HORIZON BANCORP /IN/
Form 10-Q
May 08, 2013
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HORIZON BANCORP

FORM 10-Q

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

¨ **QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

Commission file number 0-10792

HORIZON BANCORP

(Exact name of registrant as specified in its charter)

Indiana	**35-1562417**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

515 Franklin Square, Michigan City, Indiana	**46360**
(Address of principal executive offices)	**(Zip Code)**

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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: 8,693,741 shares of Common Stock, no par value, at May 8, 2013.

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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 2013 (Unaudited)	December 31 2012
Assets		
Cash and due from banks	**$ 27,053**	$ 30,735
Investment securities, available for sale	**479,976**	482,801
Investment securities, held to maturity	**2,110**	
Loans held for sale	**9,105**	13,744
Loans, net of allowance for loan losses of $19,565 and $18,270	**1,070,203**	1,172,447
Premises and equipment	**42,431**	42,184
Federal Reserve and Federal Home Loan Bank stock	**13,333**	13,333
Goodwill	**19,748**	19,748
Other intangible assets	**3,857**	4,048
Interest receivable	**7,549**	7,716
Cash value life insurance	**35,444**	35,192
Other assets	**23,441**	26,279
Total assets	**$ 1,734,250**	$ 1,848,227
Liabilities		
Deposits		
Non-interest bearing	**$ 217,197**	$ 209,200
Interest bearing	**1,097,866**	1,084,953
Total deposits	**1,315,063**	1,294,153
Borrowings	**208,899**	345,764
Subordinated debentures	**32,370**	32,331
Interest payable	**552**	560
Other liabilities	**15,089**	16,451
Total liabilities	**1,571,973**	1,689,259
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, Authorized, 1,000,000 shares Series B shares $.01 par value, $1,000 liquidation value Issued 12,500 shares	**12,500**	12,500
Common stock, no par value Authorized, 22,500,000 shares Issued, 8,693,471 shares Outstanding, 8,617,466 shares		
Additional paid-in capital	**32,037**	31,965
Retained earnings	**109,700**	105,402
Accumulated other comprehensive income	**8,040**	9,101
Total stockholders equity	**162,277**	158,968

Total liabilities and stockholders equity	**$ 1,734,250**	$ 1,848,227

See notes to condensed consolidated financial statements

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended March 31	
	2013	**2012**
	(Unaudited)	**(Unaudited)**
Interest Income		
Loans receivable	**$ 16,440**	$ 13,532
Investment securities		
Taxable	**2,022**	2,314
Tax exempt	**967**	980
Total interest income	**19,429**	16,826
Interest Expense		
Deposits	**1,480**	1,639
Borrowed funds	**1,448**	1,519
Subordinated debentures	**491**	470
Total interest expense	**3,419**	3,628
Net Interest Income	**16,010**	13,198
Provision for loan losses	**2,084**	559
Net Interest Income after Provision for Loan Losses	**13,926**	12,639
Other Income		
Service charges on deposit accounts	**913**	712
Wire transfer fees	**190**	182
Interchange fees	**866**	628
Fiduciary activities	**1,140**	975
Gain on sale of investment securities (includes $368 and $0 for the three months ended March 31, 2013 and 2012, respectively, related to accumulated other comprehensive earnings reclasifications)	**368**	
Gain on sale of mortgage loans	**3,106**	2,274
Mortgage servicing income net of impairment	**163**	90
Increase in cash value of bank owned life insurance	**252**	225
Other income	**462**	56
Total other income	**7,460**	5,142
Other Expenses		
Salaries and employee benefits	**7,504**	5,963
Net occupancy expenses	**1,311**	1,054
Data processing	**600**	526
Professional fees	**499**	534
Outside services and consultants	**712**	471
Loan expense	**1,114**	702
FDIC insurance expense	**283**	257
Other losses	**(72)**	30
Other expenses	**2,028**	1,623

Total other expenses		**13,979**		11,160
Income Before Income Tax		**7,407**		6,621
Income tax expense (includes $129 and $0 for the three months ended March 31, 2013 and 2012, respectively, related to income tax expense from reclassification items)		**2,096**		2,008
Net Income		**5,311**		4,613
Preferred stock dividend and discount accretion		**(146)**		(156)
Net Income Available to Common Shareholders	**$**	**5,165**	$	4,457
Basic Earnings Per Share	**$**	**0.60**	$	0.60
Diluted Earnings Per Share		**0.58**		0.59

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	
	2013 (Unaudited)	**2012 (Unaudited)**
Net Income	**$ 5,311**	$ 4,613
Other Comprehensive Income (Loss)		
Change in fair value of derivative instruments, net of taxes of $154 and $198, for the three months ended March 31, 2013 and 2012, respectively	**285**	367
Unrealized appreciation (depreciation) on available-for-sale securities, net of taxes of $(597) and $303, for the three months ended March 31, 2013 and 2012, respectively	**(1,107)**	564
Less: reclassification adjustment for realized gains included in net income, net of taxes of $129 and $0, for the three months ended March 31, 2013 and 2012, respectively	**239**	
	(1,061)	931
Comprehensive Income	**$ 4,250**	$ 5,544

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	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, January 1, 2013	**$ 12,500**	**$ 31,965**	**$ 105,402**	**$ 9,101**	**$ 158,968**
Net income			5,311		5,311
Other comprehensive income (loss), net of tax				(1,061)	(1,061)
Amortization of unearned compensation		64			64
Stock option expense		8			8
Cash dividends on preferred stock (4.67%)			(146)		(146)
Cash dividends on common stock ($.10 per share)			(867)		(867)
Balances, March 31, 2013	**$ 12,500**	**$ 32,037**	**$ 109,700**	**$ 8,040**	**$ 162,277**

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	
	2013 (Unaudited)	2012 (Unaudited)
Operating Activities		
Net income	**$ 5,311**	$ 4,613
Items not requiring (providing) cash		
Provision for loan losses	**2,084**	559
Depreciation and amortization	**849**	646
Share based compensation	**8**	8
Mortgage servicing rights impairment (recovery)	**(33)**	7
Premium amortization on securities available for sale, net	**808**	700
Gain on sale of investment securities	**(368)**	
Gain on sale of mortgage loans	**(3,106)**	(2,274)
Proceeds from sales of loans	**102,762**	82,619
Loans originated for sale	**(95,017)**	(80,345)
Change in cash value of life insurance	**(252)**	(225)
(Gain) loss on sale of other real estate owned	**(238)**	21
Net change in		
Interest receivable	**167**	(127)
Interest payable	**(8)**	(41)
Other assets	**3,346**	1,415
Other liabilities	**(676)**	(179)
Net cash provided by operating activities	**15,637**	7,397
Investing Activities		
Purchases of securities available for sale	**(51,581)**	(22,581)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**51,894**	20,294
Purchase of securities held to maturity	**(2,110)**	
Net change in loans	**99,089**	(2,102)
Proceeds on the sale of OREO and repossessed assets	**1,159**	2,461
Purchases of premises and equipment	**(841)**	(1,622)
Net cash provided by (used in) by investing activities	**97,610**	(3,550)
Financing Activities		
Net change in		
Deposits	**20,910**	54,756
Borrowings	**(136,826)**	(59,199)
Dividends paid on common shares	**(867)**	(646)
Dividends paid on preferred shares	**(146)**	(156)
Net cash used in financing activities	**(116,929)**	(5,245)
Net Change in Cash and Cash Equivalent	**(3,682)**	(1,398)
Cash and Cash Equivalents, Beginning of Period	**30,735**	20,447
Cash and Cash Equivalents, End of Period	**$ 27,053**	$ 19,049

Additional Cash Flows Information		
Interest paid	**$ 3,427**	$ 3,669
Income taxes paid	**400**	900
Transfer of loans to other real estate owned	**670**	527

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, 2013 and March 31, 2012 are not necessarily indicative of the operating results for the full year of 2013 or 2012. 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 2012 filed with the Securities and Exchange Commission on March 12, 2013. The consolidated condensed balance sheet of Horizon as of December 31, 2012 has been derived from the audited balance sheet 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	
	2013 (Unaudited)	**2012 (Unaudited)**
Basic earnings per share		
Net income	**$ 5,311**	$ 4,613
Less: Preferred stock dividends and accretion of discount	**146**	156
Net income available to common shareholders	**$ 5,165**	$ 4,457
Weighted average common shares outstanding[(1)(2)]	**8,617,466**	7,422,860
Basic earnings per share	**$ 0.60**	$ 0.60
Diluted earnings per share		
Net income available to common shareholders	**$ 5,165**	$ 4,457
Weighted average common shares outstanding[(1)(2)]	**8,617,466**	7,422,860
Effect of dilutive securities:		
Warrants	**293,237**	159,657
Restricted stock	**35,557**	1,457
Stock options	**34,395**	14,517
Weighted average shares outstanding	**8,980,655**	7,598,490
Diluted earnings per share	**$ 0.58**	$ 0.59

(1) Adjusted for 3:2 stock split on November 9, 2012

(2) Includes average shares issued for the Heartland acquisition for the three months ending March 31, 2013

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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, 2013 and 2012, there were no shares and 47,250 shares, respectively, which 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, 2012 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the 2012 consolidated financial statements to be comparable to 2013. These reclassifications had no effect on net income.

