HORIZON BANCORP /IN/
Form 10-Q
November 09, 2015
Table of Contents

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 September 30, 2015

Commission file number 0-10792

HORIZON BANCORP

(Exact name of registrant as specified in its charter)

Indiana	**35-1562417**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**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: 11,932,887 shares of Common Stock, no par value, at November 9, 2015.

Table of Contents

HORIZON BANCORP

FORM 10-Q

INDEX

Table of Contents

PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollar Amounts in Thousands)

	September 30 2015 (Unaudited)	December 31 2014
Assets		
Cash and due from banks	**$ 48,155**	$ 43,476
Investment securities, available for sale	**435,673**	323,764
Investment securities, held to maturity (fair value of $188,574 and $169,904)	**182,187**	165,767
Loans held for sale	**5,583**	6,143
Loans, net of allowance for loan losses of $16,168 and $16,501	**1,710,322**	1,362,053
Premises and equipment, net	**60,700**	52,461
Federal Reserve and Federal Home Loan Bank stock	**13,823**	11,348
Goodwill	**49,600**	28,176
Other intangible assets	**7,648**	3,965
Interest receivable	**10,862**	8,246
Cash value of life insurance	**54,148**	39,382
Other assets	**29,213**	32,141
Total assets	**$ 2,607,914**	$ 2,076,922
Liabilities		
Deposits		
Non-interest bearing	**$ 338,436**	$ 267,667
Interest bearing	**1,574,639**	1,214,652
Total deposits	**1,913,075**	1,482,319
Borrowings	**373,901**	351,198
Subordinated debentures	**32,758**	32,642
Interest payable	**490**	497
Other liabilities	**22,952**	15,852
Total liabilities	**2,343,176**	1,882,508
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, 11,987,424 and 9,278,916 shares Outstanding, 11,931,987 and 9,213,036 shares		
Additional paid-in capital	**106,083**	45,916
Retained earnings	**144,344**	134,477
Accumulated other comprehensive income	**1,811**	1,521
Total stockholders equity	**264,738**	194,414
Total liabilities and stockholders equity	**$ 2,607,914**	$ 2,076,922

See notes to condensed consolidated financial statements

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)
Interest Income				
Loans receivable	**$ 20,297**	$ 16,403	**$ 55,140**	$ 45,988
Investment securities				
Taxable	**2,156**	2,339	**6,377**	7,124
Tax exempt	**1,125**	1,109	**3,281**	3,328
Total interest income	**23,578**	19,851	**64,798**	56,440
Interest Expense				
Deposits	**1,566**	1,352	**4,035**	3,984
Borrowed funds	**1,729**	1,593	**4,747**	4,493
Subordinated debentures	**507**	506	**1,504**	1,503
Total interest expense	**3,802**	3,451	**10,286**	9,980
Net Interest Income	**19,776**	16,400	**54,512**	46,460
Provision for loan losses	**300**	1,741	**2,820**	2,080
Net Interest Income after Provision for Loan Losses	**19,476**	14,659	**51,692**	44,380
Non-interest Income				
Service charges on deposit accounts	**1,359**	1,076	**3,443**	3,037
Wire transfer fees	**160**	151	**493**	408
Interchange fees	**1,625**	1,223	**4,093**	3,436
Fiduciary activities	**1,520**	1,131	**4,033**	3,378
Gain on sale of investment securities (includes $0 for the three months ended and $124 for the nine months ended September 30, 2015 and $988 for the three and nine months ended September 30, 2014, related to accumulated other comprehensive earnings reclassifications)		988	**124**	988
Gain on sale of mortgage loans	**2,794**	2,153	**7,815**	6,101
Mortgage servicing income net of impairment	**246**	116	**725**	556
Increase in cash value of bank owned life insurance	**374**	296	**889**	781
Death benefit on bank owned life insurance			**145**	
Other income	**322**	256	**892**	854

Total non-interest income	**8,400**	7,390	**22,652**	19,539
Non-interest Expense				
Salaries and employee benefits	**10,652**	8,215	**27,541**	23,991
Net occupancy expenses	**1,723**	1,404	**4,649**	4,188
Data processing	**1,281**	907	**3,170**	2,714
Professional fees	**409**	358	**1,596**	1,385
Outside services and consultants	**3,209**	595	**4,753**	2,554
Loan expense	**1,351**	1,202	**3,975**	3,489
FDIC insurance expense	**423**	313	**1,099**	854
Other losses	**246**	(35)	**351**	98
Other expense	**2,941**	2,394	**7,819**	7,002
Total non-interest expense	**22,235**	15,353	**54,953**	46,275
Income Before Income Tax	**5,641**	6,696	**19,391**	17,644
Income tax expense (includes $0 for the three months ended and $43 for the nine months ended September 30, 2015 and $346 for the three and nine months ended September 30, 2014, related to income tax expense from reclassification items)	**1,353**	1,738	**5,017**	4,491
Net Income	**4,288**	4,958	**14,374**	13,153
Preferred stock dividend	**(31)**	(40)	**(94)**	(102)
Net Income Available to Common Shareholders	**$ 4,257**	$ 4,918	**$ 14,280**	$ 13,051
Basic Earnings Per Share	**$ 0.37**	$ 0.53	**$ 1.42**	$ 1.45
Diluted Earnings Per Share	**0.36**	0.51	**1.37**	1.39

See notes to condensed consolidated financial statements

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Dollar Amounts in Thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2015 (Unaudited)	**2014 (Unaudited)**	**2015 (Unaudited)**	**2014 (Unaudited)**
Net Income	**$ 4,288**	$ 4,958	**$ 14,374**	$ 13,153
Other Comprehensive Income (Loss)				
Change in fair value of derivative instruments:				
Change in fair value of derivative instruments for the period	**(516)**	373	**(334)**	(169)
Income tax effect	**181**	(131)	**117**	59
Changes from derivative instruments	**(335)**	242	**(217)**	(110)
Change in securities:				
Unrealized appreciation (depreciation) for the period on AFS securities	**1,781**	(6,039)	**1,131**	723
Unrealized depreciation for the period on held-to-maturity	**(203)**	2,283	**(475)**	2,175
Reclassification adjustment for securities gains realized in income		988	**124**	988
Income tax effect	**(552)**	969	**(273)**	(1,360)
Unrealized gains (losses) on securities	**1,026**	(1,799)	**507**	2,526
Other Comprehensive Income (Loss), Net of Tax	**691**	(1,557)	**290**	2,416
Comprehensive Income	**$ 4,979**	$ 3,401	**$ 14,664**	$ 15,569

