net Interest Income</b>	<b>48,113</b>	<b>47,616</b>	<b>44,769</b>
Provision for loan losses	5,282	11,554	13,603
<b>Net Interest Income after Provision for Loan Losses</b>	<b>42,831</b>	<b>36,062</b>	<b>31,166</b>
<b>Other Income</b>			
Service charges on deposit accounts	3,164	3,607	3,858
Wire transfer fees	619	756	921
Interchange fees	2,594	2,247	1,864
Fiduciary activities	3,983	3,979	3,336
Gain on sale of securities	1,777	533	795
Gain on sale of mortgage loans	6,449	7,538	6,107
Mortgage servicing income net of impairment	267	(565)	(134)
Increase in cash surrender value of bank owned life insurance	891	803	720
Death benefit on officer life insurance	453		
Other income	102	1,008	389
Total other income	20,299	19,906	17,856
<b>Other Expenses</b>			
Salaries and employee benefits	22,875	22,090	19,204
Net occupancy expenses	4,267	4,195	3,796
Data processing	2,006	1,925	1,582
Professional fees	1,497	1,701	1,413
Outside services and consultants	1,741	1,694	1,471
Loan expense	3,586	3,208	2,611
FDIC insurance expense	1,220	1,635	2,126
Other losses	2,383	504	510
Other expenses	6,572	5,619	5,099

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Total other expenses	<b>46,147</b>	42,571	37,812
<b>Income Before Income Tax</b>	<b>16,983</b>	13,397	11,210
Income tax expense	<b>4,186</b>	2,942	2,070
<b>Net Income</b>	<b>12,797</b>	10,455	9,140
Preferred stock dividend and discount accretion	<b>(1,325)</b>	(1,406)	(1,402)
<b>Net Income Available to Common Shareholders</b>	<b>\$ 11,472</b>	\$ 9,049	\$ 7,738
<b>Basic Earnings Per Share</b>	<b>\$ 2.32</b>	\$ 1.84	\$ 1.60
<b>Diluted Earnings Per Share</b>	<b>2.27</b>	1.81	1.58
See notes to consolidated financial statements			

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Consolidated Statements of Stockholders' Equity**

(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
<b>Balances, January 1, 2009</b>	<b>\$ 24,151</b>	<b>\$ 1,114</b>	<b>\$ 9,650</b>		<b>\$ 67,807</b>	<b>\$ 628</b>	<b>\$ 103,350</b>
Net income				\$ 9,140	9,140		9,140
Other comprehensive income, net of tax:							
Unrealized gain on securities				4,260		4,260	4,260
Unrealized gain on derivative instruments				831		831	831
Comprehensive income				\$ 14,231			
Amortization of unearned compensation			164				164
Issuance of restricted shares		3	93				96
Exercise of stock options		2	66				68
Tax benefit related to stock options			18				18
Stock option expense			39				39
Cash dividends on preferred stock (5.00%)					(1,132)		(1,132)
Cash dividends on common stock (\$.45 per share)					(2,229)		(2,229)
Accretion of discount on preferred stock	152				(152)		
<b>Balances, December 31, 2009</b>	<b>\$ 24,306</b>	<b>\$ 1,119</b>	<b>\$ 10,030</b>		<b>\$ 73,431</b>	<b>\$ 5,719</b>	<b>\$ 114,605</b>
Net income				\$ 10,455	10,455		10,455
Redemption of preferred stock	(6,250)						(6,250)
Other comprehensive income, net of tax:							
Unrealized loss on securities				(2,199)		(2,199)	(2,199)
Unrealized loss on derivative instruments				(1,172)		(1,172)	(1,172)
Comprehensive income				\$ 7,084			
Amortization of unearned compensation			68				68
Issuance of restricted shares			34				34
Exercise of stock options		3	117				120
Tax benefit related to stock options			77				77
Stock option expense			30				30
Cash dividends on preferred stock (5.00%)					(1,245)		(1,245)
Cash dividends on common stock (\$.45 per share)					(2,240)		(2,240)
Accretion of discount on preferred stock	161				(161)		
<b>Balances, December 31, 2010</b>	<b>\$ 18,217</b>	<b>\$ 1,122</b>	<b>\$ 10,356</b>		<b>\$ 80,240</b>	<b>\$ 2,348</b>	<b>\$ 112,283</b>
Net income				\$ 12,797	12,797		12,797
Other comprehensive income, net of tax:							
Unrealized gain on securities				7,793		7,793	7,793
Unrealized losses on derivative instruments				(2,299)		(2,299)	(2,299)
Comprehensive income				\$ 18,291			



Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Redemption of preferred stock	(18,750)				(18,750)	
Issuance of preferred stock	12,500				12,500	
Amortization of unearned compensation			100		100	
Issuance of restricted shares		3	57		60	
Exercise of stock options		1	54		55	
Tax benefit related to stock options			8		8	
Stock option expense			35		35	
Cash dividends on preferred stock (5.00%)				(792)	(792)	
Cash dividends on common stock (\$.47 per share)				(2,325)	(2,325)	
Accretion of discount on preferred stock	533			(533)		
<b>Balances, December 31, 2011</b>	<b>\$ 12,500</b>	<b>\$ 1,126</b>	<b>\$ 10,610</b>	<b>\$ 89,387</b>	<b>\$ 7,842</b>	<b>\$ 121,465</b>

See notes to consolidated financial statements

**Table of Contents****HORIZON BANCORP AND SUBSIDIARIES****Consolidated Statements of Cash Flows**

(Dollar Amounts in Thousands)

	Years Ended December 31		
	2011	2010	2009
<b>Operating Activities</b>			
Net income	\$ 12,797	\$ 10,455	\$ 9,140
Items not requiring (providing) cash			
Provision for loan losses	5,282	11,554	13,603
Depreciation and amortization	2,520	2,320	2,280
Share based compensation	35	30	39
Mortgage servicing rights impairment	53	664	135
Deferred income tax	108	(113)	(713)
Premium amortization on securities available for sale, net	2,311	1,946	729
Gain on sale of investment securities	(1,777)	(533)	(795)
Gain on sale of mortgage loans	(6,449)	(7,538)	(6,107)
Proceeds from sales of loans	282,306	286,960	339,424
Loans originated for sale	(275,857)	(281,705)	(335,871)
Change in cash surrender value of life insurance	5	(770)	(720)
(Gain) loss on sale of other real estate owned	206	(393)	9
Net change in			
Interest receivable	(152)		(278)
Interest payable	(185)	(354)	(775)
Other assets	178	296	(5,704)
Other liabilities	971	2,057	316
Net cash provided by operating activities	22,352	24,876	14,712
<b>Investing Activities</b>			
Purchases of securities available for sale	(193,494)	(203,840)	(137,723)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	155,343	204,647	112,377
Purchase of securities held to maturity	(9,437)	(24,732)	(24,726)
Proceeds from maturities of securities held to maturity	12,837	11,167	15,171
(Purchase) proceeds from the sale of Federal Home Loan Bank stock	1,274	861	(564)
Net change in loans	(105,678)	32,577	(20,394)
Proceeds on the sale of OREO and repossessed assets	2,424	6,137	8,242
Purchases of premises and equipment	(2,442)	(2,414)	(4,066)
Purchases of bank owned life insurance	(3,000)		
Purchases and assumption of ATSB		3,412	
Net cash used in investing activities	(142,173)	27,815	(51,683)
<b>Financing Activities</b>			
Net change in			
Deposits	24,367	(64,227)	110,539
Borrowings	109,462	(31,979)	(40,367)
Redemption of preferred stock	(18,750)	(6,250)	
Issuance of preferred stock	12,500		
Proceeds from issuance of stock	115	154	164
Tax benefit from issuance of stock	8	77	18
Dividends paid on common shares	(2,325)	(2,240)	(2,229)

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Dividends paid on preferred shares	(792)	(1,245)	(1,132)
Net cash provided by (used in) financing activities	124,585	(105,710)	66,993
<b>Net Change in Cash and Cash Equivalent</b>	<b>4,764</b>	<b>(53,019)</b>	<b>30,022</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>15,683</b>	<b>68,702</b>	<b>38,680</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 20,447</b>	<b>\$ 15,683</b>	<b>\$ 68,702</b>
<b>Additional Cash Flows Information</b>			
Interest paid	\$ 16,686	\$ 21,228	\$ 28,668
Income taxes paid	2,700	3,880	3,155
Transfer of loans to other real estate owned	4,787	9,026	6,481
See notes to consolidated financial statements			

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

**Note 1 Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Business** The consolidated financial statements of Horizon Bancorp (Horizon) and its wholly owned subsidiary, Horizon Bank, N.A. (Bank) conform to accounting principles generally accepted in the United States of America and reporting practices followed by the banking industry.

The Bank is a full-service commercial bank offering a broad range of commercial and retail banking and other services incident to banking along with a trust department that offers corporate and individual trust and agency services and investment management services. The Bank has two active wholly owned subsidiaries, Horizon Investments, Inc. (Investment Company) and Horizon Grantor Trust. Investment Company manages the investment portfolio of the Bank. Horizon Grantor Trust holds title to certain company owned life insurance policies. The Bank maintains 22 full service facilities. The Bank also wholly owns Horizon Insurance Services, Inc. (Insurance Agency) which is inactive, but previously offered a full line of personal and corporate insurance products. The net income generated from the insurance operations was not significant to the overall operations of Horizon and the majority of the Insurance Agency assets were sold during 2005. Horizon conducts no business except that incident to its ownership of the subsidiaries.

Horizon formed Horizon Statutory Trust II in 2004 and Horizon Bancorp Capital Trust III in 2006 for the purpose of participating in Pooled Trust Preferred Stock offerings. The Company assumed additional debentures as the result of the acquisition of Alliance in 2005, which formed Alliance Financial Statutory Trust I (Alliance Trust), and American Trust & Savings Bank in 2010, which formed Am Tru Statutory Trust I (Am Tru Trust). See Note 12 for further discussion regarding these previously consolidated entities that are now reported separately.

**Basis of Reporting** The consolidated financial statements include the accounts of Horizon and subsidiaries. All material inter-company accounts and transactions have been eliminated in consolidation.

**Use of Estimates** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Measurements** Horizon uses fair value measurements to record fair value adjustments, to certain assets, and liabilities and to determine fair value disclosures. Horizon has adopted Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures for all applicable financial and nonfinancial assets and liabilities. This accounting guidance defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance applies only when other guidance requires or permits assets or liabilities to be measured at fair value; it does not expand the use of fair value in any new circumstances.

As defined in codification, fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants. It represents an exit price at the measurement date. Market participants are buyers and sellers, who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured. Current market conditions, including imbalances between supply and demand, are considered in determining fair value. Horizon values its assets and liabilities in the principal market where it sells the particular asset or transfers the liability with the greatest volume and level of activity. In the absence of a principal market, the valuation is based on the most advantageous market for the asset or liability (i.e., the market where the asset could be sold or the liability transferred at a price that maximizes the amount to be received for the asset or minimizes the amount to be paid to transfer the liability).

In measuring the fair value of an asset, Horizon assumes the highest and best use of the asset by a market participant to maximize the value of the asset, and does not consider the intended use of the asset.

When measuring the fair value of a liability, Horizon assumes that the nonperformance risk associated with the liability is the same before and after the transfer. Nonperformance risk is the risk that an obligation will not be satisfied and



---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

encompasses not only Horizon's own credit risk (i.e., the risk that Horizon will fail to meet its obligation), but also other risks such as settlement risk. Horizon considers the effect of its own credit risk on the fair value for any period in which fair value is measured.

There are three acceptable valuation techniques that can be used to measure fair value: the market approach, the income approach and the cost approach. Selection of the appropriate technique for valuing a particular asset or liability takes into consideration the exit market, the nature of the asset or liability being valued, and how a market participant would value the same asset or liability. Ultimately, determination of the appropriate valuation method requires significant judgment, and sufficient knowledge and expertise are required to apply the valuation techniques.

Valuation inputs refer to the assumptions market participants would use in pricing a given asset or liability using one of the three valuation techniques. Inputs can be observable or unobservable. Observable inputs are those assumptions which market participants would use in pricing the particular asset or liability. These inputs are based on market data and are obtained from a source independent of Horizon. Unobservable inputs are assumptions based on Horizon's own information or estimate of assumptions used by market participants in pricing the asset or liability. Unobservable inputs are based on the best and most current information available on the measurement date. All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy which gives the highest ranking to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for assets or liabilities classified as Level 2 are based on one or a combination of the following factors: (i) quoted prices for similar assets; (ii) observable inputs for the asset or liability, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation considers an input to be significant if it drives 10% or more of the total fair value of a particular asset or liability.

Assets and liabilities are considered to be fair valued on a recurring basis if fair value is measured regularly (i.e., daily, weekly, monthly or quarterly). Recurring valuation occurs at a minimum on the measurement date. Assets and liabilities are considered to be fair valued on a nonrecurring basis if the fair value measurement of the instrument does not necessarily result in a change in the amount recorded on the balance sheet. Generally, nonrecurring valuation is the result of the application of other accounting pronouncements which require assets or liabilities to be assessed for impairment or recorded at the lower of cost or fair value. The fair value of assets or liabilities transferred in or out of Level 3 is measured on the transfer date, with any additional changes in fair value subsequent to the transfer considered to be realized or unrealized gains or losses.

**Investment Securities Available for Sale** Horizon designates the majority of its investment portfolio as available for sale based on management's plans to use such securities for asset and liability management, liquidity and not to hold such securities as long-term investments. Management repositions the portfolio to take advantage of future expected interest rate trends when Horizon's long-term profitability can be enhanced. Investment securities available for sale and marketable equity securities are carried at estimated fair value and any net unrealized gains/losses (after tax) on these securities are included in accumulated other comprehensive income. Gains/losses on the disposition of securities available for sale are recognized at the time of the transaction and are determined by the specific identification method.