Note 2 Acquisition

On July 17, 2012 Horizon closed its acquisition of Heartland Bancshares, Inc. and Horizon Bank N.A. s acquisition of Heartland Community Bank, through mergers effective as of that date. Under the final terms of the acquisition, the exchange ratio was 0.81 shares of Horizon s common stock for each share of Heartland common stock outstanding. Heartland shares outstanding at the closing were 1,442,449, and the shares of Horizon common stock issued to Heartland shareholders totaled 1,168,383. Horizon s stock price was $16.83 per share at the close of business on July 17, 2012. Based upon these numbers, the total value of the consideration, including the retirement of TARP, for the acquisition was $26.9 million. For the year ended December 31, 2012, the Company had approximately $1.5 million in costs related to the acquisition. These expenses are classified in the other expense section of the income statement primarily located in the salaries and employee benefits, professional services and other expense line items. As a result of the acquisition, the Company will have an opportunity to increase its deposit base and reduce transaction costs. The Company also expects to reduce cost through economies of scale.

Under the purchase method of accounting, the total estimated purchase price is allocated to Heartland s net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on management s preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on estimates and assumptions that are subject to change, the preliminary purchase price for the Heartland acquisition is allocated as follows (in thousands):

ASSETS	
Cash and due from banks	$ 33,531
Investment securities, available for sale	63,707
Commercial	70,343
Residential mortgage	20,838
Consumer	23,423
Total loans	114,604
Premises and equipment	2,647
FRB and FHLB stock	943
Goodwill	13,838
Core deposit intangible	2,332
Interest receivable	820
Cash value life insurance	4,012
Other assets	9,210

Total assets purchased	$	245,644
Common shares issued	$	19,668
Retirement of TARP preferred shares		7,248
Total estimated purchase price	$	26,916
LIABILITIES		
Deposits		
Non-interest bearing	$	59,350
NOW accounts		42,681
Savings and money market		61,465
Certificates of deposits		47,749
Total deposits		211,245
Borrowings		1,186
Subordinated debentures		1,537
Interest payable		90
Other liabilities		4,670
Total liabilities assumed	$	218,728

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Of the total estimated purchase price of $26.9 million, $2.3 million has been allocated to core deposit intangible. Additionally, $13.8 million has been allocated to goodwill and $10.8 million of the purchase price is deductible and was assigned to the business assets. The core deposit intangible will be amortized over seven years on a straight line basis.

The Company acquired loans in the acquisition and the transferred loans had evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores and recent loan-to-value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which incorporate the estimate of current key assumptions, such as default rates, severity and prepayment speeds.

The Company acquired the $131.1 million loan portfolio at a fair value discount of $16.5 million. The performing portion of the portfolio, $95.4 million, had an estimated fair value of $91.6 million. The excess of expected cash flows above the fair value of the performing portion of loans will be accreted to interest income over the remaining lives of the loans in accordance with ASC 310-20.

Preliminary estimates of certain loans, those for which specific credit-related deterioration, since origination, was identified are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition of these loans is based on reasonable expectation about the timing and amount of cash flows to be collected.

The following table details the acquired loans that are accounted for in accordance with ASC 310-30 (formerly Statement of Position SOP 03-3) as of July 17, 2012.

Contractually required principal and interest at acquisition	$ 35,574
Contractual cash flows not expected to be collected (nonaccretable differences)	5,264
Expected cash flows at acquisition	30,310
Interest component of expected cash flows (accretable discount)	7,494
Fair value of acquired loans accounted for under ASC 310-30	$ 22,816

Pro-forma statements were determined to be impracticable due to the materiality of the transaction.

The carrying amount of those loans is included in the balance sheet amounts of loans receivable at March 31, 2013. The amounts of loans at March 31, 2013, are as follows:

Commercial	$ 55,081
Real estate	16,011

Consumer	15,504
Outstanding balance	$ 86,596
Carrying amount, net of allowance of $1,418	$ 85,178

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Accretable yield, or income expected to be collected, is as follows:

Balance at December 31, 2012	$ 6,111
Additions	
Accretion	(451)
Reclassification from nonaccreatable difference	
Disposals	(696)
Balance at March 31, 2013	$ 4,964

During the three months ended March 31, 2013, the Company increased the allowance for loan losses by a charge to the income statement by $1.4 million. No allowances for loan losses were reversed for the three months ended 2013.

Note 3 Securities

The fair value of securities is as follows:

March 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 45,974	$ 281	$ (38)	$ 46,217
State and municipal	160,824	9,864	(199)	170,489
Federal agency collateralized mortgage obligations	109,727	1,591	(83)	111,235
Federal agency mortgage-backed pools	144,300	5,956	(26)	150,230
Private labeled mortgage-backed pools	1,695	61		1,756
Corporate notes	32	17		49
Total available for sale investment securities	$ 462,552	$ 17,770	$ (346)	$ 479,976
Held to maturity, State and Municipal	$ 2,110	$	$	$ 2,110

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 51,458	$ 351	$ (30)	$ 51,779
State and municipal	162,147	10,842	(84)	172,905
Federal agency collateralized mortgage obligations	95,337	1,533	(39)	96,831
Federal agency mortgage-backed pools	152,372	6,847	(15)	159,204
Private labeled mortgage-backed pools	1,960	71		2,031

Corporate notes	32	19		51
Total available for sale investment securities	$ 463,306	$ 19,663	$ (168)	$ 482,801

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, 2013, no individual investment security had an unrealized loss that was determined to be other-than-temporary.

The unrealized losses on the Company s investments in securities of state and municipal governmental agencies, and federal agency 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

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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, 2013.

The amortized cost and fair value of securities available for sale and held to maturity at March 31, 2013 and December 31, 2012, 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, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Within one year	$ 4,102	$ 4,116	$ 4,358	$ 4,368
One to five years	53,522	54,656	49,415	50,673
Five to ten years	91,240	96,738	98,551	104,258
After ten years	57,966	61,245	61,313	65,436
	206,830	216,755	213,637	224,735
Federal agency collateralized mortgage obligations	109,727	111,235	95,337	96,831
Federal agency mortgage-backed pools	144,300	150,230	152,372	159,204
Private labeled mortgage-backed pools	1,695	1,756	1,960	2,031
Total available for sale investment securities	$ 462,552	$ 479,976	$ 463,306	$ 482,801
Held to maturity				
Within one year	$ 2,110	$ 2,110	$	$
One to five years				
Total held to maturity investment securities	$ 2,110	$ 2,110	$	$

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, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and federal agencies	$ 15,552	$ (38)	$	$	$ 15,552	$ (38)
State and municipal	16,027	(199)			16,027	(199)
Federal agency collateralized mortgage obligations	31,845	(83)			31,845	(83)
Federal agency mortgage-backed pools	15,241	(26)			15,241	(26)

Total temporarily impaired securities	$ 78,665	$	(346)	$	$		$ 78,665	$	(346)

	Less than 12 Months			12 Months or More		Total		
December 31, 2012	Fair Value	Unrealized Losses		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
U.S. Treasury and federal agencies	$ 13,064	$	(30)	$	$	$ 13,064	$	(30)
State and municipal	11,928		(84)			11,928		(84)
Federal agency collateralized mortgage obligations	12,719		(39)			12,719		(39)
Federal agency mortgage-backed pools	4,126		(15)			4,126		(15)
Total temporarily impaired securities	$ 41,837	$	(168)	$	$	$ 41,837	$	(168)

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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	
	2013	**2012**
Sales of securities available for sale (Unaudited)		
Proceeds	**$ 23,485**	$
Gross gains	**376**	
Gross losses	**(8)**	

Note 4 Loans

	March 31 2013	December 31 2012
Commercial		
Working capital and equipment	**$ 207,901**	$ 198,805
Real estate, including agriculture	**251,470**	247,108
Tax exempt	**4,467**	4,579
Other	**9,264**	9,979
Total	**473,102**	460,471
Real estate		
1 4 family	**187,692**	185,940
Other	**3,655**	3,774
Total	**191,347**	189,714
Consumer		
Auto	**139,785**	142,149
Recreation	**4,908**	5,163
Real estate/home improvement	**29,599**	29,989
Home equity	**101,261**	104,974
Unsecured	**3,759**	4,194
Other	**2,398**	2,615
Total	**281,710**	289,084
Mortgage warehouse	**143,609**	251,448
Total loans	**1,089,768**	1,190,717
Allowance for loan losses	**(19,565)**	(18,270)
Loans, net	**$ 1,070,203**	$ 1,172,447

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 larger loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely

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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, and 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 a 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 a 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, which 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 purchase 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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The following table shows the recorded investment of individual loan categories.