See notes to condensed consolidated financial statements

5

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders Equity

(Unaudited)

(Dollar Amounts in Thousands, Except Per Share Data)

	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balances, January 1, 2015	**$ 12,500**	**$ 45,916**	**$ 134,477**	**$ 1,521**	**$ 194,414**
Net income			14,374		14,374
Other comprehensive income, net of tax				290	290
Amortization of unearned compensation		267			267
Exercise of stock options		319			319
Exercise of stock warrants		3,751			3,751
Tax benefit related to stock options		108			108
Stock option expense		216			216
Stock issued from acquisition		55,506			55,506
Cash dividends on preferred stock (1.00%)			(94)		(94)
Cash dividends on common stock ($.43 per share)			(4,413)		(4,413)
Balances, September 30, 2015	**$ 12,500**	**$ 106,083**	**$ 144,344**	**$ 1,811**	**$ 264,738**

See notes to condensed consolidated financial statements

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Dollar Amounts in Thousands)

	Nine Months Ended September 30 2015 (Unaudited)	2014 (Unaudited)
Operating Activities		
Net income	**$ 14,374**	$ 13,153
Items not requiring (providing) cash		
Provision for loan losses	**2,820**	2,080
Depreciation and amortization	**3,020**	2,806
Share based compensation	**216**	145
Mortgage servicing rights net (recovery) impairment	**389**	(28)
Premium amortization on securities available for sale, net	**2,192**	1,733
Gain on sale of investment securities	**(124)**	(988)
Gain on sale of mortgage loans	**(7,815)**	(6,101)
Proceeds from sales of loans	**247,512**	169,858
Loans originated for sale	**(239,137)**	(164,643)
Change in cash value of life insurance	**(868)**	(745)
Gain on sale of other real estate owned	**(214)**	(176)
Net change in		
Interest receivable	**(1,337)**	(563)
Interest payable	**(28)**	(50)
Other assets	**(61)**	2,251
Other liabilities	**1,020**	327
Net cash provided by operating activities	**21,959**	19,059
Investing Activities		
Purchases of securities available for sale	**(170,391)**	(77,164)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**61,785**	99,805
Purchases of securities held to maturity	**(26,128)**	(4,839)
Proceeds from maturities of securities held to maturity	**7,155**	7,900
Purchase of Federal Reserve Bank stock		(592)
Proceeds from the sale of FHLB stock	**268**	
Net change in loans	**(123,326)**	(154,677)
Proceeds on the sale of OREO and repossessed assets	**2,425**	2,378
Purchases of premises and equipment	**(4,757)**	(4,086)
Acquisition of SCB		7,894
Acquisition of Peoples	**182,413**	
Purchase of Mortgage Company		(735)

Net cash used in investing activities	**(70,556)**	(124,116)
Financing Activities		
Net change in		
Deposits	**79,669**	37,124
Borrowings	**(26,064)**	76,944
Proceeds from issuance of stock	**4,178**	128
Dividends paid on common shares	**(4,413)**	(3,440)
Dividends paid on preferred shares	**(94)**	(102)
Net cash provided by financing activities	**53,276**	110,654
Net Change in Cash and Cash Equivalents	**4,679**	5,597
Cash and Cash Equivalents, Beginning of Period	**43,476**	31,721
Cash and Cash Equivalents, End of Period	**$ 48,155**	$ 37,318
Additional Supplemental Information		
Interest paid	**$ 10,292**	$ 10,009
Income taxes paid	**4,900**	1,600
Transfer of loans to other real estate owned	**2,825**	3,078
Transfer of available-for -sale securities to held-to-maturity		167,047
The Company purchased all of the capital stock of Peoples for $78,147 on July 1, 2015 and of Summit for $18,896 on April 3, 2014. In conjunction with the acquisition, liabilities were assumed as follows:		
Fair value of assets acquired	**485,077**	158,585
Cash paid to retire debt		1,029
Cash paid for the capital stock	**22,641**	6,207
Less: common stock issued	**55,506**	12,689
Liabilities assumed	**406,930**	138,660

See notes to condensed consolidated financial statements

Table of Contents

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 unaudited condensed consolidated financial statements include the accounts of Horizon Bancorp (Horizon or the Company) and its wholly-owned subsidiaries, including Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended September 30, 2015 and September 30, 2014 are not necessarily indicative of the operating results for the full year of 2015 or 2014. 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 2014 filed with the Securities and Exchange Commission on March 13, 2015. The condensed consolidated balance sheet of Horizon as of December 31, 2014 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 September 30		**Nine Months Ended September 30**	
	2015 (Unaudited)	**2014 (Unaudited)**	**2015 (Unaudited)**	**2014 (Unaudited)**
Basic earnings per share				
Net income	**$ 4,288**	$ 4,958	**$ 14,374**	$ 13,153
Less: Preferred stock dividends	**31**	40	**94**	102
Net income available to common shareholders	**$ 4,257**	$ 4,918	**$ 14,280**	$ 13,051
Weighted average common shares outstanding	**11,605,976**	9,208,707	**10,029,419**	9,009,663
Basic earnings per share	**$ 0.37**	$ 0.53	**$ 1.42**	$ 1.45
Diluted earnings per share				
Net income available to common shareholders	**$ 4,257**	$ 4,918	**$ 14,280**	$ 13,051

Weighted average common shares outstanding	**11,605,976**	9,208,707	**10,029,419**	9,009,663
Effect of dilutive securities:				
Warrants	**214,592**	309,790	**290,669**	308,647
Restricted stock	**33,471**	36,387	**30,728**	37,127
Stock options	**39,215**	33,448	**36,297**	33,922
Weighted average shares outstanding	**11,893,254**	9,588,332	**10,387,113**	9,389,359
Diluted earnings per share	**$ 0.36**	$ 0.51	**$ 1.37**	$ 1.39

There were 2,500 shares for both the three and nine months ended September 30, 2015, respectively, and 46,766 shares for both the three and nine months ended September 30, 2014 which were not included in the computation of diluted earnings per share because they were non-dilutive.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2014 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the 2014 condensed consolidated financial statements to be comparable to 2015. These reclassifications had no effect on net income.