**Investment Securities Held to Maturity** Includes any security for which Horizon has the positive intent and ability to hold until maturity. These securities are carried at amortized cost.

**Loans Held for Sale** Loans held for sale are reported at the lower of cost or market value in the aggregate.

**Interest and Fees on Loans** Interest on commercial, mortgage and installment loans is recognized over the term of the loans based on the principal amount outstanding. When principal or interest is past due 90 days or more, and the loan is not well secured or in the process of collection, or when serious doubt exists as to the collectability of a loan, the accrual of interest is discontinued. Loan origination fees, net of direct loan origination costs, are deferred and recognized over the life of the loan as a yield adjustment.



---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

**Concentrations of Credit Risk** The Bank grants commercial, real estate, and consumer loans to customers located primarily in Northwest Indiana and Southwest Michigan and provides mortgage warehouse lines to mortgage companies in the United States. Commercial loans make up approximately 36% of the loan portfolio and are secured by both real estate and business assets. These loans are expected to be repaid from cash flows from operations of the businesses. The Bank does not have a concentration in speculative commercial real estate loans. Residential real estate loans make up approximately 16% of the loan portfolio and are secured by residential real estate. Installment loans make up approximately 27% of the loan portfolio and are primarily secured by consumer assets. Mortgage warehouse loans make up approximately 21% of the loan portfolio and are secured by residential real estate.

**Mortgage Warehouse Loans** Horizon's mortgage warehousing has specific mortgage companies as customers of Horizon Bank. Individual mortgage loans originated by these mortgage companies are funded as a secured borrowing with pledge of collateral under Horizon's agreement with the mortgage company. Each individual mortgage is assigned to Horizon until the loan is sold to the secondary market by the mortgage company. In addition, Horizon takes possession of each original note and forwards such note to the end investor once the mortgage company has sold the loan. At the time a loan is transferred to the secondary market, the mortgage company repurchases the loan under its option within the agreement.

Due to the repurchase feature contained in the agreement, the transaction does not qualify as a sale under ASC 860, Transfers and Servicing and therefore is accounted for as a secured borrowing with pledge of collateral pursuant to the agreement with the mortgage company. When the individual loan is sold to the end investor by the mortgage company the proceeds from the sale of the loan are received by Horizon and used to pay off the loan balance with Horizon along with any accrued interest and any related fees. The remaining balance from the sale is forwarded to the mortgage company. These individual loans typically are sold by the mortgage company within 30 days and are seldom held more than 90 days. Interest income is accrued during this period and collected at the time each loan is sold. Fee income for each loan sold is collected when the loan is sold and no costs are deferred due to the term between each loan funding and related payoff is typically less than 30 days.

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

**Allowance for Loan Losses** An allowance for loan losses is maintained to absorb probable incurred losses inherent in the loan portfolio. The allowance is based on ongoing quarterly assessments of the probable incurred losses inherent in the loan portfolio. The allowance is increased by the provision for credit losses, which is charged against current period operating results and decreased by the amount of charge offs, net of recoveries. Horizon's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the general allowance, specific allowances for identified problem loans and the qualitative allowance.

The general allowance is calculated by applying loss factors to pools of outstanding loans. Loss factors are based on historical loss experience and may be adjusted for significant factors that, in management's judgment, affect the collectability of the portfolio as of the evaluation date.

Specific allowances are established in cases where management has identified conditions or circumstances related to a credit that management believes indicate the probability that a loss will be incurred in excess of the amount determined by the application of the formula allowance.

The qualitative allowance is based upon management's evaluation of various conditions, the effects of which are not directly measured in the determination of the general and specific allowances. The evaluation of the inherent loss with



---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific credits. The conditions evaluated in connection with the qualitative allowance may include factors such as local, regional and national economic conditions and forecasts, concentrations of credit and changes in the composition of the portfolio.

**Loan Impairment** When analysis determines a borrower's operating results and financial condition are not adequate to meet debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 30 days or more. Loans are generally placed on non-accrual status when 90 days or more past due. These loans are also often considered impaired. Impaired loans or portions thereof, are charged-off when deemed uncollectible. This typically occurs when the loan is 120 or more days past due.

Loans are considered impaired if borrower does not exhibit the ability to pay or the full principal or interest payments are not expected or made in accordance with the original terms of the loan. Impaired loans are measured and carried at the lower of cost or the present value of expected future cash flows discounted at the loan's effective interest rate, at the loan's observable market price or at the fair value of the collateral if the loan is collateral dependent.

Smaller balance homogenous loans are evaluated for impairment in the aggregate. Such loans include residential first mortgage loans secured by one to four family residences, residential construction loans and automobile, home equity and second mortgages. Commercial loans and mortgage loans secured by other properties are evaluated individually for impairment.

**Premises and Equipment** Buildings and major improvements are capitalized and depreciated using primarily the straight-line method with useful lives ranging from 3 to 40 years. Furniture and equipment are capitalized and depreciated using primarily the straight-line method with useful lives ranging from 2 to 20 years. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on disposition are included in current operations.

**Federal Reserve and Federal Home Loan Bank of Indianapolis (FHLBI) Stock** The stock is a required investment for institutions that are members of the Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLBI) systems. The required investment in the common stock is based on a predetermined formula.

**Mortgage Servicing Rights** Mortgage servicing rights on originated loans that have been sold are capitalized by allocating the total cost of the mortgage loans between the mortgage servicing rights and the loans based on their relative fair values. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenue. Impairment of mortgage-servicing rights is assessed based on the fair value of those rights. Fair values are estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value. Amortization expense and charges related to an impairment write-down are included in other income.

**Goodwill** Goodwill is tested annually for impairment. At December 31, 2011, Horizon had core deposit intangibles of \$2.3 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. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Goodwill totaled \$5.9 million at December 31, 2011 and 2010. A large majority of the goodwill relates to the acquisition of Alliance Financial Corporation.

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

(Table dollars in thousands except for per share data)

**Income Taxes** Horizon files annual consolidated income tax returns with its subsidiaries. Income tax in the consolidated statements of income includes deferred income tax provisions or benefits for all significant temporary differences in recognizing income and expenses for financial reporting and income tax purposes.

**Trust Assets and Income** Property, other than cash deposits, held in a fiduciary or agency capacity is not included in the consolidated balance sheets since such property is not owned by Horizon.

**Earnings per Common Share** 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.

	December 31 2011	December 31 2010	December 31 2009
<b>Basic earnings per share</b>			
Net income	\$ 12,797	\$ 10,455	\$ 9,140
Less: Preferred stock dividends and accretion of discount	1,325	1,406	1,402
Net income available to common shareholders	\$ 11,472	\$ 9,049	\$ 7,738
Weighted average common shares outstanding <sup>(1)</sup>	4,938,172	4,915,604	4,848,050
<b>Basic earnings per share</b>	<b>\$ 2.32</b>	<b>\$ 1.84</b>	<b>\$ 1.60</b>
<b>Diluted earnings per share</b>			
Net income available to common shareholders	\$ 11,472	\$ 9,049	\$ 7,738
Weighted average common shares outstanding <sup>(1)</sup>	4,938,172	4,915,604	4,848,050
Effect of dilutive securities:			
Warrants	107,948	60,654	
Restricted stock	2,907	22,028	48,426
Stock options	9,902	3,612	9,609
Weighted average shares outstanding	5,058,929	5,001,897	4,906,085
<b>Diluted earnings per share</b>	<b>\$ 2.27</b>	<b>\$ 1.81</b>	<b>\$ 1.58</b>

<sup>(1)</sup> Adjusted for 3:2 stock split on December 9, 2011

At December 31, 2011, 2010, and 2009 there were 31,411 shares, 48,333 shares, and 71,514 shares that were not included in the computation of diluted earnings per share because they were non-dilutive.

**Dividend Restrictions** Regulations of the Comptroller of the Currency limit the amount of dividends that may be paid by a national bank to its parent holding company without prior approval of the Comptroller of the Currency. At December 31, 2011, \$13.8 million was available for payment of dividends from the Bank to Horizon. Additionally, the Federal Reserve Board limits the amount of dividends that may be paid by Horizon to its stockholders under its capital adequacy guidelines.

**Consolidated Statements of Cash Flows** For purposes of reporting cash flows, cash and cash equivalents are defined to include cash and due from banks, money market investments and federal funds sold with maturities of one day or less. Horizon reports net cash flows for customer loan transactions, deposit transactions, short-term investments and borrowings.

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

**Share-Based Compensation** At December 31, 2011, Horizon has stock option plans, which are described more fully in Note 19. All share-based payments to be recognized as expense, based upon their fair values, in the financial statements over the vesting period of the awards. Horizon has recorded approximately \$35,000, \$30,000, and \$39,000 for 2011, 2010, and 2009, in compensation expense relating to vesting of stock options less estimated forfeitures for the 12 month period ended December 31, 2011 and 2010.

**Current Economic Conditions** The current economic environment presents financial institutions with unprecedented circumstances and challenges which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to Horizon.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses and capital that could negatively impact Horizon's ability to meet regulatory capital requirements and maintain sufficient liquidity.

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

**Recent Accounting Pronouncements**

**FASB Accounting Standards Update 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05**

The FASB has issued Accounting Standards Update (ASU) No. 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. The amendments to the Codification in ASU No. 2011-12 are effective at the same time as the amendments in ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, so that entities will not be required to comply with the presentation requirements in ASU No. 2011-05 that ASU No. 2011-12 is deferring.

In order to defer only those changes in ASU No. 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in ASU No. 2011-12 supersede certain pending paragraphs in ASU No. 2011-05. The amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05.

All other requirements in ASU No. 2011-05 are not affected by ASU No. 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. These disclosures will be adopted by the Company in future reporting periods.

**FASB Accounting Standards Update 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities**

The eligibility criteria for offsetting are different in IFRS and U.S. GAAP. Offsetting, otherwise known as netting, is the presentation of assets and liabilities as a single net amount in the statement of financial position (balance sheet). Unlike IFRS, U.S. GAAP allows companies the option to present net in their balance sheets derivatives that are subject to a legally



---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

enforceable netting arrangement with the same party where rights of set-off are only available in the event of default or bankruptcy.

To address these differences between IFRS and U.S. GAAP, in January 2011 the FASB and the IASB (the Boards) issued an exposure draft that proposed new criteria for netting that were narrower than the current conditions currently in U.S. GAAP. Nevertheless, in response to feedback from their respective stakeholders, the Boards decided to retain their existing offsetting models. Instead, the Boards have issued common disclosure requirements related to offsetting arrangements to allow investors to better compare financial statements prepared in accordance with IFRS or U.S. GAAP.

The amendments to the FASB Accounting Standards Codification in this ASU require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Coinciding with the release of ASU No. 2011-11, the IASB has issued *Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*. This amendment requires disclosures about the offsetting of financial assets and financial liabilities common to those in ASU No. 2011-11.

An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company is evaluating the impact of these disclosures for future reporting periods.

**FASB Accounting Standards Update 2011-09, Compensation-Retirement Benefits-Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan**

ASU 2011-09 is intended to address concerns from various users of financial statements on the lack of transparency about an employer's participation in a multiemployer pension plan. Users of financial statements have requested additional disclosure to increase awareness of the commitments and risks involved with participating in multiemployer pension plans. The amendments in this ASU will require additional disclosures about an employer's participation in a multiemployer pension plan. Previously, disclosures were limited primarily to the historical contributions made to the plans.

ASU 2011-09 applies to nongovernmental entities that participate in multiemployer plans. For public entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2011. For nonpublic entities, ASU 2011-09 is effective for annual periods for fiscal years ending after December 15, 2012. Early adoption is permissible for both public and nonpublic entities. ASU 2011-09 should be applied retrospectively for all prior periods presented. This pronouncement is not expected to have a significant impact to the Company's financial statements.

**Note 2 Cash Equivalents**

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of deposit accounts with financial institutions.

One or more of the financial institutions holding the Company's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under the program, as a result of changes made pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and regulations adopted by the FDIC to implement the Dodd-Frank Act provisions, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account until December 31, 2012.

Pursuant to legislation enacted in 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2011, the Company's cash accounts exceeded federally insured limits by approximately \$266,000. At December 31, 2011, the Company had cash balances at the Federal Reserve Bank and Federal Home Loan Bank of Indianapolis of \$420,000 that did not have FDIC insurance coverage.