March 31, 2013	Loan Balance	Interest Due	Deferred Fees / (Costs)	Recorded Investment
Owner occupied real estate	$ 157,076	$ 287	$ 363	$ 157,726
Non owner occupied real estate	217,220	197	349	217,766
Residential spec homes	248			248
Development & spec land loans	10,975	22	21	11,018
Commercial and industrial	86,729	815	121	87,665
Total commercial	472,248	1,321	854	474,423
Residential mortgage	184,589	599	506	185,694
Residential construction	6,252	8		6,260
Mortgage warehouse	143,609	480		144,089
Total real estate	334,450	1,087	506	336,043
Direct installment	27,396	108	(208)	27,296
Direct installment purchased	382			382
Indirect installment	131,293	361	(71)	131,583
Home equity	122,176	585	742	123,503
Total consumer	281,247	1,054	463	282,764
Total loans	1,087,945	3,462	1,823	1,093,230
Allowance for loan losses	(19,565)			(19,565)
Net loans	$ 1,068,380	$ 3,462	$ 1,823	$ 1,073,665

December 31, 2012	Loan Balance	Interest Due	Deferred Fees / (Costs)	Recorded Investment
Owner occupied real estate	$ 162,694	$ 503	$ 485	$ 163,682
Non owner occupied real estate	201,763	467	276	202,506
Residential spec homes	1,056	8		1,064
Development & spec land loans	6,963	11		6,974
Commercial and industrial	87,082	380	152	87,614
Total commercial	459,558	1,369	913	461,840
Residential mortgage	181,450	565	583	182,598
Residential construction	7,681	13		7,694
Mortgage warehouse	251,448	480		251,928

Total real estate	440,579	1,058	583	442,220
Direct installment	27,831	115	(204)	27,742
Direct installment purchased	429			429
Indirect installment	133,481	370		133,851
Home equity	126,588	605	959	128,152
Total consumer	288,329	1,090	755	290,174
Total loans	1,188,466	3,517	2,251	1,194,234
Allowance for loan losses	(18,270)			(18,270)
Net loans	$ 1,170,196	$ 3,517	$ 2,251	$ 1,175,964

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Note 5 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 five-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. The actual allowance for loan loss activity is provided below.

	Three Months Ended March 31	
	2013	2012
Balance at beginning of the period	$ 18,270	$ 18,882
Loans charged-off:		
Commercial		
Owner occupied real estate	132	
Non owner occupied real estate	146	
Residential development		
Development & Spec Land Loans		
Commercial and industrial	139	
Total commercial	417	
Real estate		
Residential mortgage	143	89
Residential construction		
Mortgage warehouse		
Total real estate	143	89
Consumer		
Direct Installment	107	113
Direct Installment Purchased		
Indirect Installment	353	338
Home Equity	438	133
Total consumer	898	584
Total loans charged-off	1,458	673
Recoveries of loans previously charged-off:		
Commercial		
Owner occupied real estate	32	300
Non owner occupied real estate	2	7
Residential development		
Development & Spec Land Loans		
Commercial and industrial	36	25
Total commercial	70	332
Real estate		

Residential mortgage	3	30
Residential construction		
Mortgage warehouse		
Total real estate	3	30
Consumer		
Direct Installment	394	15
Direct Installment Purchased		
Indirect Installment	170	201
Home Equity	32	66
Total consumer	596	282
Total loan recoveries	669	644
Net loans charged-off	789	29
Provision charged to operating expense		
Commercial	1,738	86
Real estate	312	611
Consumer	34	(138)
Total provision charged to operating expense	2,084	559
Balance at the end of the period	$ 19,565	$ 19,412

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Certain loans are individually evaluated for impairment, and the Company s general practice is to proactively charge down impaired loans 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. Pursuant to such guidelines, the Company also charges-off unsecured open-end loans when the loan is 90 days past due, and charges down to the net realizable value other secured loans when they 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 in full will occur regardless of delinquency status, are not 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, 2013	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 1,945	$	$	$	$ 1,945
Collectively evaluated for impairment	7,221	3,477	1,603	5,319	17,620
Total ending allowance balance	$ 9,166	$ 3,477	$ 1,603	$ 5,319	$ 19,565
Loans:					
Individually evaluated for impairment	$ 10,054	$	$	$	$ 10,054
Collectively evaluated for impairment	464,369	191,954	144,089	282,764	1,083,176
Total ending loans balance	$ 474,423	$ 191,954	$ 144,089	$ 282,764	$ 1,093,230

December 31, 2012	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 1,945	$	$	$	$ 1,945
Collectively evaluated for impairment	5,826	3,204	1,705	5,590	16,325

Total ending allowance balance	$ 7,771	$ 3,204	$ 1,705	$ 5,590	$ 18,270
Loans:					
Individually evaluated for impairment	$ 10,597	$	$	$	$ 10,597
Collectively evaluated for impairment	451,243	190,292	251,928	290,174	1,183,637
Total ending loans balance	$ 461,840	$ 190,292	$ 251,928	$ 290,174	$ 1,194,234

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Note 6 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 (TDRs) by class of loans:

March 31, 2013	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Non Performing TDR s	Performing TDR s	Total Non-Performing Loans
Commercial					
Owner occupied real estate	$ 1,299	$	$ 1,190	$ 823	$ 3,312
Non owner occupied real estate	2,219		1,674	447	4,340
Residential development					
Development & Spec Land Loans	699				699
Commercial and industrial	912		792		1,704
Total commercial	5,129		3,656	1,270	10,055
Real estate					
Residential mortgage	4,057	2	2,691	1,907	8,657
Residential construction			290		290
Mortgage warehouse					
Total real estate	4,057	2	2,981	1,907	8,947
Consumer					
Direct Installment	273				273
Direct Installment Purchased					
Indirect Installment	930				930
Home Equity	1,904		147	1,460	3,511
Total Consumer	3,107		147	1,460	4,714
Total	$ 12,293	$ 2	$ 6,784	$ 4,637	$ 23,716

December 31, 2012	Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Non Performing TDR s	Performing TDR s	Total Non-Performing Loans
Commercial					
Owner occupied real estate	$ 2,800	$	$ 1,272	$ 819	$ 4,891
Non owner occupied real estate	1,705		1,605	446	3,756
Residential development					
Development & Spec Land Loans	705				705

Commercial and industrial	544		797		1,341
Total commercial	5,754		3,674	1,265	10,693
Real estate					
Residential mortgage	4,565	2	2,536	1,761	8,864
Residential construction			291		291
Mortgage warehouse					
Total real estate	4,565	2	2,827	1,761	9,155
Consumer					
Direct Installment	138	26			164
Direct Installment Purchased					
Indirect Installment	866	26			892
Home Equity	2,051		148	676	2,875
Total Consumer	3,055	52	148	676	3,931
Total	$ 13,374	$ 54	$ 6,649	$ 3,702	$ 23,779

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Included in the $12.3 million of non-accrual loans and the $6.8 million of non-performing TDR s at March 31, 2013 were $3.0 million and $3.5 million, respectively, of loans acquired for which accretable yield was recognized.

From time to time, the Bank obtains information that may lead management to believe that the collection of payments may be doubtful on a particular loan. In recognition of this, it is management s policy to convert the loan from an earning asset to a non-accruing loan. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date. Further, it is management s policy to place a loan on a non-accrual status when the payment is delinquent in excess of 90 days or the loan has had the accrual of interest discontinued by management. The officer responsible for the loan and the Chief Operating Officer or 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 in accordance with the loan terms. 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 for its collateral, the creditor may use that value. Also, if the loan is secured and considered collateral dependent, the creditor may use the fair value of the collateral. Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

Smaller-balance, homogeneous loans are evaluated for impairment in total. Such loans include residential first mortgage loans secured by 1 4 family residences, residential construction loans, automobile, home equity, second mortgage loans and mortgage warehouse loans. Commercial loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicate that underlying cash flows of a borrower s business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 30 days or more. Loans are generally moved to non-accrual status when they are 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 March 31, 2013, the type of concessions the Company has made on restructured loans has been temporary rate reductions and/or reductions in monthly payments and there have been no restructured loans with modified recorded balances. 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 March 31, 2013, the Company had $11.4 million in TDRs and $4.6 million were performing according to the restructured terms and no TDR s were returned to accrual status in the first three months of 2013. There was $1.7 million of specific reserves allocated to TDRs at March 31, 2013 based on the collateral deficiencies.

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Loans transferred and classified as troubled debt restructuring during the three months ended March 31, 2013 and 2012, segregated by class, are shown in the table below.

	March 31, 2013		March 31, 2012	
	Number of Defaults	Unpaid Principal Balance	Number of Defaults	Unpaid Principal Balance
Commercial				
Owner occupied real estate	**2**	**$ 76**		$
Non owner occupied real estate	**1**	**70**		
Residential development				
Development & Spec Land Loans				
Commercial and industrial				
Total commercial	**3**	**146**		
Real estate				
Residential mortgage	**3**	**390**	1	121
Residential construction				
Mortgage warehouse				
Total real estate	**3**	**390**	1	121
Consumer				
Direct Installment				
Direct Installment Purchased				
Indirect Installment				
Home Equity	**2**	**791**	1	53
Total Consumer	**2**	**791**	1	53
Total	**8**	**$ 1,327**	2	$ 174

Troubled debt restructured loans which had payment defaults during the three months ended March 31, 2013 and 2012, segregated by class, are shown in the table below. Default occurs when a loan is 90 days or more past due or has been transferred to nonaccrual.