Note 2 Acquisitions

On July 1, 2015, Horizon completed the acquisition of Peoples Bancorp, an Indiana corporation (Peoples) and Horizon Bank N.A. s acquisition of Peoples Federal Savings Bank of DeKalb County (Peoples FSB), through mergers effective July 1, 2015. Under the terms of the acquisition, the exchange ratio was 0.95 shares of Horizon common stock (the Exchange Ratio) and $9.75 in cash for each outstanding share of Peoples common stock. Peoples shareholders owning fewer than 100 shares of common stock received $33.14 in cash for each common share. Peoples shares outstanding at the closing were 2,311,858, and the shares of Horizon common stock issued to Peoples shareholders totaled 2,192,202. Horizon s stock price was $25.32 per share at the close of business on July 1, 2015. Based upon these numbers, the total value of the consideration for the acquisition was $78.1 million. The Company had approximately $4.4 million in costs related to the acquisition as of September 30, 2015. These expenses are classified in the other expense section of the income statement and 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 Peoples 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 final purchase price for the Peoples acquisition is allocated as follows:

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

ASSETS		**LIABILITIES**	
Cash and due from banks	$ 205,054	Deposits	
Investment securities, held to maturity	2,038	Non-interest bearing	$ 28,251
		NOW accounts	65,771
Commercial	67,435	Savings and money market	125,176
Residential mortgage	137,331	Certificates of deposits	131,889
Consumer	19,593	Total deposits	351,087
Total loans	224,359		
		Borrowings	48,884
Premises and equipment, net	5,524	Interest payable	21
FRB and FHLB stock	2,743	Other liabilities	6,938
Goodwill	21,424		
Core deposit intangible	4,394		
Interest receivable	1,279		
Cash value of life insurance	13,898		
Other assets	4,364		
Total assets purchased	$ 485,077	Total liabilities assumed	$ 406,930
Common shares issued	$ 55,506		
Cash paid	22,641		
Total estimated purchase price	$ 78,147		

Of the total purchase price of $78.1 million, $4.4 million has been allocated to core deposit intangible. Additionally, $21.0 million has been allocated to goodwill and none of the purchase price is deductible. The core deposit intangible will be amortized over seven years on a straight line basis.

The Company acquired the $229.1 million loan portfolio at a fair value discount of $4.8 million. The performing portion of the portfolio, $223.4 million, had an estimated fair value of $220.0 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.

The Company acquired certain 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.

The 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 non-accrual 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.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Loan with specific credit-related deterioration, since origination, 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 as of July 1, 2015.

Contractually required principal and interest at acquisition	$ 5,730
Contractual cash flows not expected to be collected (nonaccretable differences)	715
Expected cash flows at acquisition	5,015
Interest component of expected cash flows (accretable discount)	647
Fair value of acquired loans accounted for under ASC 310-30	$ 4,368

The results of operations of Peoples and Peoples FSB have been included in the Company s consolidated financial statements since the acquisition dates. The following schedule includes pro forma results for the periods ended September 30, 2015 and December 31, 2014 as if the Peoples and Peoples FSB acquisitions had occurred as of the beginning of the comparable prior reporting period.

(in thousands except per share data)	December 31, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Summary of Operations:			
Net Interest Income	$ 75,442	**$ 60,466**	$ 55,850
Provision for Loan Losses	3,443	**2,880**	2,420
Net Interest Income after Provision for Loan Losses	71,999	**57,586**	53,430
Non-interest Income	29,928	**24,545**	22,458
Non-Interest Expense	74,010	**61,192**	55,489
Income before Income Taxes	27,917	**20,939**	20,399
Income Tax Expense	6,561	**5,164**	4,846
Net Income	21,356	**15,776**	15,553
Net Income Available to Common Shareholders	$ 21,223	**$ 15,682**	$ 15,562

Per Share Data			
Net Income	$ 1.82	**$ 1.33**	$ 1.32

The pro forma information includes adjustments for interest income on loans, amortization of intangibles arising from the transaction, interest expense on deposits acquired, premises expense for the banking centers acquired and the related income tax effects. The pro forma information for the nine months ended 2015 includes $1.3 million, net of tax, of operating revenue from Peoples since the acquisition and approximately $3.0 million, net of tax, of non-recurring expenses directly attributable to the Peoples acquisition.

The pro forma financial information is presented for information purposes only and is not indicative of the results of operations that actually would have been achieved had the acquisition consummated as of that time, nor is it intended to be a projection of future results.

On April 3, 2014, Horizon closed its acquisition of SCB Bancorp, Inc. (Summit) and Horizon Bank N.A. s acquisition of Summit Community Bank, through mergers effective as of that date. Under the final terms of the acquisition, the exchange ratio was 0.4904 shares of Horizon s common stock and $5.15 in cash for each share of Summit common stock outstanding. Summit shares outstanding at the closing were 1,164,442, and the shares of Horizon common stock issued to Summit shareholders totaled 570,820. Horizon s stock price

11

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

was $22.23 per share at the close of business on April 3, 2014. Based upon these numbers, the total value of the consideration for the acquisition was $18.9 million (not including the retirement of Summit debt). The Company had approximately $1.3 million in costs related to the acquisition. These expenses are classified in the other expense section of the income statement and 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 Summit 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 final purchase price for the Summit acquisition is allocated as follows:

ASSETS		**LIABILITIES**	
Cash and due from banks	$ 15,161	Deposits	
		Non-interest bearing	$ 27,274
Commercial	70,441	NOW accounts	16,332
Residential mortgage	43,448	Savings and money market	35,045
Consumer	10,192	Certificates of deposits	42,368
Total loans	124,081	Total deposits	121,019
Premises and equipment, net	2,548	Borrowings	16,990
FRB and FHLB stock	2,136	Interest payable	52
Goodwill	8,428	Other liabilities	599
Core deposit intangible	822		
Interest receivable	347		
Cash value of life insurance	2,185		
Other assets	2,877		
Total assets purchased	$ 158,585	Total liabilities assumed	$ 138,660
Common shares issued	$ 12,689		
Cash paid	6,207		
Retirement of Holding Company Debt	1,029		
Total estimated purchase price	$ 19,925		

Of the total purchase price of $19.9 million, $822,000 has been allocated to core deposit intangible. Additionally, $8.4 million has been allocated to goodwill and $4.4 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 the $130.5 million loan portfolio at a fair value discount of $6.4 million. The performing portion of the portfolio, $106.2 million, had an estimated fair value of $104.6 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.

The Company acquired certain 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.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

The 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 non-accrual 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.

Loans with specific credit-related deterioration, since origination, 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 as of April 3, 2014.