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

(Table dollars in thousands except for per share data)

**Note 3 Securities**

The fair value of securities is as follows:

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available for sale</b>				
U.S. Treasury and federal agencies	\$ 12,693	\$ 329	\$	\$ 13,022
State and municipal	135,011	8,950	(71)	143,890
Federal agency collateralized mortgage obligations	89,016	2,106		91,122
Federal agency mortgage-backed pools	173,797	5,669	(115)	179,351
Private labeled mortgage-backed pools	3,518	118		3,636
Corporate notes	32		(8)	24
Total available for sale investment securities	\$ 414,067	\$ 17,172	\$ (194)	\$ 431,045
<b>Held to maturity, State and Municipal</b>				
	\$ 7,100	\$ 34	\$	\$ 7,134
<b>December 31, 2010</b>				
<b>Available for sale</b>				
U.S. Treasury and federal agencies	\$ 24,727	\$ 643	\$ (119)	\$ 25,251
State and municipal	132,380	1,511	(2,402)	131,489
Federal agency collateralized mortgage obligations	100,106	1,945	(214)	101,837
Federal agency mortgage-backed pools	114,390	3,865	(360)	117,895
Private labeled mortgage-backed pools	5,197	126		5,323
Corporate notes	555		(6)	549
Total available for sale investment securities	\$ 377,355	\$ 8,090	\$ (3,101)	\$ 382,344
<b>Held to maturity, State and Municipal</b>				
	\$ 9,595	\$	\$	\$ 9,595

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

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

The unrealized losses on the Company's investments in United States Department of the Treasury ( U.S. Treasury ) and federal agencies, securities of state and municipal governmental agencies, and federal agency mortgage-backed pools were caused by interest rate volatility and not a decline in credit quality. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the



## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

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

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

(Table dollars in thousands except for per share data)

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

	December 31, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Available for sale</b>				
Within one year	\$ 931	\$ 940	\$ 855	\$ 866
One to five years	30,796	31,910	28,240	28,949
Five to ten years	51,476	55,053	44,179	44,450
After ten years	64,533	69,033	84,388	83,024
	147,736	156,936	157,662	157,289
Federal agency collateralized mortgage obligations	89,016	91,122	100,106	101,837
Federal agency mortgage-backed pools	173,797	179,351	114,390	117,895
Private labeled mortgage-backed pools	3,518	3,636	5,197	5,323
Total available for sale investment securities	\$ 414,067	\$ 431,045	\$ 377,355	\$ 382,344
<b>Held to maturity</b>				
Within one year	\$ 7,100	\$ 7,134	\$ 9,495	\$ 9,495
One to five years			100	100
Total held to maturity investment securities	\$ 7,100	\$ 7,134	\$ 9,595	\$ 9,595

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

December 31, 2011	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State and municipal	\$ 1,550	\$ (44)	\$ 1,948	\$ (27)	\$ 3,498	\$ (71)
Federal agency mortgage-backed pools	23,442	(115)	23		23,465	(115)
Corporate notes	24	(8)			24	(8)
Total temporarily impaired securities	\$ 25,016	\$ (167)	\$ 1,971	\$ (27)	\$ 26,987	\$ (194)
			<b>Less than 12 Months</b>	<b>12 Months or More</b>	<b>Total</b>	

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

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

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

(Table dollars in thousands except for per share data)

Information regarding security proceeds, gross gains and gross losses are presented below.

	2011	December 31 2010	2009
<b>Sales of securities available for sale</b>			
Proceeds	\$ 77,379	\$ 85,892	\$ 48,859
Gross gains	1,777	675	1,130
Gross losses		142	335

The Company pledges securities to secure retail and corporate repurchase agreements to the Federal Reserve for borrowing availability and as settlements for the fair value of swap agreements. At December 31, 2011, the Company had pledged \$170.0 million of fair value or \$164.0 million of amortized cost, in securities as collateral for \$138.8 million in repurchase agreements, \$98.1 million of fair value or \$91.9 million of amortized cost, in securities as collateral for borrowing availability at the Federal Reserve with no current outstanding borrowings and \$8.6 million of fair value or \$8.4 million of amortized cost, in securities as collateral for \$7.1 million in settlements on the fair value of swap agreements.

**Note 4 Loans**

	December 31 2011	December 31 2010
<b>Commercial</b>		
Working capital and equipment	\$ 170,325	\$ 151,414
Real estate, including agriculture	172,910	167,785
Tax exempt	3,818	2,925
Other	5,323	7,894
<b>Total</b>	<b>352,376</b>	330,018
<b>Real estate</b>		
1-4 family	153,039	157,478
Other	4,102	4,957
<b>Total</b>	<b>157,141</b>	162,435
<b>Consumer</b>		
Auto	134,686	136,014
Recreation	4,737	6,086
Real estate/home improvement	27,729	29,184
Home equity	92,249	90,580
Unsecured	3,183	3,091
Other	2,793	1,726
<b>Total</b>	<b>265,377</b>	266,681
<b>Mortgage warehouse</b>	<b>208,299</b>	123,743

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Total	<b>208,299</b>	123,743
Total loans	<b>983,193</b>	882,877
Allowance for loan losses	<b>(18,882)</b>	(19,064)
Loans, net	<b>\$ 964,311</b>	\$ 863,813

**Commercial**

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of property type, which are monitored for concentrations of credit. Management monitors and evaluates commercial real estate loans based on collateral, cash flow and risk grade criteria. As a general rule, the Company avoids financing single purpose projects, such as churches, schools, restaurants, and golf courses unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

**Real Estate and Consumer**

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

**Mortgage Warehousing**

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

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

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

(Table dollars in thousands except for per share data)

The following table shows the recorded investment of individual loan categories.

<b>December 31, 2011</b>	<b>Loan Balance</b>	<b>Interest Due</b>	<b>Deferred Fees/(Costs)</b>	<b>Recorded Investment</b>
Owner occupied real estate	\$ 131,893	\$ 383	\$ 30	\$ 132,306
Non owner occupied real estate	142,269	360	94	142,723
Residential spec homes	3,574	6		3,580
Development & spec land loans	8,739	16		8,755
Commercial and industrial	65,774	169	3	65,946
<b>Total commercial</b>	<b>352,249</b>	<b>934</b>	<b>127</b>	<b>353,310</b>
Residential mortgage	150,893	513	68	151,474
Residential construction	6,181	8		6,189
Mortgage warehouse	208,299	427		208,726
<b>Total real estate</b>	<b>365,373</b>	<b>948</b>	<b>68</b>	<b>366,389</b>
Direct installment	24,252	94	(360)	23,986
Direct installment purchased	981			981
Indirect installment	127,751	420	(56)	128,115
Home equity	113,561	559	(752)	113,368
<b>Total consumer</b>	<b>266,545</b>	<b>1,073</b>	<b>(1,168)</b>	<b>266,450</b>
<b>Total loans</b>	<b>984,167</b>	<b>2,955</b>	<b>(973)</b>	<b>986,149</b>
Allowance for loan losses	(18,882)			(18,882)
<b>Net loans</b>	<b>\$ 965,285</b>	<b>\$ 2,955</b>	<b>\$ (973)</b>	<b>\$ 967,267</b>

<b>December 31, 2010</b>	<b>Loan Balance</b>	<b>Interest Due</b>	<b>Deferred Fees/(Costs)</b>	<b>Recorded Investment</b>
Owner occupied real estate	\$ 125,883	\$ 442	\$ 26	\$ 126,351
Non owner occupied real estate	136,986	364	87	137,437
Residential spec homes	2,257	4	(2)	2,259
Development & spec land loans	6,439	14		6,453
Commercial and industrial	58,336	234	6	58,576
<b>Total commercial</b>	<b>329,901</b>	<b>1,058</b>	<b>117</b>	<b>331,076</b>
Residential mortgage	154,891	592	76	155,559
Residential construction	7,467	13	1	7,481
Mortgage warehouse	123,743	332		124,075

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Total real estate	286,101	937	77	287,115
Direct installment	23,527	97	(338)	23,286
Direct installment purchased	1,869			1,869
Indirect installment	128,122	491	7	128,620
Home equity	114,202	563	(708)	114,057
<b>Total consumer</b>	<b>267,720</b>	<b>1,151</b>	<b>(1,039)</b>	<b>267,832</b>
<b>Total loans</b>	<b>883,722</b>	<b>3,146</b>	<b>(845)</b>	<b>886,023</b>
Allowance for loan losses	(19,064)			(19,064)
<b>Net loans</b>	<b>\$ 864,658</b>	<b>\$ 3,146</b>	<b>\$ (845)</b>	<b>\$ 866,959</b>



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

(Table dollars in thousands except for per share data)

**Note 4 Allowance for Loan Losses**

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

	December 31 2011	December 31 2010	December 31 2009
Balance at beginning of the period	\$ 19,064	\$ 16,015	\$ 11,410
Loans charged-off:			
<b>Commercial</b>			
Owner occupied real estate	190	1,560	920
Non owner occupied real estate	401	288	400
Residential development			
Development & Spec Land Loans		780	787
Commercial and industrial	376	1,228	354
<b>Total commercial</b>	967	3,856	2,461
<b>Real estate</b>			
Residential mortgage	956	811	432
Residential construction			
Mortgage warehouse			
<b>Total real estate</b>	956	811	432
<b>Consumer</b>			
Direct Installment	661	568	2,297
Direct Installment Purchased			
Indirect Installment	1,676	2,863	3,960
Home Equity	2,420	1,636	1,097
<b>Total consumer</b>	4,757	5,067	7,354
Total loans charged-off	6,680	9,734	10,247
Recoveries of loans previously charged off:			
<b>Commercial</b>			
Owner occupied real estate	26	5	
Non owner occupied real estate	113		
Residential development		66	
Development & Spec Land Loans			
Commercial and industrial	24	162	66
<b>Total commercial</b>	163	233	66
<b>Real estate</b>			
Residential mortgage	10	1	

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Residential construction			
Mortgage warehouse			
<b>Total real estate</b>	10	1	
<b>Consumer</b>			
Direct Installment	96	61	147
Direct Installment Purchased			
Indirect Installment	803	880	992
Home Equity	144	54	44
<b>Total consumer</b>	1,043	995	1,183
Total loan recoveries	1,216	1,229	1,249
Net loans charged-off	5,464	8,505	8,998
Provision charged to operating expense	5,282	11,554	13,603
Balance at the end of the period	\$ 18,882	\$ 19,064	\$ 16,015

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

(Table dollars in thousands except for per share data)

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

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

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

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

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

<b>December 31, 2011</b>	<b>Commercial</b>	<b>Real Estate</b>	<b>Mortgage Warehousing</b>	<b>Consumer</b>	<b>Total</b>
<b>Allowance For Loan Losses</b>					
<b>Ending allowance balance attributable to loans:</b>					
Individually evaluated for impairment	\$ 2,136	\$	\$	\$	\$ 2,136
Collectively evaluated for impairment	5,881	2,472	1,695	6,698	16,746
<b>Total ending allowance balance</b>	<b>\$ 8,017</b>	<b>\$ 2,472</b>	<b>\$ 1,695</b>	<b>\$ 6,698</b>	<b>\$ 18,882</b>
<b>Loans:</b>					
Individually evaluated for impairment	\$ 7,960	\$	\$	\$	\$ 7,960
Collectively evaluated for impairment	345,350	157,663	208,726	266,450	978,189
<b>Total ending loans balance</b>	<b>\$ 353,310</b>	<b>\$ 157,663</b>	<b>\$ 208,726</b>	<b>\$ 266,450</b>	<b>\$ 986,149</b>
<b>December 31, 2010</b>	<b>Commercial</b>	<b>Real Estate</b>	<b>Mortgage Warehousing</b>	<b>Consumer</b>	<b>Total</b>
<b>Allowance For Loan Losses</b>					
<b>Ending allowance balance attributable to loans:</b>					
Individually evaluated for impairment	\$ 1,457	\$	\$	\$	\$ 1,457

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Collectively evaluated for impairment	6,097	2,379	1,435	7,696	17,607
<b>Total ending allowance balance</b>	<b>\$ 7,554</b>	<b>\$ 2,379</b>	<b>\$ 1,435</b>	<b>\$ 7,696</b>	<b>\$ 19,064</b>
<b>Loans:</b>					
Individually evaluated for impairment	\$ 8,123	\$	\$	\$	\$ 8,123
Collectively evaluated for impairment	322,953	163,040	124,075	267,832	877,900
<b>Total ending loans balance</b>	<b>\$ 331,076</b>	<b>\$ 163,040</b>	<b>\$ 124,075</b>	<b>\$ 267,832</b>	<b>\$ 886,023</b>

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

(Table dollars in thousands except for per share data)

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

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

December 31, 2011	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Non Performing TDR's	Performing TDR's	Total Non-Performing Loans
<b>Commercial</b>					
Owner occupied real estate	\$ 2,515	\$	\$	\$	\$ 2,515
Non owner occupied real estate	3,970		152		4,122
Residential development					
Development & Spec Land Loans	90				90
Commercial and industrial	330		901		1,231
<b>Total commercial</b>	<b>6,905</b>		<b>1,053</b>		<b>7,958</b>
<b>Real estate</b>					
Residential mortgage	4,550		1,120	2,389	8,059
Residential construction	144			293	437
Mortgage warehouse					
<b>Total real estate</b>	<b>4,694</b>		<b>1,120</b>	<b>2,682</b>	<b>8,496</b>
<b>Consumer</b>					
Direct Installment	256	1			257
Direct Installment Purchased		4			4
Indirect Installment	926	29			955
Home Equity	1,587	3	25	858	2,473
<b>Total Consumer</b>	<b>2,769</b>	<b>37</b>	<b>25</b>	<b>858</b>	<b>3,689</b>
<b>Total</b>	<b>\$ 14,368</b>	<b>\$ 37</b>	<b>\$ 2,198</b>	<b>\$ 3,540</b>	<b>\$ 20,143</b>

December 31, 2010	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Non Performing TDR's	Performing TDR's	Total Non-Performing Loans
<b>Commercial</b>					
Owner occupied real estate	\$ 1,358	\$	\$	\$	\$ 1,358
Non owner occupied real estate	5,439		421		5,860
Residential development	16				16
Development & Spec Land Loans	250				250
Commercial and industrial	445		153		598

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

<b>Total commercial</b>	7,508		574		8,082
<b>Real estate</b>					
Residential mortgage	5,278	222	241	3,380	9,121
Residential construction	205				205
Mortgage warehouse					
<b>Total real estate</b>	5,483	222	241	3,380	9,326
<b>Consumer</b>					
Direct Installment	251	23			274
Direct Installment Purchased		5			5
Indirect Installment	1,328	98			1,426
Home Equity	2,103	10	37	165	2,315
<b>Total Consumer</b>	3,682	136	37	165	4,020
<b>Total</b>	\$ 16,673	\$ 358	\$ 852	\$ 3,545	\$ 21,428

From time to time, the Bank obtains information that may lead management to believe that the collection of payments may be doubtful on a particular loan. In recognition of this, it is management's policy to convert the loan from an earning

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

asset to a non-accruing loan. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date. Further, it is management's policy to place a loan on a non-accrual status when delinquent in excess of 90 days or have had the accrual of interest discontinued by management. The officer responsible for the loan, the Chief Operating Officer and the senior collection officer must review all loans placed on non-accrual status. Subsequent payments on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

A loan becomes impaired when, based on current information, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is classified as impaired, the degree of impairment must be recognized by estimating future cash flows from the debtor. The present value of these cash flows is computed at a discount rate based on the interest rate contained in the loan agreement. However, if a particular loan has a determinable market value, Horizon may use that value. Also, if the loan is secured and considered collateral dependent, Horizon may use the fair value of the collateral. Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

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

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

The Company's TDRs are considered impaired loans and included in the allowance methodology using the guidance for impaired loans. At December 31, 2011 the type of concessions the Company has made on restructured loans has been temporary rate reductions and/or reductions in monthly payments. Any modification to a loan that is a concession and is not in the normal course of lending is considered a restructured loan. A restructured loan is returned to accruing status after six consecutive payments but is still reported as TDR unless the loan bears interest at a market rate. As of December 31, 2011, the Company had \$5.7 million in TDRs and \$3.5 million were performing according to the restructured terms. The financial statement impact of non-performing TDRs was not material for the year ending December 31, 2011. There was \$426,000 of specific reserves for commercial TDRs at December 31, 2011 due to the value of the collateral.

