HORIZON BANCORP /IN/
Form 10-K
March 20, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

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	46360
(Address of principal executive offices)	(Zip Code)

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

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 o No þ

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 o No þ

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

Indicate by check mark 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 o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

(Do not check if a smaller reporting company)

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

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, 2008, the last day of the registrant s most recently completed second fiscal quarter, was approximately $44,802,075.

As of March 16, 2009, the registrant had 3,254,482 shares of Common Stock outstanding.

Documents Incorporated by Reference Document	Part of Form 10-K into which portion of document is incorporated
Portions of the Registrant s Proxy Statement to be filed for its May 7, 2009 annual meeting of shareholders	III

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PART I

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 January 28, 2008, the Bank opened its second full service branch in Valparaiso, Indiana and on July 14, 2008, the Bank opened a full service office in Merrillville, Indiana. In total, the Bank maintains 17 full service offices in Northwest Indiana and Southwest Michigan. At December 31, 2008, the Bank had total assets of $1.307 billion and total deposits of $841 million. The Bank has four wholly-owned subsidiaries: Horizon Trust & Investment Management, N.A. (Horizon Trust), Horizon Investments, Inc. (Horizon Investments), Horizon Insurance Services, Inc. (Horizon Insurance) and Horizon Grantor Trust. Horizon Trust offers corporate and individual trust and agency services and investment management services. Horizon Investments manages the investment portfolio of the Bank. Horizon Insurance offered a full line of personal insurance products until March 2005, at which time the majority of its assets were sold to a third party. 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). See Note 10 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 whom would have a materially adverse effect on the business of Horizon. In 2008, revenues from loans accounted for 69% of the total consolidated revenue, and revenues from investment securities accounted for 15% of total consolidated revenue.

Employees

The Bank, Horizon Trust and Horizon Investments employed approximately 285 full and part-time employees as of December 31, 2008. Horizon and Horizon Grantor Trust do not have any employees.

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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 County, 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, 2008, Horizon was the largest of the 10 bank and thrift institutions in LaPorte County with a 34.01% market share and the sixth largest of the 15 institutions in Porter County with a 7.07% market share. In Berrien County, Michigan, Horizon was the fourth largest of the 10 bank and thrift institutions with an 7.35% market share. Horizon s market share of deposits in Lake, St. Joseph and Elkhart Counties was less than 2.00% in each of these counties. (Source: FDIC Summary of Deposits Market Share Reports, available at www.fdic.gov).

Supervision and Regulation

The Bank Holding Company Act

Horizon is registered as a bank holding company and is subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (Federal Reserve) under the Bank Holding Company Act of 1956, as amended (BHC Act). Pursuant to Federal Reserve regulations, a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the Federal Reserve that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity.

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.

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 (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, 2008, 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.

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National Bank Act

The Bank is (i) subject to the provisions of the National Bank Act; (ii) supervised, regulated, and examined by the OCC; and (iii) subject to the rules and regulations of the OCC, Federal Reserve, and the FDIC.

Deposit Insurance

The Bank s deposits are insured to applicable limits by the Federal Deposit Insurance Corporation (FDIC).

The Bank is subject to deposit insurance assessments by the FDIC, which is a risk-related deposit insurance assessment system where premiums are based upon the institution s capital levels and risk profile. Under this system, insured institutions are assigned to one of four risk-weighted categories based on supervisory evaluations, regulatory capital levels, and certain other factors with less risky institutions paying lower assessments. An institution s assessment rate depends upon the category to which it is assigned. For 2008, assessments ranged from 5 to 43 basis points of assessable deposits, and the Bank paid assessments at the rate of seven basis points for each $100 of insured deposits. In December 2008, the FDIC adopted a rule uniformly increasing the risk-based assessment rates by seven basis points, annually, resulting in a range of risk-based assessment of 12 basis points to 50 basis points.

On February 27, 2009, the FDIC announced the imposition of a special assessment and changes to assessment rates, to the risk-based assessment system that will take effect beginning April 1, 2009, and to the restoration plan. The FDIC adopted an interim rule that imposes a special assessment of 10 basis points as of June 30, 2009, which is to be collected on September 30, 2009. Assuming that deposit levels remain constant, we anticipate that the special assessment for the Bank would total approximately $779,000. The FDIC s interim rule also provides for the imposition of additional special assessments of up to 10 basis points if necessary. Comments on the interim rule are due within 30 days of publication in the Federal Register. Under the new assessment system, banks in the best risk category will pay from 12 cents to 16 cents per $100 of insured deposits. The FDIC also announced an amendment to the restoration plan to extend the period of the plan from five to seven years.