Contractually required principal and interest at acquisition	$ 14,460
Contractual cash flows not expected to be collected (nonaccretable differences)	3,146
Expected cash flows at acquisition	11,314
Interest component of expected cash flows (accretable discount)	1,688
Fair value of acquired loans accounted for under ASC 310-30	$ 9,626

Pro-forma statements were not presented due to the materiality of the transaction.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 3 Securities

The fair value of securities is as follows:

September 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 24,724	$ 45	$ (14)	$ 24,755
State and municipal	58,467	1,349	(35)	59,781
Federal agency collateralized mortgage obligations	134,494	1,426	(353)	135,567
Federal agency mortgage-backed pools	212,718	3,179	(381)	215,516
Corporate notes	32	22		54
Total available for sale investment securities	$ 430,435	$ 6,021	$ (783)	$ 435,673
Held to maturity				
U.S. Treasury and federal agencies	$ 5,852	$ 136	$	$ 5,988
State and municipal	142,763	5,262	(177)	147,848
Federal agency collateralized mortgage obligations	9,356	59	(12)	9,403
Federal agency mortgage-backed pools	24,216	1,208	(89)	25,335
Total held to maturity investment securities	$ 182,187	$ 6,665	$ (278)	$ 188,574

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 26,996	$ 56	$ (229)	$ 26,823
State and municipal	46,535	1,462	(45)	47,952
Federal agency collateralized mortgage obligations	122,930	975	(1,045)	122,860
Federal agency mortgage-backed pools	122,583	3,172	(360)	125,395
Private labeled mortgage-backed pools	670	19		689

Corporate notes	32	13		45
Total available for sale investment securities	$ 319,746	$ 5,697	$ (1,679)	$ 323,764
Held to maturity				
U.S. Treasury and federal agencies	$ 9,804	$ 82	$	$ 9,886
State and municipal	129,595	3,398	(106)	132,887
Federal agency collateralized mortgage obligations	4,039	35	(1)	4,073
Federal agency mortgage-backed pools	22,329	729		23,058
Total held to maturity investment securities	$ 165,767	$ 4,244	$ (107)	$ 169,904

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 and held-to-maturity, Horizon intends, and has the ability, to hold them until the earlier of a recovery in fair value or maturity.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At September 30, 2015, 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, U.S. Treasury and federal agencies, federal agency collateralized mortgage obligations, and federal agency mortgage-backed pools were caused by interest rate volatility and not a decline in credit quality. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The Company expects to recover the amortized cost basis over the

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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 September 30, 2015.

The Company elected to transfer 319 available-for-sale (AFS) securities with an aggregate fair value of $167.1 million to a classification of held-to-maturity (HTM) on April 1, 2014. In accordance with FASB ASC 320-10-55-24, the transfer from AFS to HTM must be recorded at the fair value of the AFS securities at the time of transfer. The net unrealized holding gain of $1.3 million, net of tax, at the date of transfer was retained in accumulated other comprehensive income, with the associated pre-tax amount retained in the carrying value of the HTM securities. Such amounts will be amortized to comprehensive income over the remaining life of the securities. The fair value of the transferred AFS securities became the book value of the HTM securities at April 1, 2014, with no unrealized gain or loss at this date. Future reporting periods, with potential changes in market value for these securities, would likely record an unrealized gain or loss for disclosure purposes.

The amortized cost and fair value of securities available for sale and held to maturity at September 30, 2015 and December 31, 2014, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Within one year	$ 7,335	$ 7,365	$ 6,098	$ 6,169
One to five years	51,574	52,460	44,720	45,093
Five to ten years	16,991	17,343	16,147	16,768
After ten years	7,323	7,422	6,598	6,790
	83,223	84,590	73,563	74,820
Federal agency collateralized mortgage obligations	134,494	135,567	122,930	122,860
Federal agency mortgage-backed pools	212,718	215,516	122,583	125,395
Private labeled mortgage-backed pools			670	689
Total available for sale investment securities	$ 430,435	$ 435,673	$ 319,746	$ 323,764
Held to maturity				
Within one year	$	$	$	$

One to five years	14,682	15,285	592	593
Five to ten years	101,152	105,151	99,225	101,323
After ten years	32,781	33,400	39,582	40,857
	148,615	153,836	139,399	142,773
Federal agency collateralized mortgage obligations	9,356	9,403	4,039	4,073
Federal agency mortgage-backed pools	24,216	25,335	22,329	23,058
Total held to maturity investment securities	$ 182,187	$ 188,574	$ 165,767	$ 169,904

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.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

	Less than 12 Months		12 Months or More		Total	
September 30, 2015	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury and federal agencies	$ 5,995	$ (2)	$ 7,979	$ (12)	$ 13,973	$ (14)
State and municipal	19,967	(207)	736	(4)	20,704	(212)
Federal agency collateralized mortgage obligations	10,178	(54)	27,071	(311)	37,250	(365)
Federal agency mortgage-backed pools	31,473	(328)	24,005	(142)	55,478	(470)
Total temporarily impaired securities	$ 67,613	$ (591)	$ 59,791	$ (469)	$ 127,405	$ (1,061)

	Less than 12 Months		12 Months or More		Total	
December 31, 2014	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury and federal agencies	$ 2,993	$ (7)	$ 20,762	$ (222)	$ 23,755	$ (229)
State and municipal	10,287	(121)	2,050	(30)	12,337	(151)
Federal agency collateralized mortgage obligations	15,013	(88)	39,801	(957)	54,814	(1,045)
Federal agency mortgage-backed pools	5,993	(9)	28,044	(351)	34,037	(360)
Total temporarily impaired securities	$ 34,286	$ (225)	$ 90,657	$ (1,560)	$ 124,943	$ (1,785)

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	**2014**	**2015**	**2014**
Sales of securities available for sale (Unaudited)				
Proceeds	$	$ 45,228	$ 13,332	$ 45,228
Gross gains		1,001	147	1,001
Gross losses		(13)	(23)	(13)

Note 4 Loans

	September 30	December 31

	2015	2014
Commercial		
Working capital and equipment	**$ 369,575**	$ 300,940
Real estate, including agriculture	**393,837**	343,455
Tax exempt	**8,829**	8,595
Other	**23,030**	21,324
Total	**795,271**	674,314
Real estate		
1 4 family	**426,952**	250,799
Other	**3,975**	3,826
Total	**430,927**	254,625
Consumer		
Auto	**170,032**	154,538
Recreation	**5,660**	5,673
Real estate/home improvement	**44,608**	38,288
Home equity	**128,498**	112,426
Unsecured	**4,051**	3,613
Other	**8,449**	5,921
Total	**361,298**	320,459
Mortgage warehouse	**138,974**	129,156
Total loans	**1,726,470**	1,378,554
Allowance for loan losses	**(16,168)**	(16,501)
Loans, net	**$ 1,710,302**	$ 1,362,053

