HORIZON BANCORP /IN/
Form 10-Q
May 10, 2012
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United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

Commission file number 0-10792

HORIZON BANCORP

(Exact name of registrant as specified in its charter)

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

(219) 879-0211

Registrant s telephone number, including area code:

N/A

Former name, former address and former fiscal year, if changed since last report:

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 x No ¨

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

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

Large Accelerated Filer	¨	Accelerated Filer	x
Non-accelerated Filer	¨ (Do not check if smaller reporting company)	Smaller Reporting Company	¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 4,997,017 shares of Common Stock, no par value, at May 10, 2012.

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FORM 10-Q

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PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollar Amounts in Thousands)

	March 31 2012 (Unaudited)	December 31 2011
Assets		
Cash and due from banks	**$ 19,049**	$ 20,447
Investment securities, available for sale	**433,501**	431,045
Investment securities, held to maturity	**7,100**	7,100
Loans held for sale	**10,202**	14,090
Loans, net of allowance for loan losses of $19,412 and $18,882	**969,141**	964,311
Premises and equipment	**35,775**	34,665
Federal Reserve and Federal Home Loan Bank stock	**12,390**	12,390
Goodwill	**5,910**	5,910
Other intangible assets	**2,182**	2,292
Interest receivable	**6,798**	6,671
Cash value life insurance	**30,415**	30,190
Other assets	**14,368**	18,051
Total assets	**$ 1,546,831**	$ 1,547,162
Liabilities		
Deposits		
Non-interest bearing	**$ 138,618**	$ 130,673
Interest bearing	**926,003**	879,192
Total deposits	**1,064,621**	1,009,865
Borrowings	**310,889**	370,111
Subordinated debentures	**30,699**	30,676
Interest payable	**555**	596
Other liabilities	**13,829**	14,449
Total liabilities	**1,420,593**	1,425,697
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, $.01 par value, $1,000 liquidation value		
Authorized, 1,000,000 Series B shares		
Issued 12,500 and 12,500 shares	**12,500**	12,500
Common stock, $.3333 stated value		
Authorized, 22,500,000 shares		
Issued, 4,994,017 and 4,967,196 shares		
Outstanding, 4,954,347 and 4,947,696 shares	**1,126**	1,126
Additional paid-in capital	**10,641**	10,610
Retained earnings	**93,198**	89,387
Accumulated other comprehensive income	**8,773**	7,842

Total stockholders equity	**126,238**	121,465
Total liabilities and stockholders equity	**$ 1,546,831**	$ 1,547,162

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended March 31	
	2012 (Unaudited)	2011 (Unaudited)
Interest Income		
Loans receivable	$ 13,532	$ 11,888
Investment securities		
Taxable	2,314	2,500
Tax exempt	980	1,043
Total interest income	16,826	15,431
Interest Expense		
Deposits	1,639	2,337
Borrowed funds	1,519	1,577
Subordinated debentures	470	450
Total interest expense	3,628	4,364
Net Interest Income	13,198	11,067
Provision for loan losses	559	1,548
Net Interest Income after Provision for Loan Losses	12,639	9,519
Other Income		
Service charges on deposit accounts	712	795
Wire transfer fees	182	108
Interchange fees	628	545
Fiduciary activities	975	963
Gain on sale of securities		274
Gain on sale of mortgage loans	2,274	533
Mortgage servicing income net of impairment	90	764
Increase in cash surrender value of bank owned life insurance	225	205
Other income	56	127
Total other income	5,142	4,314
Other Expenses		
Salaries and employee benefits	5,963	5,361
Net occupancy expenses	1,054	1,081
Data processing	526	407
Professional fees	534	349
Outside services and consultants	471	381
Loan expense	702	762
FDIC insurance expense	257	387
Other losses	30	31
Other expenses	1,623	1,499

Total other expenses	**11,160**	10,258
Income Before Income Tax	**6,621**	3,575
Income tax expense	**2,008**	810
Net Income	**4,613**	2,765
Preferred stock dividend and discount accretion	**(156)**	(276)
Net Income Available to Common Shareholders	**$ 4,457**	$ 2,489
Basic Earnings Per Share	**$ 0.90**	$ 0.51
Diluted Earnings Per Share	**0.88**	0.49

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Dollar Amounts in Thousands)