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

(Table dollars in thousands except for per share data)

Loans classified as troubled debt restructuring during the year ended December 31, 2011, segregated by class, are shown in the table below.

(Dollars in thousands)	Twelve Months Ended December 31, 2011	
	Number of Defaults	Unpaid Principal Balance
<b>Commercial</b>		
Owner occupied real estate	1	\$ 835
Non owner occupied real estate		
Residential development		
Development & Spec Land Loans		
Commercial and industrial		
<b>Total commercial</b>	1	835
<b>Real estate</b>		
Residential mortgage	3	342
Residential construction		
Mortgage warehouse		
<b>Total real estate</b>	3	342
<b>Consumer</b>		
Direct Installment		
Direct Installment Purchased		
Indirect Installment		
Home Equity	11	758
<b>Total Consumer</b>	11	758
<b>Total</b>	15	\$ 1,935

Troubled debt restructured loans which had payment defaults during the three and nine months ended December 31, 2011, segregated by class, are shown in the table below. Default occurs when a loan is 90 days or more past due or transferred to nonaccrual.

(Dollars in thousands)	Twelve Months Ended December 31, 2011	
	Number of Defaults	Unpaid Principal Balance
<b>Commercial</b>		
Owner occupied real estate	1	\$ 835
Non owner occupied real estate		
Residential development		
Development & Spec Land Loans		
Commercial and industrial	2	218



<b>Total commercial</b>	3	1,053
<b>Real estate</b>		
Residential mortgage	2	1,120
Residential construction		
Mortgage warehouse		
<b>Total real estate</b>	2	1,120
<b>Consumer</b>		
Direct Installment		
Direct Installment Purchased		
Indirect Installment		
Home Equity		
<b>Total Consumer</b>		
<b>Total</b>	5	\$ 2,173

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

(Table dollars in thousands except for per share data)

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

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Loss Allocated	Twelve Months Ending Average Balance in Impaired Loans	Interest Income Recognized
<b>December 31, 2011</b>					
<b>With no recorded allowance</b>					
<b>Commercial</b>					
Owner occupied real estate	\$ 192	\$ 192	\$	\$ 110	\$ 2
Non owner occupied real estate	954	956		639	43
Residential development					
Development & Spec Land Loans	90	90		157	
Commercial and industrial	396	396		355	6
<b>Total commercial</b>	<b>1,632</b>	<b>1,634</b>		<b>1,261</b>	<b>51</b>
<b>With an allowance recorded</b>					
<b>Commercial</b>					
Owner occupied real estate	2,323	2,323	770	1,911	25
Non owner occupied real estate	3,168	3,168	1,080	830	83
Residential development					
Development & Spec Land Loans					
Commercial and industrial	835	835	286	839	22
<b>Total commercial</b>	<b>6,326</b>	<b>6,326</b>	<b>2,136</b>	<b>3,580</b>	<b>130</b>
<b>Total</b>	<b>\$ 7,958</b>	<b>\$ 7,960</b>	<b>\$ 2,136</b>	<b>\$ 4,841</b>	<b>\$ 181</b>

	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Loss Allocated
<b>December 31, 2010</b>			
<b>With no recorded allowance</b>			
<b>Commercial</b>			
Owner occupied real estate	\$ 720	\$ 721	\$
Non owner occupied real estate	928	929	
Residential development			
Development & Spec Land Loans			
Commercial and industrial	118	118	
<b>Total commercial</b>	<b>1,766</b>	<b>1,768</b>	
<b>With an allowance recorded</b>			
<b>Commercial</b>			

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Owner occupied real estate	639	640	385
Non owner occupied real estate	4,932	4,970	665
Residential development	16	16	16
Development & Spec Land Loans	250	250	126
Commercial and industrial	479	479	265
<b>Total commercial</b>	6,316	6,355	1,457
<b>Total</b>	\$ 8,082	\$ 8,123	\$ 1,457

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

(Table dollars in thousands except for per share data)

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

December 31, 2011	30 - 59 Days	60 - 89 Days	Greater than 90	Loans Not Past		Total
	Past Due	Past Due	Days Past Due	Total Past Due	Due	
<b>Commercial</b>						
Owner occupied real estate	\$ 89	\$ 168	\$	\$ 257	\$ 131,636	\$ 131,893
Non owner occupied real estate	228			228	142,041	142,269
Residential development					3,574	3,574
Development & Spec Land Loans					8,739	8,739
Commercial and industrial	34	22		56	65,718	65,774
<b>Total commercial</b>	<b>351</b>	<b>190</b>		<b>541</b>	<b>351,708</b>	<b>352,249</b>
<b>Real estate</b>						
Residential mortgage	411			411	150,482	150,893
Residential construction					6,181	6,181
Mortgage warehouse					208,299	208,299
<b>Total real estate</b>	<b>411</b>			<b>411</b>	<b>364,962</b>	<b>365,373</b>
<b>Consumer</b>						
Direct Installment	164	22	1	187	24,065	24,252
Direct Installment Purchased	7	14	4	25	956	981
Indirect Installment	1,333	335	29	1,697	126,054	127,751
Home Equity	363	92	3	458	113,103	113,561
<b>Total consumer</b>	<b>1,867</b>	<b>463</b>	<b>37</b>	<b>2,367</b>	<b>264,178</b>	<b>266,545</b>
<b>Total</b>	<b>\$ 2,629</b>	<b>\$ 653</b>	<b>\$ 37</b>	<b>\$ 3,319</b>	<b>\$ 980,848</b>	<b>\$ 984,167</b>

December 31, 2010	30 - 59 Days	60 - 89 Days	Greater than 90	Loans Not Past		Total
	Past Due	Past Due	Days Past Due	Total Past Due	Due	
<b>Commercial</b>						
Owner occupied real estate	\$ 229	\$	\$	\$ 229	\$ 125,654	\$ 125,883
Non owner occupied real estate	461			461	136,525	136,986
Residential development					2,257	2,257
Development & Spec Land Loans					6,439	6,439
Commercial and industrial	74			74	58,262	58,336
<b>Total commercial</b>	<b>764</b>			<b>764</b>	<b>329,137</b>	<b>329,901</b>
<b>Real estate</b>						
Residential mortgage	317	91	222	630	154,261	154,891

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Residential construction	293			293	7,174	7,467
Mortgage warehouse					123,743	123,743
<b>Total real estate</b>	610	91	222	923	285,178	286,101
<b>Consumer</b>						
Direct Installment	294	156	23	473	23,054	23,527
Direct Installment Purchased	51	31	5	87	1,782	1,869
Indirect Installment	2,360	433	98	2,891	125,231	128,122
Home Equity	899	218	10	1,127	113,075	114,202
<b>Total consumer</b>	3,604	838	136	4,578	263,142	267,720
<b>Total</b>	\$ 4,978	\$ 929	\$ 358	\$ 6,265	\$ 877,457	\$ 883,722

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

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

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

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

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

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

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

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

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

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

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

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

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

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

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with some weakness but offsetting features of other support are readily available; loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered.

Loans may be graded Satisfactory when there is no recent information on which to base a current risk evaluation and the following conditions apply:

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

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

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

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

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

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

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

**Risk Grade 5: Special Mention**

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

**Risk Grade 6: Substandard**

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

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

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

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



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

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

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

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

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

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

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

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

**Risk Grade 7: Doubtful**

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

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

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

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

**Risk Grade 8: Loss**

Loans are considered uncollectible and of such little value that continuing to carry them as assets is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

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

(Table dollars in thousands except for per share data)

<b>December 31, 2011</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
<b>Commercial</b>					
Owner occupied real estate	\$ 107,155	\$ 4,101	\$ 20,637	\$	\$ 131,893
Non owner occupied real estate	118,446	11,423	12,400		142,269
Residential development	1,677	529	1,368		3,574
Development & Spec Land Loans	3,778	860	4,101		8,739
Commercial and industrial	55,964	3,012	6,798		65,774
<b>Total commercial</b>	<b>287,020</b>	<b>19,925</b>	<b>45,304</b>		<b>352,249</b>
<b>Real estate</b>					
Residential mortgage	142,834		8,059		150,893
Residential construction	5,744		437		6,181
Mortgage warehouse	208,299				208,299
<b>Total real estate</b>	<b>356,877</b>		<b>8,496</b>		<b>365,373</b>
<b>Consumer</b>					
Direct Installment	23,995		257		24,252
Direct Installment Purchased	977		4		981
Indirect Installment	126,796		955		127,751
Home Equity	111,088		2,473		113,561
<b>Total Consumer</b>	<b>262,856</b>		<b>3,689</b>		<b>266,545</b>
<b>Total</b>	<b>\$ 906,753</b>	<b>\$ 19,925</b>	<b>\$ 57,489</b>	<b>\$</b>	<b>\$ 984,167</b>

<b>December 31, 2010</b>	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
<b>Commercial</b>					
Owner occupied real estate	\$ 94,722	\$ 13,656	\$ 17,506	\$	\$ 125,883
Non owner occupied real estate	119,041	6,107	11,838		136,986
Residential development	834	537	886		2,257
Development & Spec Land Loans	4,378	746	1,315		6,439
Commercial and industrial	45,831	6,856	5,649		58,336
<b>Total commercial</b>	<b>264,805</b>	<b>27,902</b>	<b>37,195</b>		<b>329,901</b>
<b>Real estate</b>					
Residential mortgage	145,770		9,121		154,891
Residential construction	7,262		205		7,467
Mortgage warehouse	123,743				123,743
<b>Total real estate</b>	<b>276,775</b>		<b>9,326</b>		<b>286,101</b>
<b>Consumer</b>					
Direct Installment	23,253		274		23,527
Direct Installment Purchased	1,864		5		1,869

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Indirect Installment	126,696		1,426		128,122
Home Equity	111,888		2,314		114,202
<b>Total Consumer</b>	263,701		4,019		267,720
<b>Total</b>	\$ 805,281	\$ 27,902	\$ 50,539	\$	\$ 883,722

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

(Table dollars in thousands except for per share data)

**Note 7 Premises and Equipment**

	December 31 2011	December 31 2010
Land	\$ 10,682	\$ 11,184
Buildings and improvements	34,603	32,645
Furniture and equipment	10,361	10,353
Total cost	55,646	54,182
Accumulated depreciation	(20,981)	(19,988)
Net premise and equipment	\$ 34,665	\$ 34,194

**Note 8 Loan Servicing**

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others totaled approximately \$599.1 million and \$463.5 million at December 31, 2011 and 2010.

The aggregate fair value of capitalized mortgage servicing rights was approximately \$5.4 million, \$3.7 million, and \$3.5 million at December 31, 2011, 2010, and 2009. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates, were used to stratify the originated mortgage servicing rights.

	December 31 2011	December 31 2010	December 31 2009
<b>Mortgage servicing rights</b>			
Balances, January 1	\$ 4,175	\$ 3,010	\$ 732
Servicing rights capitalized	1,866	2,000	2,807
Amortization of servicing rights	(992)	(835)	(529)
	5,049	4,175	3,010
Impairment allowance	(856)	(803)	(139)
Balances, December 31	\$ 4,193	\$ 3,372	\$ 2,871

During 2011, 2010 and 2009, the Bank recorded additional impairment of approximately \$53,000, \$664,000 and \$135,000.