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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 affected by conditions in the real estate markets, the general economy or fluctuations in interest rates. 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 its 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.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

September 30, 2015	**Loan Balance**	**Interest Due**	**Deferred Fees / (Costs)**	**Recorded Investment**
Owner occupied real estate	$ 273,820	$ 944	$ 1,385	$ 276,149
Non owner occupied real estate	314,680	278	474	315,432
Residential spec homes	3,049	7	18	3,074
Development & spec land loans	18,394	34	28	18,456
Commercial and industrial	183,060	3,288	363	186,711
Total commercial	793,003	4,551	2,268	799,822
Residential mortgage	408,360	1,318	2,499	412,177
Residential construction	20,069	37		20,106
Mortgage warehouse	138,974	480		139,454
Total real estate	567,403	1,835	2,499	571,737
Direct installment	50,410	158	(370)	50,198
Direct installment purchased	171			171
Indirect installment	153,786	307		154,093
Home equity	157,705	625	(404)	157,926
Total consumer	362,072	1,090	(774)	362,388
Total loans	1,722,478	7,476	3,993	1,733,947
Allowance for loan losses	(16,168)			(16,168)
Net loans	$ 1,706,310	$ 7,476	$ 3,993	$ 1,717,779

December 31, 2014	**Loan Balance**	**Interest Due**	**Deferred Fees / (Costs)**	**Recorded Investment**
Owner occupied real estate	$ 228,380	$ 385	$ 680	$ 229,445
Non owner occupied real estate	297,299	309	506	298,114
Residential spec homes	2,027	2		2,029
Development & spec land loans	12,097	28	30	12,155
Commercial and industrial	133,256	859	39	134,154

Total commercial	673,059	1,583	1,255	675,897
Residential mortgage	242,521	737	599	243,857
Residential construction	11,505	21		11,526
Mortgage warehouse	129,156	480		129,636
Total real estate	383,182	1,238	599	385,019
Direct installment	40,137	129	(375)	39,891
Direct installment purchased	219			219
Indirect installment	141,868	314	(163)	142,019
Home equity	139,007	568	(234)	139,341
Total consumer	321,231	1,011	(772)	321,470
Total loans	1,377,472	3,832	1,082	1,382,386
Allowance for loan losses	(16,501)			(16,501)
Net loans	$ 1,360,971	$ 3,832	$ 1,082	$ 1,365,885

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 5 Accounting for Certain Loans Acquired in a Transfer

The Company acquired loans in acquisitions 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 non-accrual 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 carrying amounts of those loans included in the balance sheet amounts of loans receivable are as follows:

	September 30 2015 Heartland	September 30 2015 Summit	September 30 2015 Peoples	September 30 2015 Total
Commercial	$ 2,283	$ 5,742	$ 1,841	$ 9,866
Real estate	759	1,427	584	2,770
Consumer	8	37		45
Outstanding balance	$ 3,050	$ 7,206	$ 2,425	$ 12,681
Carrying amount, net of allowance of $272				$ 12,409

	December 31 2014 Heartland	December 31 2014 Summit	December 31 2014 Peoples	December 31 2014 Total
Commercial	$ 5,492	$ 7,725	$	$ 13,217
Real estate	900	1,458		2,358
Consumer	8	43		51

Outstanding balance	$ 6,400	$ 9,226	$	$ 15,626
Carrying amount, net of allowance of $359				$ 15,267

Accretable yield, or income expected to be collected for the nine months ended September 30, is as follows:

	Nine Months Ended September 30, 2015			
	Heartland	**Summit**	**Peoples**	**Total**
Balance at January 1	$ 2,400	$ 1,268	$	$ 3,668
Additions			647	647
Accretion	(272)	(254)		(526)
Reclassification from nonaccretable difference				
Disposals	(1,210)	(237)		(1,447)
Balance at September 30	$ 918	$ 777	$ 647	$ 2,342

	Nine Months Ended September 30, 2014			
	Heartland	**Summit**	**Peoples**	**Total**
Balance at January 1	$ 3,185	$	$	$ 3,185
Additions		1,758		1,758
Accretion	(288)			(288)
Reclassification from nonaccretable difference				
Disposals	(95)			(95)
Balance at September 30	$ 2,802	$ 1,758	$	$ 4,560

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

During the nine months ended September 30, 2015 and 2014, the Company decreased the allowance for loan losses on purchased loans by a recovery to the income statement of $87,000 and $0, respectively.

Note 6 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 September 30		Nine Months Ended September 30	
	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)
Balance at beginning of the period	$ 16,421	$ 15,660	$ 16,501	$ 15,992
Loans charged-off:				
Commercial				
Owner occupied real estate	56		1,478	
Non owner occupied real estate			16	22
Residential development				
Development & Spec Land Loans				173
Commercial and industrial	38	1,093	291	1,220
Total commercial	94	1,093	1,785	1,415
Real estate				
Residential mortgage	101	31	287	225
Residential construction				
Mortgage warehouse				
Total real estate	101	31	287	225
Consumer				
Direct Installment	51	74	206	151
Direct Installment Purchased				
Indirect Installment	218	306	783	874
Home Equity	262	37	766	468
Total consumer	531	417	1,755	1,493

Total loans charged-off	726	1,541	3,827	3,133
Recoveries of loans previously charged-off:				
Commercial				
Owner occupied real estate	8	4	94	10
Non owner occupied real estate	1	10	1	85
Residential development				
Development & Spec Land Loans		55		55
Commercial and industrial	8	18	41	435
Total commercial	17	87	136	585
Real estate				
Residential mortgage	5	12	10	19
Residential construction				
Mortgage warehouse				
Total real estate	5	12	10	19
Consumer				
Direct Installment	15	10	91	49
Direct Installment Purchased				
Indirect Installment	112	165	347	431
Home Equity	24	26	90	137
Total consumer	151	201	528	617
Total loan recoveries	173	300	674	1,221
Net loans charged-off (recovered)	553	1,241	3,153	1,912
Provision charged to operating expense				
Commercial	532	1,563	2,580	1,682
Real estate	(955)	697	(51)	(290)
Consumer	723	(519)	291	688
Total provision charged to operating expense	300	1,741	2,820	2,080
Balance at the end of the period	$ 16,168	$ 16,160	$ 16,168	$ 16,160

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Certain loans are individually evaluated for impairment, and the Company s general practice is to proactively charge down impaired loans to the fair value, which is the appraised value less estimated selling costs, 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:

September 30, 2015	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 1,599	$	$	$	$ 1,599
Collectively evaluated for impairment	6,989	2,297	1,015	4,014	14,315
Loans acquired with deteriorated credit quality	254				254