Effective October 14, 2008, the deposit insurance coverage was increased from $100,000 to $250,000 per depositor until January 1, 2010, subject to aggregation rules, and to unlimited coverage for non-interest bearing transaction accounts. Horizon is providing this additional coverage to its deposit customers.

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.

Federal law also provides for the possibility that the FDIC may pay dividends to insured institutions once the Deposit Insurance Fund reserve ratio equals or exceeds 1.35% of estimated insured deposits.

Insured depository institutions that were in existence on December 31, 1996, and paid assessments prior to that date (or their successors) were entitled to a one-time credit against future assessments based on their past contributions to the BIF or SAIF. In 2006, the Bank received a one-time credit of $458,000 against future assessments. Of our initial credit, $314,000 was utilized in 2007 and the remaining $144,000 was utilized in 2008.

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The Federal Deposit Insurance Reform Act of 2005 (the Reform Act), resulted in significant changes to the federal deposit insurance program effective March 31, 2006, the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) were merged to create a new fund, called the Deposit Insurance Fund (DIF)

Pursuant to the Reform Act, the FDIC is authorized to set the reserve ratio for the DIF annually at between 1.15% and 1.5% of estimated insured deposits, and the FDIC has been given discretion to set assessment rates according to risk regardless of the level of the fund reserve ratio. The designated reserve ratio for the DIF is currently set at1.25% of estimated insured deposits. Recent failures, as well as deterioration in banking and economic conditions, have significantly increased the fund s loss provisions, resulting in a decline in the reserve ratio. As of June 30, 2008, the reserve ratio was 1.01%. The FDIC expects a higher rate of insured institution failures in the next few years; thus, the reserve ratio may continue to decline. Because the reserve ratio has fallen below 1.15%, the FDIC has established a restoration plan to restore the reserve ratio to 1.15%. The FDIC has increased the assessment rates and is making other changes to the assessment system to ensure that riskier institutions bear a greater share of the proposed increase in assessments.

The FDIC proposed further refinements to its risk-based assessment that will be effective April 1, 2009 and will effectively make the range 8 to 77 1/2 basis points of assessable deposits. The FDIC may adjust the scale uniformly from one quarter to the next, except that no adjustment can exceed three basis points from the base scale without notice and comment rulemaking. No institution may pay a dividend if in default of its federal deposit insurance assessment.

As a result, our insurance premiums for 2008 increased significantly and totaled $546,000 after utilizing our remaining credit of $144,000 in the first quarter of 2008. Due to the continued failures of unaffiliated FDIC insured depository institutions, we anticipate that our FDIC deposit insurance premiums will increase in the future, perhaps significantly, which will adversely impact our future earnings, but management cannot predict what insurance assessment rates will be in the future.

FDIC-insured institutions also remain 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. The amount assessed on individual institutions, including the Bank, by FICO is in addition to the amount paid for deposit insurance according to the risk-related assessment rate schedule. These assessments will continue until the FICO bonds are repaid between 2017 and 2019. During 2008, the FICO assessment rate ranged between 1.10 and 1.14 basis points for each $100 of insured deposits per quarter. For the first quarter of 2009, the FICO assessment rate is 1.14 basis points. The Bank paid deposit insurance assessments (including the FICO assessments) of $546,000 during the year ended December 31, 2008. Future increases in deposit insurance premiums or changes in risk classification would increase the Bank s deposit related costs.

General Regulatory Supervision

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.

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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.

Capital Regulation

Capital Regulations. 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.

In December 2008, the Company received $25,000,000 in exchange for 25,000 shares of its Fixed Rate Cumulative Preferred Stock, Series A, issued to the Treasury Department, and related warrants. Of that amount, $20,000,000 was contributed to the Bank. As a result, the Company s and the Bank s regulatory capital have increased significantly from the capital reported in prior periods.

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The following is a summary of Horizon s and the Bank s regulatory capital and capital requirements at December 31, 2008.

	Actual		For Capital Adequacy Purposes		To Be Categorized As Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008						
Total risk-based capital (to risk-weighted assets)						
Horizon Bank, N.A.	$122,538	13.11%	$74,790	8.00%	$93,488	10.00%
Horizon Bancorp Consolidated	$134,546	14.38%	$74,877	8.00%	N/A	N/A
Tier 1 risk-based capital (to risk-weighted assets)						
Horizon Bank, N.A.	$111,128	11.89%	$37,395	4.00%	$56,093	6.00%
Horizon Bancorp Consolidated	$123,136	13.16%	$37,438	4.00%	N/A	N/A
Tier 1 leverage capital (to average assets)						
Horizon Bank, N.A.	$111,128	9.44%	$47,074	4.00%	$58,868	5.00%
Horizon Bancorp Consolidated	$123,136	10.45%	$47,124	4.00%	N/A	N/A

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 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, 2008, 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 the following matters, among others: money laundering, suspicious activities and currency transaction reporting, and currency crimes.