**Note 9 Intangible Assets**

As a result of the acquisition of Alliance Bank Corporation in 2005 and American Trust & Savings Bank in 2010, the Company has recorded certain amortizable intangible assets related to core deposit intangibles. The Core deposit intangible is being amortized over ten years using an accelerated method. Amortizable intangible assets are summarized as follows:

	December 31, 2011		December 31, 2010	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets Core deposit intangible	\$ 4,637	\$ (2,345)	\$ 4,637	\$ (1,896)

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

(Table dollars in thousands except for per share data)

Amortization expense for intangible assets totaled \$449,000, \$390,000, and \$305,000 for the years ended December 31, 2011, 2010, and 2009. Estimated amortization for the years ending December 31 are as follows:

	0000000
2012	\$ 438
2013	427
2014	416
2015	267
2016	169
Thereafter	575
	\$ 2,292

**Note 10 Deposits**

	December 31 2011	December 31 2010
Noninterest-bearing demand deposits	\$ 130,673	\$ 107,606
Interest-bearing demand deposits	368,914	345,288
Money market (variable rate)	81,692	86,859
Savings deposits	87,477	76,806
Certificates of deposit of \$100,000 or more	203,535	206,130
Other certificates and time deposits	137,574	162,809
<b>Total deposits</b>	<b>\$ 1,009,865</b>	<b>\$ 985,498</b>

Certificates and other time deposits for both retail and brokered maturing in years ending December 31 are as follows:

	Retail	Brokered	Total
2012	\$ 106,434	\$ 61,577	\$ 168,011
2013	34,889	17,628	52,517
2014	22,097	10,704	32,801
2015	9,746	10,913	20,659
2016	15,721	7,352	23,073
Thereafter	41,371	2,677	44,048
	\$ 230,258	\$ 110,851	\$ 341,109

**Note 11 Borrowings**

	December 31 2011	December 31 2010
Federal Home Loan Bank advances, variable and fixed rates ranging from 0.29% to 7.53%, due at various dates through November 15, 2024	\$ 174,263	\$ 88,847
Securities sold under agreements to repurchase	138,849	140,394
Federal funds purchased	57,000	31,500
 Total borrowings	 \$ 370,111	 \$ 260,741

The Federal Home Loan Bank advances are secured by first and second mortgage loans and mortgage warehouse loans totaling approximately \$373.5 million. Advances are subject to restrictions or penalties in the event of prepayment.



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

(Table dollars in thousands except for per share data)

Securities sold under agreements to repurchase consist of obligations of the Bank to other parties. The obligations are secured by U.S. agency and mortgage-backed securities and such collateral is held in safekeeping by third parties. The maximum amount of outstanding agreements at any month end during 2011 and 2010 totaled \$138.8 million and \$144.7 million and the daily average of such agreements totaled \$135.3 million and \$138.6 million. The agreements at December 31, 2011, mature at various dates through September 13, 2020.

At December 31, 2011, the Bank has available approximately \$288.7 million in credit lines with various money center banks, including the FHLB.

Contractual maturities in years ending December 31:

2012	\$ 201,660
2013	(482)
2014	20,195
2015	20,463
2016	21,346
Thereafter	106,929
	<b>\$ 370,111</b>

**Note 12 Subordinated Debentures**

In October of 2004, Horizon formed Horizon Statutory Trust II (Trust II), a wholly owned statutory business trust. Trust II sold \$10.3 million of Trust Preferred Capital Securities as a participant in a pooled trust preferred securities offering. The proceeds from the sale of the trust preferred securities were used by the trust to purchase an equivalent amount of subordinated debentures from Horizon. The junior subordinated debentures are the sole assets of Trust II and are fully and unconditionally guaranteed by Horizon. The junior subordinated debentures and the trust preferred securities pay interest and dividends on a quarterly basis. The junior subordinated debentures and the securities bear interest at a rate of 90 day LIBOR plus 1.95% and mature on October 21, 2034, and are non-callable for five years. After that period, the securities may be called at any quarterly interest payment date at par. Costs associated with the issuance of the securities totaling \$17,500 were capitalized and were amortized to the October 31, 2009, first call date of the securities.

In December of 2006, Horizon formed Horizon Bancorp Capital Trust III (Trust III), a wholly owned statutory business trust. Trust III sold \$12.4 million of Trust Preferred Capital Securities as a participant in a pooled trust preferred securities offering. The proceeds from the sale of the trust preferred securities were used by the trust to purchase an equivalent amount of subordinated debentures from Horizon. The junior subordinated debentures are the sole assets of Trust III and are fully and unconditionally guaranteed by Horizon. The junior subordinated debentures and the trust preferred securities pay interest and dividends on a quarterly basis. The junior subordinated debentures and the securities bear interest at a rate of 90 day LIBOR plus 1.65% and mature on January 30, 2037, and are non-callable for five years. After that period, the securities may be called at any quarterly interest payment date at par. Costs associated with the issuance of the securities totaling \$12,647 were capitalized and are being amortized to the first call date of the securities. The proceeds of this issue were used to redeem the securities issued by Trust I on March 26, 2007.

The Company assumed additional debentures as the result of the acquisition of Alliance Bank Corporation in 2005. In June 2004, Alliance formed Alliance Financial Statutory Trust I a wholly owned business trust (Alliance Trust) to sell \$5.2 million in trust preferred securities. The proceeds from the sale of the trust preferred securities were used by the trust to purchase an equivalent amount of subordinated debentures from Alliance. The junior subordinated debentures are the sole assets of Alliance Trust and are fully and unconditionally guaranteed by Horizon. The junior subordinated debentures and the trust preferred securities pay interest and dividends on a quarterly basis. The junior subordinated

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

debentures and the securities bear interest at a rate of 90-day LIBOR plus 2.65%, mature in June 2034, and are non-callable for five years. After that period, the securities may be called at any quarterly interest payment date at par.

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

The Company assumed additional debentures as the result of the American Trust & Savings Bank purchase and assumption in 2010. In March 2004, Am Tru Inc., the holding company for American Trust & Savings Bank, formed Am Tru Statutory Trust I a wholly owned business trust (Am Tru Trust) to sell \$3.6 million in trust preferred securities. The proceeds from the sale of the trust preferred securities were used by the trust to purchase an equivalent amount of subordinated debentures from Am Tru Inc. The junior subordinated debentures are the sole assets of Am Tru Trust and are fully and unconditionally guaranteed by Horizon. The junior subordinated debentures and the trust preferred securities pay interest and dividends on a quarterly basis. The junior subordinated debentures and the securities bear interest at a rate of 90-day LIBOR plus 2.85%, mature in March 2034, and are non-callable for five years. After that period, the securities may be called at any quarterly interest payment date at par.

The Trust Preferred Capital Securities, subject to certain limitations, are included in Tier 1 Capital for regulatory purposes. Dividends on the Trust Preferred Capital Securities are recorded as interest expense.

**Note 13 Employee Stock Ownership Plan**

Effective January 1, 2007, Horizon converted its stock bonus plan to an employee stock ownership plan ( ESOP ). Prior to that date, Horizon maintained an employee stock bonus plan that covered substantially all employees. The stock bonus plan was noncontributory, and Horizon made matching contributions of amounts contributed by the employees to the Employee Thrift Plan and discretionary contributions. Prior to the establishment of the employee stock bonus plan, Horizon maintained an ESOP that was terminated in 1999. The prior ESOP accounts of active employees and the discretionary accounts of active employees will remain in the new ESOP. The Matching contribution accounts under the Stock Bonus Plan will be transferred to the Horizon Bancorp Employees Thrift Plan.

The ESOP exists for the benefit of substantially all employees. Contributions to the ESOP are by Horizon and are determined by the Board of Directors at their discretion. The contributions may be made in the form of cash or common stock. Shares are allocated among participants each December 31 on the basis of each participant s eligible compensation to total eligible compensation. Eligible compensation is limited to \$245,000 for each participant. Dividends on shares held by the plan, at the discretion of each participant, may be distributed to an individual participant or left in the plan to purchase additional shares.

Total cash contributions and expense recorded for the ESOP was \$400,000 in 2011 and 2010 and \$300,000 in 2009.

The ESOP, which is not leveraged, owns a total of 561,949 shares of Horizon s stock or 11.3% of the outstanding shares.

**Note 14 Employee Thrift Plan**

The Employee Thrift Plan ( Plan ) provides that all employees of Horizon with the requisite hours of service are eligible for the Plan. The Plan permits voluntary employee contributions and Horizon may make discretionary matching and profit sharing contributions. Each eligible employee is vested according to a schedule based upon years of service. Employee voluntary contributions are vested at all times and Horizon s discretionary contributions vest over a six-year period. The Bank s expense related to the thrift plan totaled approximately \$ 518,000 in 2011, \$459,000 in 2010, and \$439,000 in 2009.

The Thrift Plan owns a total of 204,584 shares of Horizon s stock or 4.1% of the outstanding shares.

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

(Table dollars in thousands except for per share data)

**Note 15 Income Tax**

	December 31 2011	December 31 2010	December 31 2009
Income tax expense			
Currently payable			
Federal	\$ 4,034	\$ 3,018	\$ 2,818
State	44	37	(35)
Deferred	108	(113)	(713)
Total income tax expense	\$ 4,186	\$ 2,942	\$ 2,070
Reconciliation of federal statutory to actual tax expense			
Federal statutory income tax at 34%	\$ 5,774	\$ 4,555	\$ 3,812
Tax exempt interest	(1,416)	(1,453)	(1,377)
Tax exempt income	(457)	(273)	(245)
Nondeductible and other	216	81	(120)
Effect of state income taxes	69	32	
Actual tax expense	\$ 4,186	\$ 2,942	\$ 2,070

	December 31 2011	December 31 2010
<b>Assets</b>		
Allowance for loan losses	\$ 7,079	\$ 6,946
Director and employee benefits	1,150	1,371
Other	534	102
Total assets	8,763	8,419
<b>Liabilities</b>		
Depreciation	(1,545)	(1,147)
Difference in expense recognition	(66)	(51)
Federal Home Loan Bank stock dividends	(272)	(298)
Difference in basis of intangible assets	(1,843)	(1,682)
FHLB Penalty	(965)	(1,417)
Unrealized gain on securities available for sale	(4,222)	(1,746)
Other	(335)	(80)
Total liabilities	(9,248)	(6,421)
Net deferred tax asset (liability)	\$ (485)	\$ 1,998

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

The Company files income tax returns in the U.S. federal jurisdiction. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2007.

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

(Table dollars in thousands except for per share data)

**Note 16 Other Comprehensive Income (Loss)**

	\$000,000,000 December 31 2011	\$000,000,000 December 31 2010	\$000,000,000 December 31 2009
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	\$ 13,766	\$ (2,850)	\$ 7,348
Less: reclassification adjustment for gains realized in net income	1,777	533	795
	11,989	(3,383)	6,553
Unrealized gain (loss) on derivative instruments	(3,539)	(1,803)	1,279
Net unrealized gains (losses)	8,450	(5,186)	7,832
Tax expense (benefit)	(2,956)	1,815	(2,741)
Other comprehensive income (loss)	\$ 5,494	\$ (3,371)	\$ 5,091

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

	\$000,000,000 December 31 2011	\$000,000,000 December 31 2010	\$000,000,000 December 31 2009
Unrealized gain on securities available for sale	\$ 16,978	\$ 4,989	\$ 8,371
Unrealized gain (loss) on derivative instruments	(4,914)	(1,377)	428
Tax effect	(4,222)	(1,264)	(3,079)
Total accumulated other comprehensive income	\$ 7,842	\$ 2,348	\$ 5,719

**Note 17 Commitments, Off-Balance Sheet Risk and Contingencies**

Because of the nature of its activities, Horizon is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

The Bank was required to have approximately \$3.7 million of cash on hand or on deposit with the Federal Reserve Bank to meet regulatory reserve and clearing balance requirements at December 31, 2011. These balances are included in cash and cash equivalents and do not earn interest.

The Bank is a party to financial instruments with off-balance sheet risk in the ordinary course of business to meet financing needs of its customers. These financial instruments include commitments to make loans and standby letters of credit. The Bank's exposure to credit loss in

the event of nonperformance by the other party to the financial instrument for commitments to make loans and standby letters of credit is represented by the contractual amount of those instruments. The Bank follows the same credit policy to make such commitments as is followed for those loans recorded in the financial statements.

At December 31, 2011 and 2010, commitments to make loans amounted to approximately \$299.0 million and \$252.4 million and commitments under outstanding standby letters of credit amounted to approximately \$1.1 million and \$1.1 million. Since many commitments to make loans and standby letters of credit expire without being used, the amount does not necessarily represent future cash advances. No losses are anticipated as a result of these transactions. Collateral obtained upon exercise of the commitment is determined using management's credit evaluation.

**Note 18 Regulatory Capital**

Horizon and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies and are assigned to a capital category. The assigned capital category is largely determined by three ratios that are calculated according to the regulations: total risk adjusted capital, Tier I capital and Tier I leverage ratios. The ratios are intended to measure capital relative to assets and credit risk associated with those assets and off-balance sheet exposures of the entity.

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

(Table dollars in thousands except for per share data)

The capital category assigned to an entity can also be affected by qualitative judgments made by regulatory agencies about the risk inherent in the entity's activities that are not part of the calculated ratios.

There are five capital categories defined in the regulations, ranging from well capitalized to critically undercapitalized. Classification of a bank in any of the undercapitalized categories can result in actions by regulators that could have a material effect on a bank's operations. At December 31, 2011 and 2010, Horizon and the Bank are categorized as well capitalized and met all subject capital adequacy requirements.