	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Total ending allowance balance	$ 8,842	$ 2,297	$ 1,015	$ 4,014	$ 16,168
Loans:					
Individually evaluated for impairment	$ 10,848	$	$	$	$ 10,848
Collectively evaluated for impairment	787,245	432,283	139,454	362,388	1,721,370
Loans acquired with deteriorated credit quality	1,729				1,729
Total ending loans balance	$ 799,822	$ 432,283	$ 139,454	$ 362,388	$ 1,733,947

December 31, 2014	**Commercial**	**Real Estate**	**Mortgage Warehousing**	**Consumer**	**Total**
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 1,589	$	$	$	$ 1,589
Collectively evaluated for impairment	5,827	2,508	1,132	4,951	14,418
Loans acquired with deteriorated credit quality	494				494
Total ending allowance balance	$ 7,910	$ 2,508	$ 1,132	$ 4,951	$ 16,501
Loans:					
Individually evaluated for impairment	$ 11,055	$	$	$	$ 11,055
Collectively evaluated for impairment	664,251	255,383	129,636	321,470	1,370,740
Loans acquired with deteriorated credit quality	591				591
Total ending loans balance	$ 675,897	$ 255,383	$ 129,636	$ 321,470	$ 1,382,386

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 7 Non-performing Loans and Impaired Loans

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

September 30, 2015	Non-accrual	Loans Past Due Over 90 Days Still Accruing	Non-Performing TDRs	Performing TDRs	Total Non-Performing Loans
Commercial					
Owner occupied real estate	$ 4,165	$	$	$ 38	$ 4,203
Non owner occupied real estate	3,211		2,334	69	5,614
Residential development					
Development & Spec Land Loans					
Commercial and industrial	456		559		1,015
Total commercial	7,832		2,893	107	10,832
Real estate					
Residential mortgage	3,123	36	627	2,275	6,061
Residential construction			254		254
Mortgage warehouse					
Total real estate	3,123	36	881	2,275	6,315
Consumer					
Direct Installment	571	37			608
Direct Installment Purchased					
Indirect Installment	631	27			658
Home Equity	1,799		220	566	2,585
Total Consumer	3,001	64	220	566	3,851
Total	$ 13,956	$ 100	$ 3,994	$ 2,948	$ 20,998

December 31, 2014	Non-accrual

		Loans Past Due Over 90 Days Still Accruing	Non-Performing TDRs	Performing TDRs	Total Non-Performing Loans
Commercial					
Owner occupied real estate	$ 1,773	$	$	$ 44	$ 1,817
Non owner occupied real estate	7,439		217	566	8,222
Residential development					
Development & Spec Land Loans					
Commercial and industrial	812		1,004		1,816
Total commercial	10,024		1,221	610	11,855
Real estate					
Residential mortgage	2,297	40	765	2,526	5,628
Residential construction			266		266
Mortgage warehouse					
Total real estate	2,297	40	1,031	2,526	5,894
Consumer					
Direct Installment	227	10			237
Direct Installment Purchased					
Indirect Installment	557	47			604
Home Equity	2,207	18	391	1,236	3,852
Total Consumer	2,991	75	391	1,236	4,693
Total	$ 15,312	$ 115	$ 2,643	$ 4,372	$ 22,442

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Included in the $14.0 million of non-accrual loans and the $4.0 million of non-performing TDRs at September 30, 2015 were $1.9 million and $98,000, 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 Credit 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. Non-accrual 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 non-accrual 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 September 30, 2015, 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 nine consecutive payments but is still reported as TDR unless the loan bears interest at a market rate. As of September 30, 2015, the Company had $6.9 million in TDRs and $2.9 million were performing according to the restructured terms and four TDR,s were returned to accrual status during the first nine months of 2015. There was $631,000 of specific reserves allocated to TDRs at September 30, 2015 based on the discounted cash flows or when appropriate the fair value of the collateral.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

September 30, 2015	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Loss Allocated	Three Months Ending Average Balance in Impaired Loans	Three Months Ending Cash/ Accrual Interest Income Recognized	Nine Months Ending Average Balance in Impaired Loans	Nine Months Ending Cash/ Accrual Interest Income Recognized
With no recorded allowance							
Commercial							
Owner occupied real estate	$ 1,235	$ 1,238	$	$ 1,262	$ 1	$ 1,041	$ 10
Non owner occupied real estate	2,798	2,801		2,815	1	2,846	4
Residential development							
Development & Spec Land Loans							
Commercial and industrial	239	239		583	4	415	4
Total commercial	4,272	4,278		4,660	6	4,302	18
With an allowance recorded							
Commercial							
Owner occupied real estate	2,967	2,966	598	2,968		2,191	55
Non owner occupied real estate	2,817	2,828	550	2,858		2,942	
Residential development							
Development & Spec Land Loans							
Commercial and industrial	776	776	451	776		836	
Total commercial	6,560	6,570	1,599	6,602		5,969	55
Total	$ 10,832	$ 10,848	$ 1,599	$ 11,262	$ 6	$ 10,271	$ 73

September 30, 2014	Unpaid Principal	Recorded Investment	Allowance For	Three Months Ending Average Balance in	Three Months Ending Cash/ Accrual	Nine Months Ending Average Balance in	Nine Months Ending Cash/ Accrual

	Balance		Loan Loss Allocated	Impaired Loans	Interest Income Recognized	Impaired Loans	Interest Income Recognized
With no recorded allowance							
Commercial							
Owner occupied real estate	$ 2,851	$ 2,854	$	$ 2,126	$ 85	$ 1,525	$ 129
Non owner occupied real estate	3,232	3,235		3,257	43	3,274	141
Residential development							
Development & Spec Land Loans							
Commercial and industrial	281	281		367		433	
Total commercial	6,364	6,370		5,750	128	5,232	270
With an allowance recorded							
Commercial							
Owner occupied real estate	403	403	13	406		274	6
Non owner occupied real estate	333	333	150	335		343	
Residential development							
Development & Spec Land Loans							
Commercial and industrial	1,391	1,391	1,012	1,560		1,567	2
Total commercial	2,127	2,127	1,175	2,301		2,184	8
Total	$ 8,491	$ 8,497	$ 1,175	$ 8,051	$ 128	$ 7,416	$ 278