	March 31, 2013		March 31, 2012	
	Number of Defaults	Unpaid Principal Balance	Number of Defaults	Unpaid Principal Balance
Commercial				
Owner occupied real estate	**2**	**$ 76**		$
Non owner occupied real estate	**1**	**70**		
Residential development				
Development & Spec Land Loans				

Commercial and industrial					
Total commercial	**3**		**146**		
Real estate					
Residential mortgage	**1**		**234**	2	232
Residential construction					
Mortgage warehouse					
Total real estate	**1**		**234**	2	232
Consumer					
Direct Installment					
Direct Installment Purchased					
Indirect Installment					
Home Equity				1	53
Total Consumer				1	53
Total	**4**	**$**	**380**	3	$ 285

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

				Three Months Ending	
March 31, 2013	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance For Loan Loss Allocated**	**Average Balance in Impaired Loans**	**Cash/Accrual Interest Income Recognized**
With no recorded allowance					
Commercial					
Owner occupied real estate	$ 3,310	$ 3,317	$	$ 4,906	14
Non owner occupied real estate	2,578	2,579		3,793	11
Residential development					
Development & Spec Land Loans	135	135		166	
Commercial and industrial	912	928		1,877	
Total commercial	6,935	6,959		10,742	25
With an allowance recorded					
Commercial					
Owner occupied real estate					
Non owner occupied real estate	1,763	1,763	1,080	1,774	
Residential development					
Development & Spec Land Loans	564	564	600	569	
Commercial and industrial	792	792	265	794	
Total commercial	3,119	3,119	1,945	3,137	
Total	$ 10,054	$ 10,078	$ 1,945	$ 13,879	$ 25

				Three Months Ending	
March 31, 2012	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance For Loan Loss Allocated**	**Average Balance in Impaired Loans**	**Cash/Accrual Interest Income Recognized**
With no recorded allowance					
Commercial					
Owner occupied real estate	$ 723	$ 723	$	$ 503	$ 3
Non owner occupied real estate	972	974		973	
Residential development					
Development & Spec Land Loans	90	90		90	
Commercial and industrial	338	338		240	1
Total commercial	2,123	2,125		1,806	4
With an allowance recorded					
Commercial					

Owner occupied real estate	1,636	1,636	595	1,783	1
Non owner occupied real estate	3,213	3,213	1,105	3,186	2
Residential development					
Development & Spec Land Loans	715	715	470	237	6
Commercial and industrial	1,348	1,348	663	1,130	4
Total commercial	6,912	6,912	2,833	6,336	13
Total	$ 9,035	$ 9,037	$ 2,833	$ 8,142	$ 17

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

March 31, 2013	30 -59 Days Past Due	60 -89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial						
Owner occupied real estate	$ 568	$ 17	$	$ 585	$ 156,491	$ 157,076
Non owner occupied real estate	636	183		819	216,401	217,220
Residential development					248	248
Development & Spec Land Loans		39		39	10,936	10,975
Commercial and industrial	203	99		302	86,427	86,729
Total commercial	1,407	338		1,745	470,503	472,248
Real estate						
Residential mortgage	44	84	2	130	184,459	184,589
Residential construction					6,252	6,252
Mortgage warehouse					143,609	143,609
Total real estate	44	84	2	130	334,320	334,450
Consumer						
Direct Installment	80	200		280	27,116	27,396
Direct Installment Purchased					382	382
Indirect Installment	949	96		1,045	130,248	131,293
Home Equity	1,428	1,091		2,519	119,657	122,176
Total consumer	2,457	1,387		3,844	277,403	281,247
Total	$ 3,908	$ 1,809	$ 2	$ 5,719	$ 1,082,226	$ 1,087,945
Percentage of total loans	0.36%	0.17%	0.00%	0.53%	99.47%	

December 31, 2012	30 -59 Days Past Due	60 -89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial						
Owner occupied real estate	$ 2,207	$ 19	$	$ 2,226	$ 160,468	$ 162,694
Non owner occupied real estate	669	147		816	200,947	201,763
Residential development					1,056	1,056
Development & Spec Land Loans					6,963	6,963
Commercial and industrial	538	16		554	86,528	87,082
Total commercial	3,414	182		3,596	455,962	459,558
Real estate						
Residential mortgage	167		2	169	181,281	181,450

Residential construction					7,681	7,681
Mortgage warehouse					251,448	251,448
Total real estate	167		2	169	440,410	440,579
Consumer						
Direct Installment	240	64	26	330	27,501	27,831
Direct Installment Purchased					429	429
Indirect Installment	1,105	177	26	1,308	132,173	133,481
Home Equity	1,072	321		1,393	125,195	126,588
Total consumer	2,417	562	52	3,031	285,298	288,329
Total	$ 5,998	$ 744	$ 54	$ 6,796	$ 1,181,670	$ 1,188,466
Percentage of total loans	0.50%	0.06%	0.00%	0.57%	99.43%	

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 being re-evaluated for credit quality. The latter usually occurs upon receipt of current financial information or other pertinent data that would trigger a change in the loan grade.

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

Commercial loan officers are responsible for reviewing their loan portfolios and report any adverse material change to the COO or Loan Committee. When circumstances warrant a change in the credit quality grade, loan officers are required to notify the COO and the Credit Department of the change in the loan grade. Downgrades are accepted immediately by the COO however, lenders must present their factual information to either the Loan Committee or the COO when recommending an upgrade.

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 meets with 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 act 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 are classified as a TDR are graded Substandard. After being 90 days delinquent a loan is charged off unless it is well secured and in the process of collection. If the latter case exists, the loan is placed on non-accrual. Occasionally a mortgage loan may be graded as Special Mention. When this situation arises, it is because the characteristics of the loan and the borrower fit the definition of a Risk Grade 5 described below, which is normally used for grading commercial loans. Loans not graded Substandard are considered Pass.

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

Risk Grade 1: Excellent (Pass)

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

Risk Grade 2: Good (Pass)

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

Risk Grade 3: Satisfactory (Pass)

Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with 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.

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

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

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

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

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

Risk Grade 4: Satisfactory/Monitored (Pass)

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

Risk Grade 5: Special Mention

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

Risk Grade 6: Substandard

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

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

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

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

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

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

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

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

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

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

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

Risk Grade 7: Doubtful

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

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

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

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

Risk Grade 8: Loss

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

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The following table presents loans by credit grades.

March 31, 2013	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Owner occupied real estate	$ 139,631	$ 4,062	$ 13,383	$	$ 157,076
Non owner occupied real estate	189,876	10,806	16,538		217,220
Residential development	248				248
Development & Spec Land Loans	7,108	99	3,768		10,975
Commercial and industrial	78,882	1,993	5,854		86,729
Total commercial	415,745	16,960	39,543		472,248
Real estate					
Residential mortgage	175,933		8,656		184,589
Residential construction	5,962		290		6,252
Mortgage warehouse	143,609				143,609
Total real estate	325,504		8,946		334,450
Consumer					
Direct Installment	27,123		273		27,396
Direct Installment Purchased	382				382
Indirect Installment	130,363		930		131,293
Home Equity	118,665		3,511		122,176
Total Consumer	276,533		4,714		281,247
Total	$ 1,017,782	$ 16,960	$ 53,203	$	$ 1,087,945
Percentage of total loans	93.55%	1.56%	4.89%	0.00%	

December 31, 2012	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Owner occupied real estate	$ 137,664	$ 6,407	$ 17,029	$ 1,594	$ 162,694
Non owner occupied real estate	171,319	19,440	10,717	287	201,763
Residential development	405		651		1,056
Development & Spec Land Loans	3,171	178	3,614		6,963
Commercial and industrial	78,810	3,136	5,136		87,082
Total commercial	391,369	29,161	37,147	1,881	459,558
Real estate					
Residential mortgage	172,586		8,864		181,450
Residential construction	7,390		291		7,681

Mortgage warehouse	251,448				251,448
Total real estate	431,424		9,155		440,579
Consumer					
Direct Installment	27,667		164		27,831
Direct Installment Purchased	429				429
Indirect Installment	132,589		892		133,481
Home Equity	123,713		2,875		126,588
Total Consumer	284,398		3,931		288,329
Total	$ 1,107,191	$ 29,161	$ 50,233	$ 1,881	$ 1,188,466
Percentage of total loans	93.16%	2.45%	4.23%	0.16%	

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Note 7 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 March 31, 2013 and $30.5 million at December 31, 2012. 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 March 31, 2013 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 March 31, 2013 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 $75.6 million at March 31, 2013 and $81.0 million at December 31, 2012.

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 March 31, 2013, the Company s fair value of these derivatives were recorded and over the next 12 months are not expected to have a significant impact on the Company s net income.

The change in fair value of both the forward sale commitments and commitments to originate mortgage loans were recorded and the net gains or losses included in the Company s gain on sale of loans.