	\$000,000	\$000,000	\$000,000	\$000,000	\$000,000	\$000,000
	Actual		For Capital <sup>1</sup>		For Well <sup>1</sup>	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2011</b>						
Total capital <sup>1</sup> (to risk-weighted assets)						
Consolidated	\$ 151,396	14.20%	\$ 85,294	8.00%	N/A	N/A
Bank	139,862	13.12%	85,282	8.00%	\$ 106,602	10.00%
Tier 1 capital <sup>1</sup> (to risk-weighted assets)						
Consolidated	138,001	12.94%	42,659	4.00%	N/A	N/A
Bank	126,467	11.86%	42,653	4.00%	63,980	6.00%
Tier 1 capital <sup>1</sup> (to average assets)						
Consolidated	138,001	9.27%	59,547	4.00%	N/A	N/A
Bank	126,467	8.50%	59,514	4.00%	74,392	5.00%
<b>As of December 31, 2010</b>						
Total capital <sup>1</sup> (to risk-weighted assets)						
Consolidated	\$ 144,941	15.07%	\$ 76,943	8.00%	N/A	N/A
Bank	133,893	13.96%	76,730	8.00%	\$ 95,912	10.00%
Tier 1 capital <sup>1</sup> (to risk-weighted assets)						
Consolidated	132,860	13.81%	38,482	4.00%	N/A	N/A
Bank	121,812	12.70%	38,366	4.00%	57,549	6.00%
Tier 1 capital <sup>1</sup> (to average assets)						
Consolidated	132,860	9.37%	56,717	4.00%	N/A	N/A
Bank	121,812	8.60%	56,657	4.00%	70,821	5.00%

<sup>1</sup> As defined by regulatory agencies

**Note 19 Share-Based Compensation**

Under Horizon's 1997 Stock Option and Stock Appreciation Right Plan (1997 Plan), Horizon may grant certain officers and employees stock option awards or stock appreciation rights which vest and become fully exercisable at the end of five years of continued employment. SARs entitle eligible employees to receive cash, stock or a combination of cash and stock totaling the excess, on the date of exercise, of the fair market value of the shares of common stock covered by the option over the option exercise price. The underlying stock options are deemed to have been cancelled upon exercise of the SARs.

A summary of option activity under the 1997 Plan as of December 31, 2011 and changes during the year then ended, is presented below. The option activity reflects the 3-for-2 stock split that occurred on December 9, 2011.





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

(Table dollars in thousands except for per share data)

	\$000,000,000	\$000,000,000	\$000,000,000	\$000,000,000
	<b>Shares</b>	<b>Weighted- Average Exercise Price</b>	<b>Weighted- Average Remaining Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding, beginning of year	2,700	\$ 11.95		
Exercised	(2,700)	11.95		
Outstanding, end of year				\$

## Exercisable, end of year

There were no options granted during the years 2011, 2010, and 2009. The total intrinsic value of options exercised during the years ended December 31, 2011, 2010, and 2009, was \$32,000, \$210,000 and \$61,000.

On January 21, 2003, the Board of Directors adopted the Horizon Bancorp 2003 Omnibus Equity Incentive Plan (2003 Plan), which was approved by stockholders on May 8, 2003. Under the 2003 Plan, Horizon may issue up to 225,000 common shares, plus the number of shares that are tendered to or withheld by Horizon in connection with the exercise of options plus that number of shares that are purchased by Horizon with the cash proceeds received upon option exercises. The 2003 Plan limits the number of shares available to 225,000 for incentive stock options and to 112,500 for the grant of non-option awards. The shares available for issuance under the 2003 Plan may be divided among the various types of awards and among the participants as the Compensation Committee (Committee) determines. The Committee is authorized to grant any type of award to a participant that is consistent with the provisions of the 2003 Plan. Awards may consist of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, performance units, performance shares or any combination of these awards. The Committee determines the provisions, terms and conditions of each award. The restricted shares vest over a period of time established by the committee at the time of each grant. Holders of restricted shares receive dividends and may vote the shares. The restricted shares are recorded at fair market value (on the date granted) as a separate component of stockholders' equity. The cost of these shares is being amortized against earnings using the straight-line method over the vesting period. The options shares granted under the 2003 plan vest at a rate of 20% per year. The restricted shares granted under the 2003 Plan vest at the end of each grant's vesting period. On March 8, 2010, the Board of Directors adopted, and was approved by stockholders on May 6, 2010, an amendment to the 2003 Omnibus Equity Incentive Plan making an additional 262,500 common shares available for issuance.

The fair value of options granted is estimated on the date of the grant using an option-pricing model with the following weighted-average assumptions (there were no options granted during 2009 under the 2003 plan):

<b>December 31</b>	\$000,000,000 <b>2011</b>	\$000,000,000 <b>2010</b>
Dividend yields	2.77%	2.99%
Volatility factors of expected market price of common stock	29.89%	30.97%
Risk-free interest rates	1.91%	2.86%
Expected life of options	8 years	8 years

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

(Table dollars in thousands except for per share data)

A summary of option activity under the 2003 Plan as of December 31, 2011, and changes during the year then ended, is presented below:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	70,500	\$ 16.09		
Granted	1,500	17.33		
Exercised	(1,500)	15.71		
Forfeited	(3,000)	16.56		
Outstanding, end of year	67,500	16.10	6.04	\$ 82,885
Exercisable, end of year	40,500	16.67	4.44	64,885

The weighted average grant-date fair value of options granted during the year 2011 and 2010 was \$4.23 and \$3.94. No options were granted under the 2003 Plan during 2009. No options granted under the 2003 Plan were exercised in 2010 or 2009.

A summary of the status of Horizon's non-vested, restricted shares as of December 31, 2011 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Non-vested beginning of year	15,000	\$ 18.15
Vested	(15,000)	18.15
Granted	24,750	19.32
Forfeited	(5,250)	19.32
Non-vested, end of year	19,500	19.32

Grants vest at the end of four or five years of continuous employment.

Total compensation cost recognized in the income statement for option-based payment arrangements during 2011 was \$35,000 and the related tax benefit recognized was \$14,000. Total compensation cost recognized in the income statement for option-based payment arrangements during 2010 and 2009 was \$30,000 and \$39,000 and the related tax benefit recognized was \$12,000 and \$15,000, respectively.

Total compensation cost recognized in the income statement for restricted share based payment arrangements during 2011, 2010, and 2009 was \$100,000, \$68,000, and \$164,000. The recognized tax benefit related thereto was \$40,000, \$27,000, and \$66,000 for the years ended December 31, 2011, 2010, and 2009.

## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

Cash received from option exercise under all share-based payment arrangements for the years ended December 31, 2011, 2010, and 2009 was \$56,000, \$120,000, and \$68,000. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled \$8,000, \$77,000, and \$18,000, for the years ended December 31, 2011, 2010 and 2009.

As of December 31, 2011, there was \$306,000 of total unrecognized compensation cost related to all non-vested share-based compensation arrangements granted under all of the plans. That cost is expected to be recognized over a weighted-average period of 3.3 years.

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

**Note 20 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 6.14% on a notional amount of \$30.5 million at December 31, 2011 and \$30.5 million at December 31, 2010. Under the 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 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 December 31, 2011 the Company's cash flow hedge was effective and is not expected to have a significant impact on the Company's net income over the next 12 months.

***Fair Value Hedges***

Fair value hedges are intended to reduce the interest rate risk associated with the underlying hedged item. The Company enters into fixed rate loan agreements as part of its lending policy. 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 December 31, 2011 the Company's fair value hedges were effective and are not expected to have a significant impact on 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 \$52.2 million at December 31, 2011 and \$48.0 million at December 31, 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 December 31, 2011 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.

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

(Table dollars in thousands except for per share data)

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

Derivatives designated as hedging instruments (Unaudited)	Asset Derivative December 31, 2011		Liability Derivatives December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts	Loans	\$ 754	Other liabilities	\$ 2,187
Interest rate contracts	Other Assets	1,433	Other liabilities	4,914
<b>Total derivatives designated as hedging instruments</b>		2,187		7,101
<b>Derivatives not designated as hedging instruments</b>				
Mortgage loan contracts	Other assets	662	Other liabilities	
<b>Total derivatives not designated as hedging instruments</b>		662		
<b>Total derivatives</b>		\$ 2,849		\$ 7,101

Derivatives designated as hedging instruments	Asset Derivative December 31, 2010		Liability Derivatives December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts	Loans	\$ 1,388	Other liabilities	\$ 2,039
Interest rate contracts	Other Assets	651	Other liabilities	1,376
<b>Total derivatives designated as hedging instruments</b>		2,039		3,415
<b>Derivatives not designated as hedging instruments</b>				
Mortgage loan contracts	Other assets	407	Other liabilities	
<b>Total derivatives not designated as hedging instruments</b>		407		
<b>Total derivatives</b>		\$ 2,446		\$ 3,415

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

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

Derivative in cash flow hedging relationship	Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion)		
	Years Ended December 31		
	2011	2010	2009
Interest rate contracts	\$ (2,299)	\$ (1,172)	\$ 831

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.

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

(Table dollars in thousands except for per share data)

Derivative in fair value	Location of gain (loss)	Amount of Gain (Loss) Recognized on Derivative		
		Years Ended December 31		
		2011	2010	2009
hedging relationship	recognized on derivative			
Interest rate contracts	Interest income -loans	\$ 147	\$ 898	\$ (565)
Interest rate contracts	Interest income -loans	(147)	(898)	565
<b>Total</b>		\$	\$	\$

Derivative not designated	Location of gain (loss)	Amount of Gain (Loss) Recognized on Derivative		
		Years Ended December 31		
		2011	2010	2009
as hedging relationship	recognized on derivative			
Mortgage contracts	Other income -gain on sale of loans	\$ 255	\$ (538)	\$ (101)

**Note 21 Disclosures about fair value of assets and liabilities**

Fair value is defined 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. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. 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, 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 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



## Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector grouping, and matrix pricing. In addition, model processes, such as an option adjusted spread model is used to develop prepayment and interest rate scenarios for securities with prepayment features.

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

(Table dollars in thousands except for per share data)

***Hedged loans***

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

***Forward sale commitments***

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. Loans are classified within Level 3 of the valuation hierarchy based on the unobservable inputs used.

***Interest rate swap agreements***

The fair value 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)
<b>December 31, 2011</b>				
Available-for-sale securities				
U.S. Treasury and federal agencies	\$ 13,022	\$	\$ 13,022	\$
State and municipal	143,890		143,890	
Federal agency collateralized mortgage obligations	91,122		91,122	
Federal agency mortgage-backed pools	179,351		179,351	
Private labeled mortgage-backed pools	3,636		3,636	
Corporate notes	24		24	
<b>Total available-for-sale securities</b>	<b>431,045</b>		<b>431,045</b>	
Hedged loans	54,362			54,362
Forward sale commitments	662			662
Interest rate swap agreements	(7,102)			(7,102)
Commitments to originate loans				
<b>December 31, 2010</b>				
Available-for-sale securities				

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

U.S. Treasury and federal agencies	\$ 25,251	\$	\$ 25,251	\$
State and municipal	131,489		131,489	
Federal agency collateralized mortgage obligations	101,837		101,837	
Federal agency mortgage-backed pools	117,895		117,895	
Private labeled mortgage-backed pools	5,323		5,323	
Corporate notes	549	456	20	
Total available-for-sale securities	382,344	456	381,815	
Hedged loans	50,088			50,088
Forward sale commitments	407			407
Interest rate swap agreements	(3,415)			(3,415)
Commitments to originate loans				

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

(Table dollars in thousands except for per share data)

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

	Hedged Loans	Forward Sale Commitments	Interest Rate Swaps	Commitments to Originate Loans
<b>Beginning balance December 31, 2010</b>	\$ 50,088	\$ 407	\$ (3,415)	\$
Total realized and unrealized gains and losses				
Included in net income	147	255	(147)	
Included in other comprehensive income, gross			(3,539)	
Purchases, issuances, and settlements	9,091			
Principal payments	(4,964)			
<b>Ending balance December 31, 2011</b>	\$ 54,362	\$ 662	\$ (7,101)	\$

	Hedged Loans	Forward Sale Commitments	Interest Rate Swaps	Commitments to Originate Loans
<b>Beginning balance December 31, 2009</b>	\$ 31,153	\$ 265	\$ (715)	\$ (135)
Total realized and unrealized gains and losses				
Included in net income	898	142	(898)	135
Included in other comprehensive income, gross			(1,802)	
Purchases, issuances, and settlements	19,167			
Principal payments	(1,130)			
<b>Ending balance December 31, 2010</b>	\$ 50,088	\$ 407	\$ (3,415)	\$

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

	Years Ended December 31		
	2011	2010	2009
<b>Non Interest Income</b>			
<b>Total gains and losses from:</b>			
Hedged loans	\$ 147	\$ 898	\$ (565)
Fair value interest rate swap agreements	(147)	(898)	565
Derivative loan commitments	255	(538)	(101)
	\$ 255	\$ (538)	\$ (101)

Certain other assets are measured at fair value on a nonrecurring basis in the 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)
<b>December 31, 2011</b>				
Impaired loans	\$ 5,822	\$	\$	\$ 5,822
<b>December 31, 2010</b>				
Impaired loans	\$ 6,625	\$	\$	\$ 6,625

---

**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

**Impaired loans (collateral dependent):** Fair value adjustments for impaired 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 and estimated costs to sell.

**Note 22 Fair Value of Financial Instruments**

The estimated fair value amounts 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 derived 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 December 31, 2010 and 2008. 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.