	Three Months Ended March 31	
	2012 (Unaudited)	**2011 (Unaudited)**
Net Income	**$ 4,613**	$ 2,765
Other Comprehensive Income		
Change in fair value of derivative instruments, net of taxes of $198 and $670, for 2012 and 2011, respectively	**367**	1,245
Unrealized appreciation on available-for-sale securities, net of taxes of $303 and $158, for 2012 and 2011, respectively	**564**	293
Less: reclassification adjustment for realized gains included in net income, net of taxes of $0 and $96, for 2012 and 2011, respectively		178
	931	1,716
Comprehensive Income	**$ 5,544**	$ 4,481

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders Equity

(Unaudited)

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

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, January 1, 2012	**$ 12,500**	**$ 1,126**	**$ 10,610**	**$ 89,387**	**$ 7,842**	**$ 121,465**
Net income				4,613		4,613
Other comprehensive income, net of tax					931	
Amortization of unearned compensation			23			23
Stock option expense			8			8
Cash dividends on preferred stock (5.00%)				(156)		(156)
Cash dividends on common stock ($.13 per share)				(646)		(646)
Balances, March 31, 2012	**$ 12,500**	**$ 1,126**	**$ 10,641**	**$ 93,198**	**$ 8,773**	**$ 126,238**

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Dollar Amounts in Thousands)

	Three Months Ended March 31	
	2012 (Unaudited)	**2011 (Unaudited)**
Operating Activities		
Net income	**$ 4,613**	$ 2,765
Items not requiring (providing) cash		
Provision for loan losses	**559**	1,548
Depreciation and amortization	**646**	604
Share based compensation	**8**	10
Mortgage servicing rights impairment (recovery)	**7**	(701)
Premium amortization on securities available for sale, net	**700**	522
Gain on sale of investment securities		(274)
Gain on sale of mortgage loans	**(2,274)**	(533)
Proceeds from sales of loans	**82,619**	64,764
Loans originated for sale	**(80,345)**	(64,231)
Change in cash surrender value of life insurance	**(225)**	(205)
(Gain) loss on sale of other real estate owned	**21**	(30)
Net change in		
Interest receivable	**(127)**	(114)
Interest payable	**(41)**	5
Other assets	**1,415**	1,401
Other liabilities	**(179)**	(1,159)
Net cash provided by operating activities	**7,397**	4,372
Investing Activities		
Purchases of securities available for sale	**(22,581)**	(76,429)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**20,294**	25,358
Purchase of securities held to maturity		(2,437)
Proceeds from maturities of securities held to maturity		1,400
Net change in loans	**(2,102)**	84,163
Proceeds on the sale of OREO and repossessed assets	**2,461**	1,469
Purchases of premises and equipment	**(1,622)**	(990)
Net cash provided (used in) by investing activities	**(3,550)**	32,534
Financing Activities		
Net change in		
Deposits	**54,756**	15,911
Borrowings	**(59,199)**	(36,360)
Proceeds from issuance of stock		56
Tax benefit from issuance of stock		8
Dividends paid on common shares	**(646)**	(560)
Dividends paid on preferred shares	**(156)**	(235)
Net cash used in financing activities	**(5,245)**	(21,180)
Net Change in Cash and Cash Equivalent	**(1,398)**	15,726

Cash and Cash Equivalents, Beginning of Period	**20,447**	15,683
Cash and Cash Equivalents, End of Period	**$ 19,049**	$ 31,409
Additional Cash Flows Information		
Interest paid	**$ 3,669**	$ 4,358
Income taxes paid	**900**	
Transfer of loans to other real estate owned	**527**	1,095

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 1 Accounting Policies

The accompanying condensed consolidated financial statements include the accounts of Horizon Bancorp (Horizon or the Company) and its wholly-owned subsidiaries, including Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended March 31, 2012 and March 31, 2011 are not necessarily indicative of the operating results for the full year of 2012 or 2011. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of Horizon's management, necessary to fairly present the financial position, results of operations and cash flows of Horizon for the periods presented. Those adjustments consist only of normal recurring adjustments.

Certain information and note disclosures normally included in Horizon's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon's Annual Report on Form 10-K for 2011 filed with the Securities and Exchange Commission on March 12, 2012. The consolidated condensed balance sheet of Horizon as of December 31, 2011 has been derived from the audited balance sheet of Horizon as of that date.