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

Derivatives designated as hedging instruments (Unaudited)	**Asset Derivative March 31, 2013**		**Liability Derivatives March 31, 2013**	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts	Loans	$ 89	Other liabilities	$ 1,813
Interest rate contracts	Other Assets	1,724	Other liabilities	5,055
Total derivatives designated as hedging instruments		1,813		6,868
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	846	Other liabilities	
Total derivatives not designated as hedging instruments		846		
Total derivatives		$ 2,659		$ 6,868

Derivatives designated as hedging instruments (Unaudited)	**Asset Derivative December 31, 2012**		**Liability Derivatives December 31, 2012**	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts	Loans	$ 279	Other liabilities	$ 2,214
Interest rate contracts	Other Assets	1,935	Other liabilities	5,493
Total derivatives designated as hedging instruments		2,214		7,707
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	858	Other liabilities	
Total derivatives not designated as hedging instruments		858		
Total derivatives		$ 3,072		$ 7,707

The effect of the derivative instruments on the condensed consolidated statement of income for the three month periods ending is as follows:

Comprehensive Income on Derivative (Effective Portion)

Derivative in cash flow hedging relationship	**Three Months Ended March 31**	
	2013 (Unaudited)	**2012 (Unaudited)**
Interest rate contracts	$ 285	$ 367

FASB Accounting Standards Codification (ASC) Topic 820-10-20 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820-10-55 establishes a fair value hierarchy that emphasizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

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Derivative in fair value hedging relationship	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended March 31 2013 (Unaudited)	2012 (Unaudited)
Interest rate contracts	Interest income - loans	$ (401)	$ (74)
Interest rate contracts	Interest income - loans	401	74
Total		$	$

Derivative not designated as hedging relationship	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended March 31 2013 (Unaudited)	2012 (Unaudited)
Mortgage contracts	Other income - gain on sale of loans	$ (12)	$ (223)

Note 8 Disclosures about fair value of assets and liabilities

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

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

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

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

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying condensed consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended March 31, 2013. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available for sale securities

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Treasury and federal agency securities, state and municipal securities, federal agency mortgage obligations and mortgage-backed pools, private-label mortgage-backed pools and corporate notes. Level 2 securities are valued by a third party pricing service commonly used in the banking industry utilizing observable inputs. Observable inputs include dealer quotes, market spreads, cash flow analysis, the U.S. Treasury yield curve, trade execution data, market consensus prepayment spreads and available credit

information and the bond s terms and conditions. The pricing provider utilizes evaluated pricing models that vary based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed-income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector grouping, and matrix pricing. In addition, model processes, such as an option adjusted spread model is used to develop prepayment and interest rate scenarios for securities with prepayment features.

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Hedged loans

Certain fixed rate loans have been converted to variable rate loans by entering into interest rate swap agreements. The fair value of those fixed rate loans is based on discounting the estimated cash flows using interest rates determined by the respective interest rate swap agreement. Loans are classified within Level 2 of the valuation hierarchy based on the unobservable inputs used.

Interest rate swap agreements

The fair value of the Company s interest rate swap agreements is estimated by a third party using inputs that are primarily unobservable including a yield curve, adjusted for liquidity and credit risk, contracted terms and discounted cash flow analysis, therefore, are classified within Level 2 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)
March 31, 2013				
Available-for-sale securities				
U.S. Treasury and federal agencies	$ 46,217	$	$ 46,217	$
State and municipal	170,489		170,489	
Federal agency collateralized mortgage obligations	111,235		111,235	
Federal agency mortgage-backed pools	150,230		150,230	
Private labeled mortgage-backed pools	1,756		1,756	
Corporate notes	49		49	
Total available-for-sale securities	479,976		479,976	
Hedged loans	75,601		75,601	
Forward sale commitments	846		846	
Interest rate swap agreements	(6,868)		(6,868)	
Commitments to originate loans				
December 31, 2012				
Available-for-sale securities				
U.S. Treasury and federal agencies	$ 51,779	$	$ 51,779	$
State and municipal	172,905		172,905	
Federal agency collateralized mortgage obligations	96,831		96,831	
Federal agency mortgage-backed pools	159,204		159,204	
Private labeled mortgage-backed pools	2,031		2,031	
Corporate notes	51		51	

Total available-for-sale securities	482,801	482,801
Hedged loans	81,018	81,018
Forward sale commitments	858	858
Interest rate swap agreements	(7,707)	(7,707)
Commitments to originate loans		

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Transfers between levels

Transfers between Levels 1, 2 and 3 and the reasons for those transfers are as follows:

December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Reason for Transfer
Transfers to level:				
Hedged loans	$	$ 59,911	$	(a)
Forward sale commitments		510		(b)
Interest rate swap agreements		(6,464)		(a)
Commitments to originate loans		(71)		(b)
Total transfers to level	$	$ 53,886	$	

(a) - Valuation determined by widely accepted techniques including discounted cash flow analysis on expected cash flows of each derivative and observable market rate inputs such as yield curves and contractual terms on each instrument.

(b) - Valuation determined by quoted prices for similar loans in the secondary market with an expected fallout rate (interest rate locked pipeline loans not expected to close). Fallout rate is not considered a significant input to the fair value in its entirety.

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

	Hedged Loans	Forward Sale Commitments	Interest Rate Swaps	Commitments to Originate Loans
Beginning balance December 31, 2011	$ 54,362	$ 662	$ (7,101)	$
Total realized and unrealized gains and losses				
Included in net income	(74)	(152)	74	(71)
Included in other comprehensive income, gross			563	
Purchases, issuances, and settlements	6,114			
Principal payments	(491)			
Transfers out to Level 2	(59,911)	(510)	6,464	71

Ending balance December 31, 2012	$	$	$	$

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

	Three Months Ended March 31	
Non Interest Income	**2013 (Unaudited)**	**2012 (Unaudited)**
Total gains and losses from:		
Hedged loans	$ (401)	$ (74)
Fair value interest rate swap agreements	401	74
Derivative loan commitments	(12)	(223)
	$ (12)	$ (223)

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2013				
Impaired loans	$ 8,109	$	$	$ 8,109
Mortgage servicing rights	5,461			5,461
December 31, 2012				
Impaired loans	$ 8,652	$	$	$ 8,652
Mortgage servicing rights	5,145			5,145

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

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

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method. Fair value adjustments on impaired loans were $1.9 million at March 31, 2013 and $1.9 million at December 31, 2012.

Mortgage Servicing Rights (MSRs): MSRs do not trade in an active market with readily observable prices. Accordingly, the fair value of these assets is classified as Level 3. The Company determines the fair value of MSRs using an income approach model based upon the Company s month-end interest rate curve and prepayment assumptions. The model utilizes assumptions to estimate future net servicing income cash flows, including estimates of time decay, payoffs and changes in valuation inputs and assumptions. The Company reviews the valuation assumptions against this market data for reasonableness and adjusts the assumptions if deemed appropriate. The carrying amount of the MSR s were increased by $33,000 in during the first three months of 2013 and reduced by $1.0 million in 2012 for the fair value.

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The following table presents qualitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements, other than goodwill.

	Fair Value at March 31, 2013	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 8,109	Collateral based measurement	Discount to reflect current market conditions and ultimate collectability	10% - 15% (12%)
Mortgage servicing rights	$ 5,461	Discounted cashflows	Discount rate, Constant prepayment rate, Probably of default	10% -15% (12%), 4% -7% (4.6%), 1% - 10% (4.5%)

	Fair Value at December 31, 2012	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 8,652	Collateral based measurement	Discount to reflect current market conditions and ultimate collectability	10% - 15% (12%)
Mortgage servicing rights	$ 5,145	Discounted cashflows	Discount rate, Constant prepayment rate, Probably of default	10% - 15% (12%), 4% -7% (4.6%), 1% - 10% (4.5%)

Note 9 Fair Value of Financial Instruments

The estimated fair value amounts of the Company s financial instruments were determined using available market information, current pricing information applicable to Horizon and various valuation methodologies. Where market quotations were not available, considerable management judgment was involved in the determination of estimated fair values. Therefore, the estimated fair value of financial instruments shown below may not be representative of the amounts at which they could be exchanged in a current or future transaction. Due to the inherent uncertainties of expected cash flows of financial instruments, the use of alternate valuation assumptions and methods could have a significant effect on the estimated fair value amounts.

The estimated fair values of financial instruments, as shown below, are not intended to reflect the estimated liquidation or market value of Horizon taken as a whole. The disclosed fair value estimates are limited to Horizon s significant financial instruments at December 31, 2012 and December 31, 2011. These include financial instruments recognized as assets and liabilities on the consolidated balance sheet as well as certain off-balance sheet financial instruments. The estimated fair values shown below do not include any valuation of assets and liabilities, which are not financial instruments as defined by the FASB ASC fair value hierarchy.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Due from Banks The carrying amounts approximate fair value.

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

Loans Held for Sale The carrying amounts approximate fair value.

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

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

Interest Receivable/Payable The carrying amounts approximate fair value.

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

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

Subordinated Debentures Rates currently available for debentures with similar terms and remaining maturities are used to estimate fair values of existing debentures.

Commitments to Extend Credit and Standby Letter of Credit The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. Due to the short-term nature of these agreements, carrying amounts approximate fair value.

The following table presents estimated fair values of the Company s financial instruments and the level within the fair value hierarchy in which the fair value measurements fall (unaudited).