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

September 30, 2015	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	$ 329	$ 15	$	$ 344	$ 273,476	$ 273,820
Non owner occupied real estate					314,680	314,680
Residential development					3,049	3,049
Development & Spec Land Loans					18,394	18,394
Commercial and industrial	40	18		58	183,002	183,060
Total commercial	369	33		402	792,601	793,003
Real estate						
Residential mortgage	1,879	205	36	2,120	406,240	408,360
Residential construction					20,069	20,069
Mortgage warehouse					138,974	138,974
Total real estate	1,879	205	36	2,120	565,283	567,403
Consumer						
Direct Installment	133	31	37	201	50,209	50,410
Direct Installment Purchased					171	171
Indirect Installment	908	129	27	1,064	152,722	153,786
Home Equity	888	293		1,181	156,524	157,705
Total consumer	1,929	453	64	2,446	359,626	362,072
Total	$ 4,177	$ 691	$ 100	$ 4,968	$ 1,717,510	$ 1,722,478
Percentage of total loans	0.24%	0.04%	0.01%	0.29%	99.71%	

December 31, 2014	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	$ 103	$ 645	$	$ 748	$ 227,632	$ 228,380
Non owner occupied real estate	413			413	296,886	297,299
Residential development					2,027	2,027
Development & Spec Land Loans					12,097	12,097
Commercial and industrial	19	1		20	133,236	133,256
Total commercial	535	646		1,181	671,878	673,059
Real estate						
Residential mortgage	1,033	193	40	1,266	241,255	242,521
Residential construction					11,505	11,505
Mortgage warehouse					129,156	129,156
Total real estate	1,033	193	40	1,266	381,916	383,182
Consumer						
Direct Installment	113	4	10	127	40,010	40,137
Direct Installment Purchased					219	219
Indirect Installment	1,042	243	47	1,332	140,536	141,868
Home Equity	1,084	189	18	1,291	137,716	139,007
Total consumer	2,239	436	75	2,750	318,481	321,231
Total	$ 3,807	$ 1,275	$ 115	$ 5,197	$ 1,372,275	$ 1,377,472
Percentage of total loans	0.28%	0.09%	0.01%	0.38%	99.62%	

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.

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

For new and renewed commercial loans, the Bank s Credit Department, which acts independently of the loan officer, assigns the credit quality grade to the loan. Loan grades for loans with an aggregate credit exposure that exceeds the authorities in the respective markets (ranging from $1,000,000 to $2,500,000) are validated by the Loan Committee, which is chaired by the Chief Credit Officer (CCO).

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

The CCO, or his designee, 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, other real estate owned and personal property repossessions. The information reviewed in this meeting acts as a precursor for developing management s analysis of the adequacy of the Allowance for Loan and Lease Losses.

For residential 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 a nine-grade rating system to determine the credit quality of commercial loans. The first five 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.

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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:

Loans in this category are considered to be of acceptable credit quality, but contain greater credit risk than Satisfactory loans. Borrower displays acceptable liquidity, leverage, and earnings performance within the Bank s minimum underwriting guidelines. The level of risk is acceptable but conditioned on the proper level of loan officer supervision. Loans that normally fall into this grade include acquisition, construction and development loans and income producing properties that have not reached stabilization.

Risk Grade 4W Management Watch:

Loans in this category are considered to be of acceptable quality, but with above normal risk. Borrower displays potential indicators of weakness in the primary source of repayment resulting in a higher reliance on secondary sources of repayment. Balance sheet may exhibit weak liquidity and/or high leverage. There is inconsistent earnings performance without the ability to sustain adverse economic conditions. Borrower may be operating in a declining industry or the property type, as for a commercial real estate loan, may be high risk or in decline. These loans require an increased level of loan officer supervision and monitoring to assure that any deterioration is addressed in a timely fashion.

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.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

- Loans have a distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.
- Unusual courses of action are needed to maintain a high probability of repayment.
- The borrower is not generating enough cash flow to repay loan principal; however, it continues to make interest payments.
- The lender is forced into a subordinated or unsecured position due to flaws in documentation.
- Loans have been restructured so that payment schedules, terms, and collateral represent concessions to the borrower when compared to the normal loan terms.
- The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.
- There is a significant deterioration in market conditions to which the borrower is highly vulnerable.

Risk Grade 7: Doubtful

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

- Loans have all of the weaknesses of those classified as Substandard. However, based on existing conditions, these weaknesses make full collection of principal highly improbable.
- The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.
- The possibility of loss is high but because of certain important pending factors which may strengthen the loan, loss classification is deferred until the exact status of repayment is known.

Risk Grade 8: Loss

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

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

The following table presents loans by credit grades.

September 30, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Owner occupied real estate	$ 262,753	$ 4,080	$ 6,987	$	$ 273,820
Non owner occupied real estate	306,709	1,657	6,314		314,680
Residential development	3,049				3,049
Development & Spec Land Loans	18,323	71			18,394
Commercial and industrial	178,926	1,528	2,606		183,060
Total commercial	769,760	7,336	15,907		793,003
Real estate					
Residential mortgage	402,299		6,061		408,360
Residential construction	19,815		254		20,069
Mortgage warehouse	138,974				138,974
Total real estate	561,088		6,315		567,403
Consumer					
Direct Installment	49,802		608		50,410
Direct Installment Purchased	171				171
Indirect Installment	153,128		658		153,786
Home Equity	155,120		2,585		157,705
Total Consumer	358,221		3,851		362,072
Total	$ 1,689,069	$ 7,336	$ 26,073	$	$ 1,722,478
Percentage of total loans	98.06%	0.43%	1.51%	0.00%	

December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Owner occupied real estate	$ 215,874	$ 7,623	$ 4,883	$	$ 228,380
Non owner occupied real estate	283,518	4,458	9,323		297,299
Residential development	2,027				2,027
Development & Spec Land Loans	12,018	79			12,097
Commercial and industrial	128,589	1,799	2,868		133,256

Total commercial	642,026	13,959	17,074		673,059
Real estate					
Residential mortgage	236,893		5,628		242,521
Residential construction	11,239		266		11,505
Mortgage warehouse	129,156				129,156
Total real estate	377,288		5,894		383,182
Consumer					
Direct Installment	39,900		237		40,137
Direct Installment Purchased	219				219
Indirect Installment	141,264		604		141,868
Home Equity	135,155		3,852		139,007
Total Consumer	316,538		4,693		321,231
Total	$ 1,335,853	$ 13,959	$ 27,661	$	$ 1,377,472
Percentage of total loans	96.98%	1.01%	2.01%	0.00%	

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 8 Repurchase Agreements

The Company transfers various securities to customers in exchange for cash at the end of each business day and agrees to acquire the securities at the end of the next business day for the cash exchanged plus interest. The process is repeated at the end of each business day until the agreement is terminated. The securities underlying the agreement remained under the Bank s control.