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

	Three months ended March 31	
	2012 (Unaudited)	**2011 (Unaudited)**
Basic earnings per share		
Net income	**$ 4,613**	$ 2,765
Less: Preferred stock dividends and accretion of discount	**156**	276
Net income available to common shareholders	**$ 4,457**	$ 2,489
Weighted average common shares outstanding(1)	**4,948,573**	4,924,715
Basic earnings per share	**$ 0.90**	$ 0.51
Diluted earnings per share		
Net income available to common shareholders	**$ 4,457**	$ 2,489
Weighted average common shares outstanding(1)	**4,948,573**	4,924,715
Effect of dilutive securities:		
Warrants	**106,438**	115,887
Restricted stock	**971**	22,217
Stock options	**9,678**	11,945
Weighted average shares outstanding	**5,065,660**	5,074,763
Diluted earnings per share	**$ 0.88**	$ 0.49

(1) Adjusted for 3:2 stock split on December 9, 2011

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

At March 31, 2012 and 2011, there were 31,500 shares and 39,176 shares that were not included in the computation of diluted earnings per share because they were non-dilutive.

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2011 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the 2011 consolidated financial statements to be comparable to 2012. These reclassifications had no effect on net income.

Note 2 Securities

The fair value of securities is as follows:

March 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 18,365	$ 293	$ (1)	$ 18,657
State and municipal	134,661	9,195	(82)	143,774
Federal agency collateralized mortgage obligations	84,458	2,233	(1)	86,690
Federal agency mortgage-backed pools	174,909	6,095	(21)	180,983
Private labeled mortgage-backed pools	3,247	113		3,360
Corporate notes	32	5		37
Total available for sale investment securities	$ 415,672	$ 17,934	$ (105)	$ 433,501
Held to maturity, State and Municipal	$ 7,100	$	$	$ 7,100

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
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

Held to maturity, State and Municipal	$	7,100	$	34	$		$	7,134

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

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At March 31, 2012, 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

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The Company expects to recover the amortized cost basis over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company did not consider those investments to be other-than-temporarily impaired at March 31, 2012.

The amortized cost and fair value of securities available for sale and held to maturity at March 31, 2012 and December 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2012		December 31, 2011	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Within one year	$ 936	$ 941	$ 931	$ 940
One to five years	32,713	33,847	30,796	31,910
Five to ten years	59,524	63,509	51,476	55,053
After ten years	59,885	64,171	64,533	69,033
	153,058	162,468	147,736	156,936
Federal agency collateralized mortgage obligations	84,458	86,690	89,016	91,122
Federal agency mortgage-backed pools	174,909	180,983	173,797	179,351
Private labeled mortgage-backed pools	3,247	3,360	3,518	3,636
Total available for sale investment securities	$ 415,672	$ 433,501	$ 414,067	$ 431,045
Held to maturity				
Within one year	$ 7,100	$ 7,100	$ 7,100	$ 7,134
One to five years				
Total held to maturity investment securities	$ 7,100	$ 7,100	$ 7,100	$ 7,134

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

	Less than 12 Months		12 Months or More		Total	
March 31, 2012	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury and federal agencies	$ 2,984	$ (1)	$	$	$ 2,984	$ (1)
State and municipal	2,323	(82)			2,323	(82)
Federal agency collateralized mortgage obligations	2,595	(1)			2,595	(1)
Federal agency mortgage-backed pools	7,248	(21)	20		7,268	(21)
Total temporarily impaired securities	$ 15,150	$ (105)	$ 20	$	$ 15,170	$ (105)

	Less than 12 Months		12 Months or More		Total	
December 31, 2011	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)

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

	Three months ended March 31 2012	2011
Sales of securities available for sale (Unaudited)		
Proceeds	$	$ 9,274
Gross gains		274
Gross losses		

Note 3 Loans

	March 31 2012	December 31 2011
Commercial		
Working capital and equipment	**$ 164,199**	$ 170,325
Real estate, including agriculture	**176,889**	172,910
Tax exempt	**3,539**	3,818
Other	**5,836**	5,323
Total	**350,463**	352,376
Real estate		
1 4 family	**151,497**	153,039
Other	**4,053**	4,102
Total	**155,550**	157,141
Consumer		
Auto	**138,682**	134,686
Recreation	**4,808**	4,737
Real estate/home improvement	**27,865**	27,729
Home equity	**92,495**	92,249
Unsecured	**3,039**	3,183
Other	**2,499**	2,793
Total	**269,388**	265,377
Mortgage warehouse	**213,152**	208,299
Total	**213,152**	208,299
Total loans	**988,553**	983,193
Allowance for loan losses	**(19,412)**	(18,882)
Loans, net	**$ 969,141**	$ 964,311

Commercial

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

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

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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 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.