**Investment 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.

**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.

**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.



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

(Table dollars in thousands except for per share data)

**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:

	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
Cash and due from banks	\$ 20,447	\$ 20,447	\$ 15,683	\$ 15,683
Investment securities available for sale	431,045	431,045	382,344	382,344
Investment securities held to maturity	7,100	7,134	9,595	9,595
Loans held for sale	14,090	14,090	18,833	18,833
Loans, net	964,311	979,401	863,813	867,054
Stock in FHLB and FRB	12,390	12,390	13,664	13,664
Interest receivable	6,671	6,671	6,519	6,519
<b>Liabilities</b>				
Non-interest bearing deposits	\$ 130,673	\$ 130,673	\$ 107,606	\$ 107,606
Interest-bearing deposits	879,192	874,160	877,892	854,617
Borrowings	370,111	398,789	260,741	289,381
Subordinated debentures	30,676	30,083	30,584	30,734
Interest payable	596	596	781	781

**Note 23 Capital Purchase Program and Small Business Lending Fund**

On November 10, 2010, Horizon repurchased from the U.S. Department of the Treasury (the Treasury) 6,250 shares, or 25%, of the 25,000 outstanding shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (the Series A Preferred Stock), that Horizon had issued to the Treasury in December 2008 in connection with Horizon's participation in the Troubled Asset Relief Program Capital Purchase Program. On August 25, 2011, Horizon issued 12,500 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series B (the Series B Preferred Stock), for proceeds of \$12.5 million and used those proceeds, together with otherwise available funds, to redeem the remaining 18,750, or 75%, of the outstanding shares of Series A Preferred Stock held by the Treasury.

**Note 24 Condensed Financial Information (Parent Company Only)**

Presented below is condensed financial information as to financial position, results of operations and cash flows of Horizon Bancorp:



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

(Table dollars in thousands except for per share data)

**Condensed Balance Sheets**

	December 31 2011	December 31 2010
<b>Assets</b>		
Total cash and cash equivalents	\$ 8,262	\$ 8,496
Investment in Bank	146,125	134,044
Other assets	3,343	2,341
<b>Total assets</b>	<b>\$ 157,730</b>	<b>\$ 144,881</b>
<b>Liabilities</b>		
Subordinated debentures	\$ 30,676	\$ 30,584
Other liabilities	5,589	2,014
<b>Stockholders Equity</b>	<b>121,465</b>	<b>112,283</b>
Total liabilities and stockholders equity	\$ 157,730	\$ 144,881

**Condensed Statements of Income**

	Years Ended December 31		
	2011	2010	2009
<b>Operating Income (Expense)</b>			
Dividend income from Bank	\$ 10,000	\$ 5,000	\$ 7,750
Investment income	4	6	2
Other income	17	200	(129)
Interest expense	(1,821)	(1,688)	(1,467)
Employee benefit expense	(535)	(498)	(503)
Other expense	(134)	(179)	(100)
<b>Income Before Undistributed Income of Subsidiaries</b>	<b>7,531</b>	<b>2,841</b>	<b>5,553</b>
<b>Undistributed Income of Subsidiaries</b>	<b>4,288</b>	<b>6,759</b>	<b>2,717</b>
<b>Income Before Tax</b>	<b>11,819</b>	<b>9,600</b>	<b>8,270</b>
<b>Income Tax Benefit</b>	<b>978</b>	<b>855</b>	<b>870</b>
<b>Net Income</b>	<b>12,797</b>	<b>10,455</b>	<b>9,140</b>
Preferred stock dividend and discount accretion	(1,325)	(1,406)	(1,402)
<b>Net Income Available to Common Shareholders</b>	<b>\$ 11,472</b>	<b>\$ 9,049</b>	<b>\$ 7,738</b>



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

(Table dollars in thousands except for per share data)

**Condensed Statements of Cash Flows**

	Years Ended December 31		
	2011	2010	2009
<b>Operating Activities</b>			
Net income	\$ 12,797	\$ 10,455	\$ 9,140
Items not requiring (providing) cash			
Equity in undistributed net income of Bank Change in	(4,288)	(6,759)	(2,717)
Income taxes receivable	(236)	33	7,523
Dividends receivable from Bank		2,500	(1,500)
Share based compensation	35	30	39
Amortization of unearned compensation	100	68	164
Other assets	473	(308)	(175)
Other liabilities	129	250	(82)
<b>Net cash provided by operating activities</b>	<b>9,010</b>	<b>6,269</b>	<b>12,392</b>
<b>Investing Activities</b>			
Investment in Bank		(3,500)	
Purchases and assumption of ATSB		3,412	
<b>Net cash used in investing activities</b>		<b>(88)</b>	
<b>Financing Activities</b>			
Redemption of preferred stock	(18,750)	(6,250)	
Issuance of preferred stock	12,500	0	
Dividends paid on preferred shares	(792)	(1,245)	(1,132)
Dividends paid on common shares	(2,325)	(2,240)	(2,229)
Change in borrowings			(4,700)
Exercise of stock options	55	120	68
Issuance of restricted shares	60	34	96
Tax benefit of stock options	8	77	18
<b>Net cash used in financing activities</b>	<b>(9,244)</b>	<b>(9,504)</b>	<b>(7,879)</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>(234)</b>	<b>(3,323)</b>	<b>4,513</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>8,496</b>	<b>11,819</b>	<b>7,306</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 8,262</b>	<b>\$ 8,496</b>	<b>\$ 11,819</b>

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

(Table dollars in thousands except for per share data)

**Note 25 Quarterly Results of Operations (Unaudited)**

The following is a summary of the quarterly consolidated results of operations:

<b>Three Months Ended 2011</b>	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Interest income	\$ 15,431	\$ 15,712	\$ 16,011	\$ 17,460
Interest expense	4,364	4,249	4,020	3,868
Net interest income	11,067	11,463	11,991	13,592
Provision for loan losses	1,548	1,332	1,564	838
Gain (loss) on sale of securities	274	365	1,115	23
Net income	2,765	3,093	3,417	3,522
Net income available to common shareholders	\$ 2,489	\$ 2,816	\$ 2,707	\$ 3,460
Earnings per share:				
Basic	\$ 0.51	\$ 0.57	\$ 0.55	\$ 0.70
Diluted	0.49	0.55	0.53	0.68
Average shares outstanding:				
Basic	4,924,715	4,937,750	4,942,695	4,947,696
Diluted	5,074,763	5,065,454	5,064,380	5,050,701

<b>Three Months Ended 2010</b>	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
Interest income	\$ 16,132	\$ 16,807	\$ 17,876	\$ 17,676
Interest expense	5,579	5,439	5,256	4,601
Net interest income	10,553	11,368	12,620	13,075
Provision for loan losses	3,233	3,000	2,657	2,664
Gain (loss) on sale of securities		131	336	66
Net income	1,791	2,515	3,279	2,871
Net income available to common shareholders	\$ 1,439	\$ 2,163	\$ 2,926	\$ 2,522
Earnings per share:				
Basic	\$ 0.29	\$ 0.44	\$ 0.59	\$ 0.51
Diluted	0.29	0.43	0.59	0.50
Average shares outstanding:				
Basic	4,905,326	4,917,588	4,918,802	4,920,497
Diluted	4,939,788	5,000,652	5,004,951	5,043,177

**Note 26 Subsequent Events**

On February 9, 2012, Horizon entered into an Agreement and Plan of Merger (the *Merger Agreement*) providing for Horizon's acquisition of Heartland Bancshares, Inc., an Indiana corporation ( *Heartland* ). Pursuant to the Merger Agreement, Heartland will merge with and into Horizon, with Horizon surviving the merger (the *Merger* ), and Heartland Community Bank, an Indiana-chartered commercial bank and wholly owned subsidiary of Heartland, will merge with and into a wholly owned subsidiary of Horizon, Horizon Bank, N.A. ( *Horizon Bank* ), with Horizon Bank as the surviving bank.



**Table of Contents**

**HORIZON BANCORP AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(Table dollars in thousands except for per share data)

The boards of directors of each of Horizon and Heartland have approved the Merger and the Merger Agreement. Subject to the approval of the Merger by Heartland's shareholders, regulatory approvals and other closing conditions, the parties anticipate completing the Merger during the second quarter of 2012.

In connection with the Merger, each Heartland shareholder will receive 0.54 shares of Horizon common stock (the Exchange Ratio) for each share of Heartland common stock owned by them, subject to adjustment as described below. Based on Horizon's February 8, 2012 closing price of \$18.00 per share as reported on the NASDAQ Global Market, the transaction value is estimated at \$14.0 million.

The Exchange Ratio may be adjusted in the manner prescribed in the Merger Agreement based upon (i) Heartland's consolidated shareholder's equity as of the end of the month prior to closing of the Merger, (ii) the closing of certain commercial loans prior to the closing of the Merger, (iii) a significant decrease in Horizon's common stock price, and (iv) certain other circumstances specified by the Merger Agreement.

The Merger Agreement also provides that prior to the merger Horizon will fund the purchase by either Horizon or Heartland of the shares of preferred stock with an aggregate liquidation value of \$7.248 million that Heartland issued to the U.S. Treasury pursuant to the TARP Capital Purchase Program. The Merger Agreement contains other customary representations, warranties, and covenants of Horizon and Heartland.

Subject to certain terms and conditions, the board of directors of Heartland has agreed to recommend the approval and adoption of the Merger Agreement to the Heartland shareholders and will solicit proxies voting in favor of the Merger from Heartland's shareholders.

The Merger Agreement also provides for certain termination rights for both Horizon and Heartland, and further provides that upon termination of the Merger Agreement under certain circumstances, Heartland will be obligated to pay Horizon a termination fee.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Audit Committee, Board of Directors and Stockholders

Horizon Bancorp

Michigan City, Indiana

We have audited the accompanying consolidated balance sheets of Horizon Bancorp (Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2011. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Horizon Bancorp as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

Indianapolis, Indiana

March 12, 2012

**Table of Contents**

**Horizon Bancorp**

**MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS**

Management is responsible for the preparation and presentation of the consolidated financial statements and related notes on the preceding pages. The statements have been prepared in conformity with accounting principles generally accepted in the United States of America appropriate in the circumstances and include amounts that are based on management's best estimates and judgments. Financial information elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

In meeting its responsibility for the accuracy of the consolidated financial statements, management relies on Horizon's system of internal accounting controls. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are properly recorded to permit the preparation of appropriate financial information. The system of internal controls is supplemented by a program of internal audits to independently evaluate the adequacy and application of financial and operating controls and compliance with Company policies and procedures.

The Audit Committee of the Board of Directors meets periodically with management, the independent accountants and the internal auditors to ensure that each is properly discharging its responsibilities with regard to the consolidated financial statements and internal accounting controls. The independent accountants have full and free access to the Audit Committee and meet with it to discuss auditing and financial reporting matters.

The consolidated financial statements in the Annual Report have been audited by BKD, LLP, independent registered public accounting firm, for 2011, 2010, and 2009. Their audits were conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and included consideration of internal accounting controls, tests of accounting records and other audit procedures to the extent necessary to allow them to express their opinion on the fairness of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America.



**Table of Contents****Horizon Bancorp****Summary of Selected Financial Data**

(Dollars in thousands except for per share data)

	2011	2010	2009	2008	2007
<b>Earnings</b>					
Net interest income	\$ 48,113	\$ 47,616	\$ 44,769	\$ 37,350	\$ 32,808
Provision for loan losses	5,282	11,554	13,603	7,568	3,068
Other income	20,299	19,906	17,856	13,831	12,271
Other expenses	46,147	42,571	37,812	32,779	31,144
Income tax expense	4,186	2,942	2,070	1,862	2,727
Net income	12,797	10,455	9,140	8,972	8,140
Preferred stock dividend	(1,325)	(1,406)	(1,402)	(45)	
Net income available to common shareholders	\$ 11,472	\$ 9,049	\$ 7,738	\$ 8,927	\$ 8,140
Cash dividend declared	\$ 2,325	\$ 2,240	\$ 2,229	\$ 2,147	\$ 1,917
<b>Per Share Data</b>					
Basic earnings per share	\$ 2.32	\$ 1.84	\$ 1.60	\$ 1.85	\$ 1.69
Diluted earnings per share	2.27	1.81	1.58	1.83	1.67
Cash dividends declared per common share	0.47	0.45	0.45	0.44	0.39
Book value per common share	22.02	19.12	18.44	16.45	14.69
Weighted-average shares outstanding					
Basic	4,938,172	4,915,604	4,848,050	4,812,987	4,800,660
Diluted	5,058,929	5,001,897	4,906,085	4,869,527	4,865,348
<b>Period End Totals</b>					
Loans, net of deferred loan fees and unearned income	\$ 983,193	\$ 882,877	\$ 886,317	\$ 881,967	\$ 888,852
Allowance for loan losses	18,882	19,064	16,015	11,410	9,791
Total assets	1,547,162	1,400,919	1,387,020	1,306,857	1,258,874
Total deposits	1,009,865	985,498	951,708	841,169	893,664
Total borrowings	400,787	291,325	311,853	352,220	286,689
<b>Ratios</b>					
Loan to deposit	97.36%	89.59%	93.13%	104.85%	99.46%
Loan to total funding	69.70%	69.15%	70.14%	73.90%	75.30%
Return on average assets	0.90%	0.75%	0.68%	0.75%	0.69%
Average stockholders equity to average total assets	8.30%	8.47%	8.21%	6.36%	5.61%
Return on average stockholders equity	11.20%	9.56%	8.92%	11.81%	12.29%
Dividend payout ratio (dividends divided by net income)	20.58%	25.07%	28.74%	24.00%	23.51%
Price to book value ratio	78.69%	92.76%	58.63%	50.66%	118.09%
Price to earnings ratio	7.64	9.81	6.85	4.55	10.21

**Table of Contents****Horizon Bancorp****Horizon's Common Stock and Related Stockholders Matters**

Horizon common stock is traded on the NASDAQ Global Market under the symbol HBNC. The following table sets forth, for the periods indicated, the high and low prices per share. Also summarized below are the cash dividends declared by quarter for 2011 and 2010.