	March 31, 2013			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and due from banks	$ 27,053	$ 27,053	$	$
Loans held for sale	9,105			9,105
Loans excluding loan level hedges, net	992,789			1,018,701
Stock in FHLB and FRB	13,333		13,333	
Interest receivable	7,549		7,549	
Liabilities				
Non-interest bearing deposits	$ 217,197	$ 217,197	$	$
Interest-bearing deposits	1,097,866		1,099,495	
Borrowings	208,899		215,402	
Subordinated debentures	32,370		32,345	
Interest payable	552		552	

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	December 31, 2012			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and due from banks	$ 30,735	$ 30,735	$	$
Loans held for sale	13,744			13,744
Loans excluding loan level hedges, net	1,089,215			1,118,255
Stock in FHLB and FRB	13,333		13,333	
Interest receivable	7,716		7,716	
Liabilities				
Non-interest bearing deposits	$ 209,200	$ 209,200	$	$
Interest-bearing deposits	1,084,953		1,092,184	
Borrowings	345,764		352,891	
Subordinated debentures	32,331		32,268	
Interest payable	560		560	

Note 10 Other Comprehensive Income

	Accumulated Other Comprehensive Income [1]		
Unaudited	**Unrealized Gains (Losses) on Securities Available-for-Sale**	**Unrealized Gains (Losses) on Derivative Instruments**	**Total**
Balance at December 31, 2012	$ 12,672	$ (3,570)	$ 9,101
Other comprehensive income before reclassifications	(1,107)	285	(822)
Amounts reclassified from other comprehensive income	(239)		(239)
Period change	(1,346)	285	(1,061)
Balance at March 31, 2013	$ 11,326	$ (3,285)	$ 8,040
Balance at December 31, 2011	$ 11,036	$ (3,194)	$ 7,842
Other comprehensive income before reclassifications	564	367	931
Amounts reclassified from other comprehensive income			
Period change	564	367	931
Balance at March 31, 2012	$ 11,600	$ (2,827)	$ 8,773

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using a combined Federal and State income tax rate approximating 35%.

Details About Accumulated Other Comprehensive Income Components Unaudited	Amount Reclassified from Accumulated Other Comprehensive Income For the Three Months Ended March 31, 2013	2012	Affected Line Items in the Statement of Net Income
Securities available-for-sale [(1)]			
Net securities gains reclassified into earnings	$ 368	$	Gain on sale of investment securities
Related income tax expense	(129)		Income tax expense
Net effect on accumulated other comprehensive income for the period	239		Net of tax
Total reclassifications for the period	$ 239	$	Net of tax

(1) For additional detail related to unrealized gains on securities and related amounts reclassified from accumulated other comprehensive income see Note 3, Securities

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Notes to Condensed Consolidated Financial Statements

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

Note 11 Future accounting matters

ASU 2011-11 Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. The ASU amends Topic 210 by requiring additional improved information to be disclosed regarding financial instruments and derivative instruments that are offset in accordance with the conditions under ASC 210-20-45 or ASC 810-10-45 or subject to an enforceable master netting arrangement or similar agreement. The amendments are effective for annual and interim reporting periods beginning on or after January 1, 2013. The disclosures required by the amendments were applied retrospectively for all comparative periods presented (See Note 7). The amendments did not have a material impact on the Company s Condensed Consolidated Financial Statements.

ASU 2013-01 Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The ASU amends Update 2011-11 to clarify that the scope applies to derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset in accordance with Section 210-20-45 or Section 815-10-45 or subject to master netting or similar arrangements. Other types of financial assets and liabilities subject to master netting or similar arrangements are not subject to the disclosure requirements in Update 2011-11. The amendments are effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods (See Note 7). The amendments did not have a material impact on the Company s Condensed Consolidated Financial Statements.

ASU 2013-02 Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The ASU requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The amendments did not have a material impact on the Company s Condensed Consolidated Financial Statements.

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

Forward Looking Statements

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, with respect to Horizon Bancorp (Horizon or the Company) and Horizon Bank, N.A. (the Bank). Horizon intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and is including this statement for the purposes of these safe harbor provisions. Statements in this report should be considered in conjunction with the other information available about Horizon, including the information in the other filings we make with the Securities and Exchange Commission. The forward-looking statements are based on management s expectations and are subject to a number of risks and uncertainties. We have tried, wherever possible, to identify such statements by using words such as anticipate, expect, estimate, project, intend, plan, believe, could, will and similar expressions in connecti discussion of future operating or financial performance. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements.

Actual results may differ materially, and adversely or positively, from the expectations of the Company that are expressed or implied by any forward-looking statement. Risks, uncertainties, and factors that could cause the Company s actual results to vary materially from those expressed or implied by any forward-looking statement include but not limited to:

- economic conditions and their impact on Horizon and its customers;
- changes in the level and volatility of interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity;
- estimates of fair value of certain of Horizon s assets and liabilities;
- volatility and disruption in financial markets;
- prepayment speeds, loan originations, credit losses and market values, collateral securing loans and other assets;
- sources of liquidity;
- potential risk of environmental liability related to lending activities;
- 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, including the effects resulting from the reforms enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and the adoption of regulations by regulatory bodies under the Dodd-Frank Act;

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

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

rapid technological developments and changes;

containing costs and expenses;

the slowing or failure of economic recovery;

the ability of the U.S. federal government to manage federal debt limits; and

the 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.

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Because such forward-looking statements are subject to risks and uncertainties, actual results may differ materially from those expressed or implied by such statements. The foregoing list of important factors is not exclusive, and you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or, in the case of documents incorporated by reference, the dates of those documents. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of us. For a detailed discussion of the risks and uncertainties that may cause our actual results or performance to differ materially from the results or performance expressed or implied by forward-looking statements, see Risk Factors in Item 1A of Part I of our 2012 Annual Report on Form 10-K and in the subsequent reports we file with the SEC.

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 and Central 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 and Central Indiana and Southwest Michigan, unemployment rates increased during 2009 and have remained elevated through the first three months of 2013. This rise in unemployment has been driven by multiple factors including slowdowns in commercial industries as well as a continued lower activity in the housing and construction industries. The Company s higher than historical levels of non-performing loans at March 31, 2013 and over the past two years can be attributed to the continued slow economy worldwide and continued high local unemployment, which have resulted in lower business revenues. The acquisition of Heartland on July 17, 2012, further added to the non-performing credits. Despite these economic factors and events, Horizon has continued to post record results through the first three months of 2013.

On July 17, 2012, Horizon completed the acquisition of Heartland Bancshares, Inc. and its wholly owned subsidiary, Heartland Community Bank, which was merged into Horizon Bank. Under the final terms of the acquisition, the exchange ratio was 0.81 shares of Horizon s common stock for each outstanding share of Heartland common stock. Heartland shares outstanding at the closing were 1,442,449, and the shares of Horizon common stock issued to Heartland shareholders totaled 1,168,383. Horizon s stock price was $16.83 per share at the close of business on July 17, 2012. Based upon these numbers, the total value of the consideration, including the retirement of TARP, for the acquisition was $26.9 million.

Following are some highlights of Horizon s financial performance through the first three months of 2013:

- First quarter 2013 net income was $5.3 million or $.58 diluted earnings per share, the highest quarterly net income in the Company s history.

- Net interest income, before provisions for loan losses, for the first three months of 2013 was $16.0 million compared with $13.2 million for the same period in the prior year.

Non-interest income rose to $7.5 million in first quarter of 2013 compared with $5.1 million in first quarter of 2012, primarily reflecting a significant increase in gain on sale of loans with increases also in service charges and fees, fiduciary activities and other income.

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Return on average assets was 1.23% for the first quarter of 2013.

Return on average common equity was 14.11% for the first quarter of 2013.

Total loans decreased $100.9 million during the quarter to $1.1 billion at March 31, 2013 as mortgage warehouse loans decreased $107.8 million during the same period.

Total deposits increased $20.9 million during the quarter to $1.3 billion at March 31, 2013.

Total borrowings decreased $136.9 million during the quarter to $208.9 million as the short-term funding needed for mortgage warehouse loans declined and deposits increased.

Horizon s tangible book value per share rose to $14.64 at March 31, 2013, compared to $14.24 at March 31, 2012.

Horizon Bank s capital ratios, including Tier 1 Capital to Average Assets of 8.80% and Total Capital to Risk Weighted Assets of 13.99% as of March 31, 2013, continue to be well above the regulatory standards for well-capitalized banks.

Critical Accounting Policies

The notes to the consolidated financial statements included in Item 8 of the Company s Annual Report on Form 10-K for 2012 contain a summary of the Company s significant accounting policies. Certain of these policies are important to the portrayal of the Company s financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management has identified as critical accounting policies the allowance for loan losses, intangible assets, mortgage servicing rights, hedge accounting and valuation measurements.

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 March 31, 2013, Horizon had core deposit intangibles of $3.9 million subject to amortization and $19.7 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 March 31, 2013 was $20.21 per share compared to a book value of $17.38 per common share. Horizon reported record earnings for the thirteenth consecutive year in 2012, and the first three months of 2013 were the highest quarterly net income in the Company s history.

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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 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.

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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.

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Financial Condition

On March 31, 2013, Horizon s total assets were $1.7 billion, a decrease of approximately $114.0 million compared to December 31, 2012. This decrease was primarily due to the reduction of $107.8 million in mortgage warehouse loans, partially offset by an increase in commercial loans of $12.6 million and residential mortgage loans of $1.6 million.