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

March 31, 2012	Loan Balance	Interest Due	Deferred Fees/(Costs)	Recorded Investment
Owner occupied real estate	$ 129,530	$ 409	$ 26	$ 129,965
Non owner occupied real estate	150,861	395	99	151,355
Residential spec homes	2,834	7		2,841
Development & spec land loans	7,366	15		7,381
Commercial and industrial	59,744	198	3	59,945
Total commercial	350,335	1,024	128	351,487
Residential mortgage	148,073	569	68	148,710
Residential construction	7,409	11		7,420
Mortgage warehouse	213,152	427		213,579
Total real estate	368,634	1,007	68	369,709
Direct installment	24,735	86	(346)	24,475
Direct installment purchased	863			863
Indirect installment	131,461	403		131,864
Home equity	113,420	524	(745)	113,199
Total consumer	270,479	1,013	(1,091)	270,401
Total loans	989,448	3,044	(895)	991,597
Allowance for loan losses	(19,412)			(19,412)
Net loans	$ 970,036	$ 3,044	$ (895)	$ 972,185

December 31, 2011	Loan Balance	Interest Due	Deferred Fees/(Costs)	Recorded Investment
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
Total commercial	352,249	934	127	353,310
Residential mortgage	150,893	513	68	151,474
Residential construction	6,181	8		6,189
Mortgage warehouse	208,299	427		208,726

Total real estate	365,373	948	68	366,389
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
Total consumer	266,545	1,073	(1,168)	266,450
Total loans	984,167	2,955	(973)	986,149
Allowance for loan losses	(18,882)			(18,882)
Net loans	$ 965,285	$ 2,955	$ (973)	$ 967,267

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 4 Allowance for Loan Losses

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

	Three Months Ended	
	March 31 2012 (Unaudited)	**March 31 2011 (Unaudited)**
Balance at beginning of the period	$ 18,882	$ 19,064
Loans charged-off:		
Commercial		
Owner occupied real estate		11
Non owner occupied real estate		
Residential development		
Development & Spec Land Loans		
Commercial and industrial		50
Total commercial		61
Real estate		
Residential mortgage	89	82
Residential construction		
Mortgage warehouse		
Total real estate	89	82
Consumer		
Direct Installment	113	185
Direct Installment Purchased		
Indirect Installment	338	455
Home Equity	133	977
Total consumer	584	1,617
Total loans charged-off	673	1,760
Recoveries of loans previously charged-off:		
Commercial		
Owner occupied real estate	300	
Non owner occupied real estate	7	
Residential development		
Development & Spec Land Loans		
Commercial and industrial	25	2
Total commercial	332	2
Real estate		

Residential mortgage	30	
Residential construction		
Mortgage warehouse		
Total real estate	30	
Consumer		
Direct Installment	15	48
Direct Installment Purchased		
Indirect Installment	201	169
Home Equity	66	19
Total consumer	282	236
Total loan recoveries	644	238
Net loans charged-off	29	1,522
Provision charged to operating expense		
Commercial	86	1,114
Real estate	611	47
Consumer	(138)	387
Total provision charged to operating expense	559	1,548
Balance at the end of the period	$ 19,412	$ 19,090

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Table Dollar Amounts in Thousands, Except 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 or specific allocation of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the value is known but no later than when a 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:

March 31, 2012	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 2,833	$	$	$	$ 2,833
Collectively evaluated for impairment	5,602	3,025	1,694	6,258	16,579
Total ending allowance balance	$ 8,435	$ 3,025	$ 1,694	$ 6,258	$ 19,412
Loans:					
Individually evaluated for impairment	$ 9,035	$	$	$	$ 9,035
Collectively evaluated for impairment	342,452	156,130	213,579	270,401	982,562
Total ending loans balance	$ 351,487	$ 156,130	$ 213,579	$ 270,401	$ 991,597

December 31, 2011	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 2,136	$	$	$	$ 2,136

Collectively evaluated for impairment	5,881	2,472	1,695	6,698	16,746
Total ending allowance balance	$ 8,017	$ 2,472	$ 1,695	$ 6,698	$ 18,882
Loans:					
Individually evaluated for impairment	$ 7,960	$	$	$	$ 7,960
Collectively evaluated for impairment	345,350	157,663	208,726	266,450	978,189
Total ending loans balance	$ 353,310	$ 157,663	$ 208,726	$ 266,450	$ 986,149

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 5 Non-performing Loans and Impaired Loans

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

March 31, 2012	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Non Performing TDR s	Performing TDR s	Total Non-Performing Loans
Commercial					