	<b>2011</b>		<b>Dividends Declared Per Share</b>
	<b>Common Stock Prices</b>		
	<b>High</b>	<b>Low</b>	
First Quarter	\$ 19.46	\$ 17.47	\$ 0.11
Second Quarter	18.61	17.67	0.11
Third Quarter	18.90	17.31	0.12
Fourth Quarter	17.95	16.23	0.12

  

	<b>2010</b>		<b>Dividends Declared Per Share</b>
	<b>Common Stock Prices</b>		
	<b>High</b>	<b>Low</b>	
First Quarter	\$ 13.00	\$ 10.96	\$ 0.11
Second Quarter	15.21	12.99	0.11
Third Quarter	15.07	14.10	0.11
Fourth Quarter	17.99	14.59	0.11

The approximate number of holders of record of Horizon's outstanding common stock as of December 31, 2011, is 542.

**Table of Contents**

**Horizon Bancorp**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

Under the supervision of and with the participation of its management, including the Chief Executive Officer and Chief Financial Office, Horizon has evaluated the effectiveness of the design and operation of its disclosure controls (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act )) as of the end of the period covered by this report. 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 or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods 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.

**Management's Report on Internal Control Over Financial Reporting**

Management of Horizon Bancorp is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Horizon's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Management assessed the effectiveness of Horizon's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on this assessment, management has determined that Horizon's internal control over financial reporting as of December 31, 2011 is effective based on the specified criteria.

**Changes in Internal Control Over Financial Reporting**

Horizon's management, including its Chief Executive Officer and Chief Financial Officer, also have concluded that during the fiscal quarter ended December 31, 2011, there were 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.

**ITEM 9B. OTHER INFORMATION**

Not applicable.

**Table of Contents**

**Horizon Bancorp**

**PART III**

This information is omitted from this report pursuant to General Instruction G. (3) of Form 10-K as Horizon intends to file with the Commission its definitive Proxy Statement for its 2012 Annual Meeting of Shareholders (the Proxy Statement ) pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2011.

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information relating to Horizon s directors required by this item is found in the Proxy Statement under Proposal I Election of Directors and is incorporated into this report by reference. The information relating to the Audit Committee of the Board of Directors required by this item is found in the Proxy Statement under Corporate Governance The Audit Committee and is incorporated into this report by reference.

The information relating to Horizon s executive officers required by this item is included in Part I of this Form 10-K under Special Item: Executive Officers and is incorporated into this item by reference.

The information relating to certain filing obligations of directors and executive officers required by this item is found in the Proxy Statement under Section 16(a) Beneficial Ownership Reporting Compliance and is incorporated into this report by reference.

Horizon has a code of ethics that applies to its directors, chief executive officer and chief financial officer. The code is available on Horizon s website at <http://www.accesshorizon.com/>.

**ITEM 11. EXECUTIVE COMPENSATION**

The information on executive and director compensation and compensation committee matters required by this item can be found in the Proxy Statement under Corporate Governance, Compensation Committee Report, Compensation Discussion and Analysis, Executive Compensation and Compensation of Directors and is incorporated into this report by reference.

**Table of Contents****Horizon Bancorp****ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table presents information regarding grants under all equity compensation plans of Horizon through December 31, 2011.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in the First Column)</b>
Equity compensation plans approved by security holders (1)	69,000	\$ 16.09	380,087
Equity compensation plans not approved by security holders			
<b>Total</b>	<b>69,000</b>	<b>\$ 16.09</b>	<b>380,087</b>

(1) Represents options granted or available under the Horizon Bancorp 2003 Omnibus Equity Incentive Plan.

The other information required by this item can be found in the Proxy Statement under Common Stock Ownership by Directors and Executive Officers, and Stock Ownership of Certain Beneficial Owners and is incorporated by reference into this report.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS; AND DIRECTOR INDEPENDENCE**

The information required by this item is found in the Proxy Statement under Corporate Governance and Certain Business Relationships and Transactions and is incorporated by reference into this report.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated by reference from the Proxy Statement section captioned Accountant Fees and Services.

**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Documents Filed As Part of This Annual Report on Form 10-K:

1. Financial Statement

See the Financial Statements included in Item 8.

2. Financial Statement Schedules

Financial statement schedules are omitted for the reason that they are not required or are not applicable, or the required information is included in the financial statements.

3. Exhibits

The exhibits filed as part of this Annual Report on Form 10-K are identified in the Exhibit Index, which Exhibit Index specifically identifies those exhibits that describe or evidence all management contracts and compensation plans or arrangements required to be filed as exhibits to this Report. Such Exhibit Index is incorporated herein by reference.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

Registrant

Date: March 12, 2012

By: /s/ Craig M. Dwight  
 Craig M. Dwight  
 President and Chief Executive Officer (Principal  
 Executive Officer)

Date: March 12, 2012

By : /s/ Mark E. Secor  
 Mark E. Secor  
 Chief Financial Officer  
 (Principal Financial Officer  
 and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<b>Date</b>	<b>Signature and Title</b>
March 12, 2012	/s/ Robert C. Dabagia  Robert C. Dabagia, Chairman of the Board and  Director
March 12, 2012	/s/ Craig M. Dwight  Craig M. Dwight, President and  Chief Executive  Officer and Director
March 12, 2012	/s/ Susan D. Aaron  Susan D. Aaron, Director
March 12, 2012	/s/ Lawrence E. Burnell  Lawrence E. Burnell, Director
March 12, 2012	/s/ James B. Dworkin

Edgar Filing: HORIZON BANCORP /IN/ - Form 10-K

March 12, 2012

James B. Dworkin, Director  
/s/ Charley E. Gillispie

March 12, 2012

Charley E. Gillispie, Director  
/s/ Daniel F. Hopp

Daniel F. Hopp, Director

108



**Table of Contents**

Date	Signature and Title
March 12, 2012	/s/ Peter L. Pairitz  Peter L. Pairitz, Director
March 12, 2012	/s/ Larry N. Middleton  Larry N. Middleton, Director
March 12, 2012	/s/ Robert E. Swinehart  Robert E. Swinehart, Director
March 12, 2012	/s/ Spero W. Valavanis  Spero W. Valavanis, Director

**Table of Contents****EXHIBIT INDEX**

The following exhibits are included in this Form 10-K or are incorporated by reference as noted in the following table:

Exhibit		
Number	Description	Incorporated by Reference/Attached
2.1	Purchase and Assumption Agreement, dated December 29, 2009, by and among Horizon Bank, National Association; American Trust & Savings Bank of Whiting, Indiana; and AmTru, Inc.	Incorporated by reference to Exhibit 2.1 to Registrant's Form 10-K for the year ended December 31, 2009
2.2	Agreement and Plan of Merger, dated February 9, 2012, by and between Horizon Bancorp and Heartland Bancshares, Inc.	Incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed on February 10, 2012
3.1	Articles of Incorporation of Horizon Bancorp, as amended and restated	Incorporated by reference to Exhibit 3.1 to Registrant's Form 10-Q for the Quarter Ended September 30, 2011
3.2	Amended and Restated Bylaws of Horizon Bancorp	Incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K filed July 16, 2009
3.3	Certificate of Designations for Series A Preferred Stock	Incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K filed December 23, 2008
4.1	Indenture, dated as of October 21, 2004, between Horizon Bancorp and Wilmington Trust Company related to the issuance of Trust Preferred Securities	Incorporated by reference to Exhibit 4.1 to Registrant's Form 10-K for the year ended December 31, 2009
4.2	Amended and Restated Declaration of Trust of Horizon Bancorp Capital Trust II, dated as of October 21, 2004, related to the issuance of Trust Preferred Securities	Incorporated by reference to Exhibit 4.2 to Registrant's Form 10-K for the year ended December 31, 2009
4.3	Junior Subordinated Indenture, dated as of December 15, 2006, between Horizon Bancorp and Wilmington Trust Company.	Incorporated by reference to Exhibit 4.1 to Registrant's Form 8-K filed December 21, 2006
4.4	Amended and Restated Trust Agreement of Horizon Bancorp Capital Trust III, dated as of December 15, 2006	Incorporated by reference to Exhibit 4.2 to Registrant's Form 8-K filed December 21, 2006
4.5	Certificate for Series A Preferred Stock	Incorporated by reference to Exhibit 4.1 to Registrant's Form 8-K filed December 23, 2008
4.6	Warrant for Purchase of Shares of Common Stock	Attached
4.7	Certificate of Designation of Senior Non-Cumulative Perpetual Preferred Stock, Series B	Incorporated by reference to Exhibit 4.1 to Registrant's Form 8-K filed on August 26, 2011
4.8	Certificate for Senior Non-Cumulative Perpetual Preferred Stock, Series B, issued August 25, 2011	Incorporated by reference to Exhibit 4.2 to Registrant's Form 8-K filed on August 26, 2011
10.1*	Supplemental Employee Retirement Plan, as amended	Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-K for the year ended December 31, 2008
10.2*	1997 Key Employees Stock Option and Stock Appreciation Rights Plan	Incorporated by reference to Exhibit 10.2 to Registrant's Form 10-K for the year ended December 31, 2008

**Table of Contents**

## Exhibit

Number	Description	Incorporated by reference/Attached
10.3*	Form of Amendment No. 1 to Horizon Bancorp Stock Option and Stock Appreciation Rights Agreement and Schedule Identifying Material Details of Individual Amendments	Incorporated by reference to Exhibit 10.3 to Registrant's Form 10-K for the year ended December 31, 2008
10.4*	Horizon Bancorp Amended 2003 Omnibus Equity Incentive Plan	Incorporated by reference to Appendix A to the Registrant's definitive Proxy Statement for its 2011 Annual Meeting of Shareholders
10.5*	Directors Deferred Compensation Plan	Incorporated by reference to Exhibit 10.5 to Registrant's Form 10-K for the year ended December 31, 2009
10.6*	Form of Change of Control Agreement for certain executive officers	Incorporated by reference to Exhibit 10.6 to Registrant's Form 10-K for the year ended December 31, 2009
10.7*	Form of Restricted Stock Award Agreement under 2003 Omnibus Plan	Incorporated by reference to Exhibit 10.7 to Registrant's Form 10-K for the year ended December 31, 2009
10.8*	Form of Option Grant Agreement under 2003 Omnibus Plan	Incorporated by reference to Exhibit 10.8 to Registrant's Form 10-K for the year ended December 31, 2009
10.9*	Description of Executive Officer Bonus Plan	Attached
10.10	Guarantee Agreement of Horizon Bancorp, dated as of October 21, 2004, related to the issuance of Trust Preferred Securities	Incorporated by reference to Exhibit 10.10 to Registrant's Form 10-K for the year ended December 31, 2009
10.11*	Horizon Bancorp 2005 Supplemental Executive Retirement Plan as amended	Incorporated by reference to Exhibit 10.14 to Registrant's Form 10-K for the year ended December 31, 2006
10.12*	Amendment to Horizon Bancorp Restricted Stock Award Agreement, dated July 19, 2006	Incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K filed July 21, 2006
10.13*	Employment Agreement, dated December 1, 2006, among Horizon Bancorp, Horizon Bank, N.A. and Craig M. Dwight	Incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed December 6, 2006
10.14*	Letter Agreement, dated December 1, 2006, between Horizon Bank, N.A. and Craig M. Dwight	Incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K filed December 6, 2006
10.15*	Guarantee Agreement of Horizon Bancorp, dated as of December 15, 2006	Incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed December 21, 2006
10.16*	Employment Agreement, dated July 16, 2007, among Horizon Bancorp, Horizon Bank, N.A. and Thomas H. Edwards	Incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed July 19, 2007
10.17	Letter Agreement, dated December 19, 2008, by and between the Registrant and the United States Department of the Treasury, including the Securities Purchase Agreement Standard Terms incorporated by reference therein	Incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed December 23, 2008

**Table of Contents**

## Exhibit

Number	Description	Incorporated by Reference/Attached
10.18*	Agreement, dated August 28, 2007, between Horizon Bank, N.A., and Mark E. Secor	Incorporated by reference to Exhibit 10.18 to Registrant's Form 10-K for the year ended December 31, 2009
10.19*	First Amendment of the Agreement between Horizon Bank, N.A., and Mark E. Secor, dated January 1, 2009	Incorporated by reference to Exhibit 10.19 to Registrant's Form 10-K for the year ended December 31, 2009
10.20*	Second Amendment of the Agreement between Horizon Bank, N.A. and James H. Foglesong, dated January 1, 2009	Incorporated by reference to Exhibit 10.20 to Registrant's Form 10-K for the year ended December 31, 2009
10.21	Letter Agreement, dated November 10, 2010, by and between the Registrant and the United States Department of the Treasury	Incorporated by reference to Exhibit 10.21 to Registrant's Form 10-K for the year ended December 31, 2010
10.22	Small Business Lending Fund Securities Purchase Agreement, dated August 25, 2011, between the Secretary of the Treasury and Horizon Bancorp	Incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on August 26, 2011
10.23	TARP Repayment Letter, dated August 25, 2011	Incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K filed on August 26, 2011
10.24*	Employment Agreement, dated December 14, 2011, by and among Horizon Bank, N.A., Horizon Bancorp and James D. Neff	Incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K filed on December 14, 2011
21	Subsidiaries of Horizon	Attached
23	Consent of BKD, LLP	Attached
31.1	Certification of Craig M. Dwight pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached
31.2	Certification of Mark E. Secor pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Attached
32.1	Certification of Craig M. Dwight Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached
32.2	Certification of Mark E. Secor Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached
99.1	Certification of Chief Executive Officer pursuant to 31 C.F.R. §30.15	Attached
99.2	Certification of Chief Financial Officer pursuant to 31 C.F.R. §30.15	Attached
101	Interactive Data File**	Attached

\* Indicates exhibits that describe or evidence management contracts or compensatory plans or arrangements required to be filed as exhibits to this Form 10-K.

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