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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, provide management s assessment of the effectiveness of Horizon s internal control over financial reporting and state that Horizon s independent accounting firm has issued an attestation report on management s assessment of Horizon s internal control over financial reporting. Significant efforts were required to comply with Section 404 in 2005 and Horizon anticipates additional efforts will be required in future years.

Recent Legislative Developments

Emergency Economic Stabilization Act of 2008 and Troubled Asset Relief Program s Capital Purchase Program

The global and U.S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system during the past year, and in particular, the last several weeks. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions. The availability of credit, confidence in the financial sector, and level of volatility in the financial markets have been adversely affected as a result. In recent weeks, volatility and disruption in the capital and credit markets has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers underlying financial strength.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. Pursuant to the EESA, the U.S. Department of Treasury (the Treasury) has the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

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On October 14, 2008, the Treasury also announced it would offer to qualifying U.S. banking organizations the opportunity to sell preferred stock, along with warrants to purchase common stock, to the Treasury on what may be considered attractive terms under the Troubled Asset Relief Program (TARP) Capital Purchase Program (the CPP). The CPP allows financial institutions, like Horizon, to issue non-voting preferred stock to the Treasury in an amount ranging between 1% and 3% of the institution s total risk-weighted assets.

Although both Horizon and the Bank met all applicable regulatory capital requirements and were well capitalized, Horizon determined that obtaining additional capital pursuant to the CPP for contribution in whole or in part to the Bank was advisable. As a result, Horizon decided to participate in the CPP Program and sold $25,000,000 of its Fixed Rate Cumulative Preferred Stock, Series A to the Treasury on December 19, 2008.

The general terms of the preferred stock issued by Horizon under the CPP are as follows:

Dividends at the rate of 5% per annum, payable quarterly in arrears, are required to be paid on the preferred stock for the first five years and dividends at the rate of 9% per annum are required thereafter until the stock is redeemed by Horizon;

Without the prior consent of the Treasury, Horizon will be prohibited from increasing its common stock dividends or repurchasing its common stock for the first three years while Treasury is an investor;

During the first three years the preferred stock is outstanding, Horizon will be prohibited from repurchasing such preferred stock, except with the proceeds from a sale of Tier 1 qualifying common or other preferred stock of Horizon in an offering that raises at least 25% of the initial offering price of the preferred stock sold to the Treasury ($6,250,000). After the first three years, the preferred stock can be redeemed at any time with any available cash;

Under the CPP, Horizon also issued to the Treasury warrants entitling the Treasury to buy 212,104 shares of Horizon s common stock at an exercise price of $17.68 per share; and

Horizon agreed to certain compensation restrictions for its senior executive officers and restrictions on the amount of executive compensation which is tax deductible.

EESA followed, and has been followed by, numerous actions by the Federal Reserve, Congress, Treasury, the SEC and others to address the current liquidity and credit crisis that has followed the sub-prime meltdown that commenced in 2007. These measures include homeowner relief that encourage loan restructuring and modification; the establishment of significant liquidity and credit facilities for financial institutions and investment banks; the lowering of the federal funds rate, including two 50 basis point decreases in October of 2008; emergency action against short selling practices; a temporary guaranty program for money market funds; the establishment of a commercial paper funding facility to provide back-stop liquidity to commercial paper issuers; coordinated international efforts to address illiquidity and other weaknesses in the banking sector.

It is not clear at this time what impact the EESA, the TARP Capital Purchase Program, the Temporary Liquidity Guarantee Program, other liquidity and funding initiatives of the Federal Reserve and other agencies that have been previously announced, and any additional programs that may be initiated in the future will have on the financial markets and the other difficulties described above, including the extreme levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. Further adverse effects could have an adverse effect on the Company and its business.

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 (FHFB), 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, 2008, the Bank s investment in stock of the FHLB of Indianapolis was $11.0 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, 2008, dividends paid by the FHLB of Indianapolis to the Bank totaled approximately $520,000, for an annualized rate of 4.7%.

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Limitations on Rates Paid for Deposits

FDIC regulations place limitations on the ability of insured depository institutions to accept, renew or roll over deposits by offering rates of interest which are significantly higher than the prevailing rates of interest on deposits offered by other insured depository institutions having the same type of charter in the institution s normal market area. Under these regulations, well capitalized depository institutions may accept, renew or roll such deposits over without restriction, adequately capitalized 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.

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.