Investment securities were comprised of the following as of:

	March 31, 2013		December 31, 2012	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 45,974	$ 46,217	$ 51,458	$ 51,779
State and municipal	160,824	170,489	162,147	172,905
Federal agency collateralized mortgage obligations	109,727	111,235	95,337	96,831
Federal agency mortgage-backed pools	144,300	150,230	152,372	159,204
Private labeled mortgage-backed pools	1,695	1,756	1,960	2,031
Corporate notes	32	49	32	51
Total available for sale investment securities	$ 462,552	$ 479,976	$ 463,306	$ 482,801
Held to maturity, State and Municipal	$ 2,110	$ 2,110	$	$

Total investment securities decreased by approximately $715,000 at March 31, 2013 compared to December 31, 2012.

Net loans decreased $102.2 million since December 31, 2012. This decrease was primarily the result of a reduction in mortgage warehouse loans of $107.8 million and consumer loans of $7.4 million, partially offset by increases in commercial and residential mortgage loans of $12.6 million and $1.6 million, respectively. The decrease in the Company s mortgage warehousing business reflects interest rate movements, seasonality and the decline in the demand for mortgage refinance business. The decrease in consumer loans resulted from loan payments and payoffs outpacing the origination volume in the first quarter. The increase in commercial loans is the direct result of increased calling efforts to increase Horizon s market share within the Company s footprint and market expansion.

Total deposits increased $20.9 million during the first three months of 2013. This increase was the result of non-interest bearing deposit accounts increasing by $8.0 million due to increased calling and marketing efforts, interest bearing deposit accounts increasing by $8.2 million primarily due to increased consumer deposits, and time deposits increasing by $4.8 million during the first three months of 2013.

The Company s borrowings decreased $136.9 million from December 31, 2012 as the short-term funding needed for mortgage warehouse loans declined and deposits increased. At March 31, 2013, the Company had no short-term funds borrowed compared to $157.0 million at December 31, 2012. The Company reduces short-term borrowings to offset decreases in mortgage warehouse lending when it is determined that the loan demand will decrease as a result of refinancing activity. In addition, the Company s current balance sheet strategy is to utilize a reasonable level of short-term borrowings during extended low rate environments in addition to what is needed for the fluctuations in mortgage warehouse lending.

Stockholders equity totaled $162.3 million at March 31, 2013 compared to $159.0 million at December 31, 2012. The increase in stockholders equity during the period was the result of the generation of net income partially offset by a decrease in accumulated other comprehensive income and dividends declared. At March 31, 2013, the ratio of average stockholders equity to average assets was 9.16% compared to 8.71% for December 31, 2012. Book value per common share at March 31, 2013 increased to $17.38 compared to $17.00 at December 31, 2012.

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Results of Operations

Overview

Consolidated net income for the three-month period ended March 31, 2013 was $5.3 million, an increase of 15.1% from the $4.6 million for the same period in 2012. Earnings per common share for the three months ended March 31, 2013 were $0.60 basic and $0.58 diluted, compared to $0.60 basic and $0.59 diluted for the same three-month period in 2012. Diluted earnings per share decreased by $.01 compared with the same three-month period in 2012 due to an increase in dilutive shares and additional shares issued in the Heartland acquisition. Growth in commercial loans and realizing the synergies from the Heartland transaction contributed to the record earnings in the first quarter of 2013 as mortgage warehousing balances decreased.

Net Interest Income

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

The reduction in interest rates has influenced the cost of the Company s interest bearing liabilities more significantly than the reduction in the yields received on the Company s interest earning assets, resulting in an increase of the net interest margin. Management does not expect a significant rise in interest rates in the short term, but an increase in rates is expected at some time in the future due to the current historically low interest rate environment.

Net interest income during the three months ended March 31, 2013 was $16.0 million, an increase of $2.8 million over the $13.2 million earned during the same period in 2012. Yields on the Company s interest-earning assets increased by 4 basis points to 4.95% from 4.91% for the three months ended March 31, 2013 and 2012, respectively. Interest income increased $2.6 million from $16.8 million for the three months ended March 31, 2012 to $19.4 million for the same period in 2013. This increase was primarily due to an increase in interest earning assets and the recognition of approximately $2.0 million of interest income from Heartland loan discounts being accreted and loans paying off before their scheduled maturity. In addition, the asset yields on loans receivable has not declined at the same pace as some market indices partially due to interest rate floors that are in place on approximately $332.2 million of the Company s $497.0 million of adjustable rate loans.

Rates paid on interest-bearing liabilities decreased by 17 basis points for the three months ended March 31, 2013 compared to the same period in 2012 due to the lower interest rate environment. Interest expense decreased $209,000 from $3.6 million for the three months ended March 31, 2012 to $3.4 million for the same period in 2013. This decrease was due to the lower rates being paid on the Company s interest bearing liabilities. The net interest margin increased 23 basis points from 3.87% for the three months ended March 31, 2012 to 4.10% for the same period in 2013. The increase in the margin for the three-months ended March 31, 2013 compared to the same period in 2012 was due to the recognition of approximately $2.0 million of interest income from Heartland loan discounts being accreted and loans paying off before their scheduled maturity, along with a reduction in the rate paid on interest bearing liabilities. Excluding the interest income recognized from the loan discounts, the margin would have been 3.60% for the three-month period ending March 31, 2013.

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

	Three Months Ended March 31, 2013			Three Months Ended March 31, 2012		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	$ 12,639	$ 8	0.26%	$ 4,782	$ 3	0.25%
Interest-earning deposits	7,423	2	0.11%	1,971	1	0.20%
Investment securities - taxable	371,311	2,012	2.20%	344,144	2,310	2.70%
Investment securities - non-taxable (1)	120,652	967	4.33%	107,892	980	5.07%
Loans receivable (2)(3)(4)	1,105,843	16,440	6.03%	952,236	13,532	5.72%
Total interest-earning assets (1)	1,617,868	19,429	4.95%	1,411,025	16,826	4.91%
Noninterest-earning assets						
Cash and due from banks	23,745			15,785		
Allowance for loan losses	(18,425)			(19,427)		
Other assets	134,623			96,543		
	$ 1,757,811			$ 1,503,926		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	$ 1,102,599	$ 1,480	0.54%	$ 909,314	$ 1,639	0.72%
Borrowings	241,383	1,448	2.43%	292,616	1,519	2.09%
Subordinated debentures	32,370	491	6.15%	31,446	470	6.01%
Total interest-bearing liabilities	1,376,352	3,419	1.01%	1,233,376	3,628	1.18%
Noninterest-bearing liabilities						
Demand deposits	202,403			131,778		
Accrued interest payable and other liabilities	18,082			13,510		
Shareholders equity	160,974			125,262		
	$ 1,757,811			$ 1,503,926		
Net interest income/spread		$ 16,010	3.95%		$ 13,198	3.73%
Net interest income as a percent of average interest earning assets (1)			4.10%			3.87%

(1) Securities balances represent daily average balances for the fair value of securities. The average rate is calculated based on the daily average balance for the amortized cost of securities. Interest rate is presented on a tax equivalent basis.
(2) Includes fees on loans. The inclusion of loan fees does not have a material effect on the average interest rate.
(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.
(4) Loan fees and late fees included in interest on loans.

Provision for Loan Losses

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (ALLL) by regularly reviewing the performance of its loan portfolios. During the three-months ended March 31, 2013, a provision for loan losses of $2.1 million was required to adequately fund the ALLL compared to a provision of $559,000 for the same period of 2012. Commercial loan net charge-offs during the first quarter of 2013 were $347,000, residential mortgage loan net charge-offs were $140,000, and consumer loan net charge-offs were $302,000.

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The higher provision for loan losses during the three months ended March 31, 2013 was related to organic growth in the Company s loan portfolio and $1.4 million of additional loan loss provision expense related to credit losses from certain Heartland loans that exceeded the loan discounts recorded at the time of the acquisition. The ALLL balance at March 31, 2013 was $19.6 million or 1.78% of total loans. This compares to an ALLL balance of $18.3 million at December 31, 2012 or 1.52% of total loans and $19.4 million at March 31, 2012 or 1.94% of total loans. The increase in the ratio at March 31, 2013 compared to December 31, 2012 was primarily due an increase in the ALLL balance for commercial loans of $1.4 million and a decrease in total loans of $100.9 million. The decrease in the ratio at March 31, 2013 compared to March 31, 2012 was primarily due to the increase in total loans resulting from the Heartland acquisition in which loans were recorded at fair value with no allowance allocated to them at March 31, 2013.

No assurance can be given that Horizon will not, in any particular period, sustain loan losses that are significant in relation to the amount reserved, or that subsequent evaluations of the loan portfolio, in light of factors then prevailing, including economic conditions and management s ongoing quarterly assessments of the portfolio, will not require increases in the allowance for loan losses. Horizon considers the allowance for loan losses to be appropriate to cover probable incurred losses in the loan portfolio as of March 31, 2013.

Non-performing loans totaled $23.7 million on March 31, 2013, down slightly from $23.8 million on December 31, 2012, and up from $21.1 million on March 31, 2012. The increase from March 31, 2012 was due to the Heartland acquisition. Excluding Heartland loans, non-performing loans decreased to $17.3 million at March 31, 2013 from $21.1 million at March 31, 2012. As a percentage of total loans, non-performing loans were 2.16% on March 31, 2013, up from 1.97% on December 31, 2012, and 2.11% on March 31, 2012.