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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 at December 31,

(dollar amounts in thousands)	2008		2007		2006	
Available for Sale	**Cost**	**Fair Value**	**Cost**	**Fair Value**	**Cost**	**Fair Value**
U.S. Treasury and U.S. Government agencies and corporations	$ 23,661	$ 24,914	$ 25,660	$ 26,220	$ 58,595	$ 58,445
State and municipal	88,282	86,985	86,389	86,931	81,363	81,800
Mortgage-backed securities	174,227	176,389	108,247	107,371	93,591	91,174
Collateralized mortgage obligations	13,063	12,951	13,650	13,552	11,215	11,010
Corporate notes	587	399	632	601	632	649
Total investment securities	$299,820	$301,638	$234,578	$234,675	$245,396	$243,078
Held to maturity, State and municipal	$ 1,630	$ 1,634				

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, 2008:

(dollar amounts in thousands)	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
Available for Sale	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
U.S. Treasury and U.S. Government agency securities (1)	$		$ 4,567	4.53%	$ 3,611	5.15%	$ 16,736	5.88%
Obligations of states and political subdivisions	1,190	3.62%	6,360	4.31	25,053	4.22	54,382	4.20
Mortgage-backed securities (2)	829	5.17	62,741	4.50	75,326	5.09	37,493	5.49
Collateralized mortgage obligations (2)	864	4.52	12,087	4.97				
Other securities							399	7.53
Total	$ 2,883	4.34	$ 85,755	4.55	$ 103,990	4.88	$ 109,010	4.91
Held to maturity, state and municipal	$ 91	2.85	$ 1,543	3.68				

(1)

Fair value is based on contractual maturity or call date where a call option exists

(2) Maturity based upon final maturity date

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 U.S. 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, 2008.

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III. LOAN PORTFOLIO

A. Types of Loans Total loans on the balance sheet are comprised of the following classifications at December 31 for the years indicated.

(dollar amounts in thousands)	2008	2007	2006	2005	2004
Commercial, financial, agricultural and commercial tax-exempt loans	$310,842	$307,535	$271,457	$273,310	$203,966
Mortgage warehouse loans	123,287	78,225	112,267	97,729	127,992
Real estate mortgage loans	167,766	216,019	222,235	159,312	89,139
Installment loans	280,072	287,073	237,875	202,383	142,945
Total loans	$881,967	$888,852	$843,834	$732,734	$564,042

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, 2008:

Maturing or repricing (dollar amounts in thousands)	One Year or Less	One Through Five Years	After Five Years	Total
Commercial, financial, agricultural and commercial tax-exempt loans	$ 196,159	$ 111,917	$ 2,766	$ 310,842

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.)

(dollar amounts in thousands)	Fixed Rate	Variable Rate
Total commercial, financial, agricultural and commercial tax-exempt loans due after one year	$ 70,437	$ 44,246

C. Risk Elements

1. Non-accrual, Past Due and Restructured Loans The following schedule summarizes non-accrual, past due and restructured loans.

December 31 (dollar amounts in thousands)	2008	2007	2006	2005	2004
a. Loans accounted for on a non-accrual basis	$7,031	$2,862	$2,481	$1,822	$1,358
b. Accruing loans which are contractually past due 90 days or more as to interest and principal payments	832	87	144	251	
c. Loans not included in (a) or (b) which are Troubled Debt Restructuring s as defined by SFAS No. 15					

Totals	$7,863	$2,949	$2,625	$2,073	$1,358

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The increase in non-accrual loans in 2008 is primarily due to an increase in commercial loans of $3.248 million and residential real estate loans of $928 thousand. The increase in loans 90 days past due but still accruing is primarily due to an increase of $464 thousand in residential real estate loans and an increase of $230 thousand in installment loans. The increase in non-accrual loans in 2007 was primarily due to an increase in commercial real estate loans of $281 thousand and an increase in consumer loans of $381 thousand. This increase was partially offset by a decrease in mortgage loans of $281 thousand. The increase in non-accrual loans in 2006 was primarily due to an increase in commercial real estate loans of $761 thousand. This increase was partially offset by a decrease in mortgage loans and consumer loans of $67 thousand and $36 thousand, respectively. The increase in non-accrual loans in 2005 was primarily due to non-accrual loans acquired from Alliance of $389 thousand, an increase in consumer and commercial loans of $44 thousand and $189 thousand, respectively.

(dollar amounts in thousands)		
Gross interest income that would have been recorded on non-accrual loans outstanding as of December 31, 2008, 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.	$	582
Interest income actually recorded on non-accrual loans outstanding as of December 31, 2008, and included in net income for the period.		299
Interest income not recognized during the period on non-accrual loans outstanding as of December 31, 2008.	$	283

Discussion of Non-Accrual Policy

1. &nbs