At March 31, 2013, loans acquired in the Heartland acquisition represented $6.4 million in non-performing, $17.7 million in substandard and $793,000 in delinquent loans, which compares to $7.3 million in non-performing, $18.1 million in substandard and $3.4 million in delinquent loans at December 31, 2012.

Other Real Estate Owned (OREO) totaled $1.8 million on March 31, 2013, down from $2.6 million on December 31, 2012 and up from $889,000 on March 31, 2012.

Other Income

The following is a summary of changes in other income:

	Three Months Ended			
	March 31 2013	**March 31 2012**	**Amount Change**	**Percent Change**
Other income				
Service charges on deposit accounts	**$ 913**	$ 712	$ 201	28.2%
Wire transfer fees	**190**	182	8	4.4%
Interchange fees	**866**	628	238	37.9%
Fiduciary activities	**1,140**	975	165	16.9%
Gain on sale of securities	**368**		368	100.0%
Gain on sale of mortgage loans	**3,106**	2,274	832	36.6%
Mortgage servicing net of impairment	**163**	90	73	81.1%
Increase in cash surrender value of bank owned life insurance	**252**	225	27	12.0%
Other income	**462**	56	406	725.0%

Total other income	**$ 7,460**	$ 5,142	$ 2,318	45.1%

Service charges on deposit accounts were $201,000 higher and interchange fees were $238,000 higher during the first quarter of 2013 compared to the same period in 2012 primarily due to an increase in transaction

HORIZON BANCORP AND SUBSIDIARIES

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And Results of Operations

For the Three Months Ended March 31, 2013

accounts and volume. Fiduciary activities increased $165,000 during the first quarter compared to the same period in 2012 due to customer and market value growth. In addition, Horizon incurred a gain on the sale of securities of $368,000 during the first quarter as the result of an analysis that determined that market conditions provided the opportunity to add gains to capital without negatively impacting long-term earnings. The residential mortgage loan activity during the first quarter of 2013 generated $3.1 million of income from the gain on sale of mortgage loans, up $832,000 from the same period in 2012. This increase was due to more favorable pricing on loans sold and additional volume. Loans originated for sale during the first quarter of 2013 were $95.0 million compared to $80.3 million for the same period in 2012. Other income increased $406,000 primarily due to $238,000 of gains on the sale of other real estate owned and $87,000 of recoveries from loans that had been charged off by Heartland prior to the acquisition.

Other Expense

The following is a summary of changes in other expense:

	Three Months Ended			
	March 31 2013	**March 31 2012**	**Amount Change**	**Percent Change**
Other expense				
Salaries	**$ 5,179**	$ 3,934	$ 1,245	31.6%
Commission and bonuses	**1,039**	846	193	22.8%
Employee benefits	**1,286**	1,183	103	8.7%
Net occupancy expenses	**1,311**	1,054	257	24.4%
Data processing	**600**	526	74	14.1%
Professional fees	**499**	534	(35)	-6.6%
Outside services and consultants	**712**	471	241	51.2%
Loan expense	**1,114**	702	412	58.7%
FDIC deposit insurance	**283**	257	26	10.1%
Other losses	**(72)**	30	(102)	-340.0%
Other expenses	**2,028**	1,623	405	25.0%
Total other expense	**$ 13,979**	$ 11,160	$ 2,819	25.3%

Total other expenses were $2.8 million higher in the first quarter of 2013 compared to the first quarter of 2012. Salaries, commissions and employee benefits increased $1.5 million compared to the same quarter in 2012 primarily due to changes to annual merit pay, employee benefits costs, commissions earned and bonus accruals. In addition, compensation and net occupancy expenses were higher due to the Heartland acquisition and directly related to Horizon s investment in growth markets. The increase in the first quarter of 2013 in outside services and consultants of $241,000 compared to the same quarter in the prior year was due to growth and increased products and services provided by the Company. The increase in loan expense during the first quarter of 2013 compared to the prior year was related to an increase in loan origination, collection and workout costs. Other losses improved $102,000 year over year due to the reversal of a previously required reserve for potential repurchases of sold loans that were resolved without a loss. Other expenses increased $405,000 in the first quarter of 2013 compares to the same period in 2012 primarily due to the Company s growth and expansion efforts.

Income Taxes

Income tax expense for the first quarter of 2013 was $2.1 million compared to $2.0 million of tax expense for same period of 2012. The effective tax rate for the first quarter of 2013 was 28.3% compared to 30.3% in the same period of 2012. The decrease in the effective tax rate is primarily due to tax planning strategies implemented in the first quarter of 2013 including a captive real estate investment trust subsidiary (REIT) and a captive insurance subsidiary reducing both the federal and state tax liabilities.

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Liquidity

The Bank maintains a stable base of core deposits provided by long-standing relationships with individuals and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon include earnings, loan repayment, investment security sales and maturities, proceeds from the sale of residential mortgage loans, and borrowing relationships with correspondent banks, including the FHLB. During the three months ended March 31, 2013, cash and cash equivalents decreased by approximately $3.7 million. At March 31, 2013, in addition to liquidity available from the normal operating, funding, and investing activities of Horizon, the Bank had approximately $435.5 million in unused credit lines with various money center banks, including the FHLB and the FRB Discount Window compared to $349.6 million at December 31, 2012 and $333.4 million at March 31, 2012.

Capital Resources

The capital resources of Horizon and the Bank exceeded regulatory capital ratios for well capitalized banks at March 31, 2013. Stockholders equity totaled $162.3 million as of March 31, 2013, compared to $159.0 million as of December 31, 2012. For the three months ended March 31, 2013, the ratio of average stockholders equity to average assets was 9.16% compared to 8.71% for the three months ended December 31, 2012. The increase in stockholders equity during the period was the result of the generation of net income partially offset by a decrease in accumulated other comprehensive income, net of dividends declared.

The Company currently intends to continue its participation in the Small Business Lending Fund, pursuant to which it issued preferred stock to the US Treasury, since the growth in the Company s small business lending has reduced the dividend cost. For the three months ending March 31, 2013, the dividend cost was approximately $146,000, or 4.7% annualized. For the second quarter of 2013, the dividend cost will be approximately $141,000 or 4.5% annualized and for the third quarter of 2013, the dividend cost will be approximately $62,500 or 2.0% annualized. The Company plans to reserve cash for the ability to redeem this preferred stock if and when the cost of this capital exceeds other forms of capital.

Horizon declared common stock dividends in the amount of $0.10 per share during the first three months of 2013 compared to $0.09 for the same period of 2012. The dividend payout ratio (dividends as a percent of basic earnings per share) was 16.7% and 14.5% for the first three months of 2013 and 2012, respectively. For additional information regarding dividends, see Horizon s Annual Report on Form 10-K for 2012.

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HORIZON BANCORP AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market Risk

For the Three Months Ended March 31, 2013

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Refer to Horizon s 2012 Annual Report on Form 10-K for analysis of its interest rate sensitivity. Horizon believes there have been no significant changes in its interest rate sensitivity since it was reported in its 2012 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

Based on an evaluation of disclosure controls and procedures as of March 31, 2013, Horizon s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Horizon s disclosure controls (as defined in Exchange Act Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)). Based on such evaluation, such officers have concluded that, as of the evaluation date, Horizon s disclosure controls and procedures are effective to ensure that the information required to be disclosed by Horizon in the reports it files under the Exchange Act is recorded, processed, summarized and reported within the time specified in Securities and Exchange Commission rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure.

Changes In Internal Control Over Financial Reporting

Horizon s management, including its Chief Executive Officer and Chief Financial Officer, also have concluded that during the fiscal quarter ended March 31, 2013, there have been no changes in Horizon s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Horizon s internal control over financial reporting.

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Part II Other Information

For the Three Months Ended March 31, 2013

ITEM 1. LEGAL PROCEEDINGS

Horizon and its subsidiaries are involved in various legal proceedings incidental to the conduct of their business. Management does not expect that the outcome of any such proceedings will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 1A. RISK FACTORS

There have been no material changes from the factors previously disclosed under Item 1A of Horizon s Annual Report on Form 10-K for 2012.

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

Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

Not Applicable

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HORIZON BANCORP AND SUBSIDIARIES

Part II Other Information

For the Three Months Ended March 31, 2013

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit No.	Description
3	Amended and Restated Bylaws, as amended through April 16, 2013
31.1	Certification of Craig M. Dwight
31.2	Certification of Mark E. Secor
32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files*

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

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SIGNATURES

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

	HORIZON BANCORP
Dated: May 8, 2013	/s/ Craig M. Dwight Craig M. Dwight Chief Executive Officer
Dated: May 8, 2013	/s/ Mark E. Secor Mark E. Secor Chief Financial Officer

INDEX TO EXHIBITS

Exhibit No.	Description	Location
3	Amended and Restated Bylaws, as amended through April 16, 2013	Incorporated by reference to Exhibit 3.1 to the Registrant s Form 8-K filed on April 18, 2013
Exhibit 31.1	Certification of Craig M. Dwight	Attached
Exhibit 31.2	Certification of Mark E. Secor	Attached
Exhibit 32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached
Exhibit 101	Interactive Data Files*	Attached

* 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.