The following table shows repurchase agreements accounted for as secured borrowings (in thousands):

	Remaining Contractual Maturity of the Agreements						
September 30, 2015	**Overnight and Continuous**	**Up to one year**	**One to three years**	**Three to five years**	**Five to ten years**	**Beyond ten years**	**Total**
Repurchase Agreements and repurchase-to-maturity transactions							
Repurchase Agreements	$ 56,418	$	$ 35,000	$ 60,000	$	$	$ 151,418
Securities lending transactions							
U.S. Treasury and federal agencies	$ 6,950	$	$	$	$	$	$ 6,950
Federal agency collateralized mortgage obligations	$ 45,279		76	886	6,904	44,401	97,545
Federal agency mortgage-backed pools	$ 14,523		79	401	11,396	40,744	67,144
Total	66,752		155	1,287	18,300	85,145	171,639
Total borrowings	$ (10,334)	$	$ 34,845	$ 58,713	$ (18,300)	$ (85,145)	$ (20,221)
Gross amount of recognized liabilities for repurchase agreements and securities lending							$ 151,418

Note 9 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 September 30, 2015 and December 31, 2014. 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 September 30, 2015, 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 September 30, 2015, 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.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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 $113.9 million at September 30, 2015 and $102.7 million at December 31, 2014.

Other Derivative Instruments

The Company enters into non-hedging derivatives in the form of mortgage loan forward sale commitments with investors and commitments to originate mortgage loans as part of its mortgage banking business. At September 30, 2015, 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.

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

	Asset Derivative September 30, 2015		**Liability Derivatives September 30, 2015**	
Derivatives designated as hedging instruments (Unaudited)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts	Loans	$	Other liabilities	$ 1,787
Interest rate contracts	Other Assets	1,787	Other liabilities	3,671
Total derivatives designated as hedging instruments		1,787		5,458
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	643	Other liabilities	
Total derivatives not designated as hedging instruments		643		
Total derivatives		$ 2,430		$ 5,458

	Asset Derivative December 31, 2014		**Liability Derivatives December 31, 2014**	
Derivatives designated as hedging instruments (Unaudited)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**

Interest rate contracts	Loans	$	Other liabilities	$ 1,208
Interest rate contracts	Other Assets	1,208	Other liabilities	3,339
Total derivatives designated as hedging instruments		1,208		4,547
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	447	Other liabilities	
Total derivatives not designated as hedging instruments		447		
Total derivatives		$ 1,655		$ 4,547

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

The effect of the derivative instruments on the condensed consolidated statement of income for the three and nine-month periods ending September 30 is as follows:

	Comprehensive Income on Derivative (Effective Portion) Three Months Ended September 30		Comprehensive Income on Derivative (Effective Portion) Nine Months Ended September 30	
Derivative in cash flow hedging relationship	**2015 (Unaudited)**	**2014 (Unaudited)**	**2015 (Unaudited)**	**2014 (Unaudited)**
Interest rate contracts	$ (335)	$ 242	$ (217)	$ (110)

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.

		Amount of Gain (Loss) Recognized on Derivative Three Months Ended September 30		Amount of Gain (Loss) Recognized on Derivative Nine Months Ended September 30	
Derivative in fair value hedging relationship	**Location of gain (loss) recognized on derivative**	**2015 (Unaudited)**	**2014 (Unaudited)**	**2015 (Unaudited)**	**2014 (Unaudited)**
Interest rate contracts	Interest income - loans	$ 765	$ (326)	$ 579	$ 425
Interest rate contracts	Interest income - loans	(765)	326	(579)	(425)
Total		$	$	$	$

Amount of Gain (Loss) Recognized on Derivative Three Months Ended September 30	Amount of Gain (Loss) Recognized on Derivative Nine Months Ended September 30

Derivative not designated as hedging relationship	Location of gain (loss) recognized on derivative	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)
Mortgage contracts	Other income -gain on sale of loans	$ (77)	$ (22)	$ 196	$ (1)

Note 10 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 September 30, 2015. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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 first 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.

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 first party using inputs that are primarily unobservable including a yield curve, adjusted for liquidity and credit risk, contracted terms and discounted cash flow analysis, and 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 condensed consolidated 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:

	Quoted Prices in Active Markets for Identical	Significant Other Observable Inputs	Significant Unobservable Inputs

		Assets		
	Fair Value	(Level 1)	(Level 2)	(Level 3)
September 30, 2015				
Available-for-sale securities				
U.S. Treasury and federal agencies	$ 24,755	$	$ 24,755	$
State and municipal	59,781		59,781	
Federal agency collateralized mortgage obligations	135,567		135,567	
Federal agency mortgage-backed pools	215,516		215,516	
Corporate notes	54		54	
Total available-for-sale securities	435,673		435,673	
Hedged loans	112,089		112,089	
Forward sale commitments	643		643	
Interest rate swap agreements	(5,458)		(5,458)	
Commitments to originate loans				
December 31, 2014				
Available-for-sale securities				
U.S. Treasury and federal agencies	$ 26,823	$	$ 26,823	$
State and municipal	47,952		47,952	
Federal agency collateralized mortgage obligations	122,860		122,860	
Federal agency mortgage-backed pools	125,395		125,395	
Private labeled mortgage-backed pools	689		689	
Corporate notes	45		45	
Total available-for-sale securities	323,764		323,764	
Hedged loans	101,445		101,445	
Forward sale commitments	447		447	
Interest rate swap agreements	(4,547)		(4,547)	

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

Non Interest Income Total gains and losses from:	Three Months Ended September 30 2015 (Unaudited)	2014 (Unaudited)	Nine Months Ended September 30 2015 (Unaudited)	2014 (Unaudited)
Hedged loans	$ 765	$ (326)	$ 579	$ 425
Fair value interest rate swap agreements	(765)	326	(579)	(425)
Derivative loan commitments	(77)	(22)	196	(1)
	$ (77)	$ (22)	$ 196	$ (1)

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015				
Impaired loans	$ 9,233	$	$	$ 9,233
Mortgage servicing rights	9,100			9,100
December 31, 2014				
Impaired loans	$ 9,464	$	$	$ 9,464
Mortgage servicing rights	7,642			7,642

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.

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 MSRs fair value due to impairment decreased by $51,000 during the first nine months of 2015 and increased by $28,000 during the first nine months of 2014.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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 September 30, 2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 9,233	Collateral based measurement	Discount to reflect current market conditions and ultimate collectability	10% - 15% (12%)
Mortgage servicing rights	$ 9,100	Discounted cashflows	Discount rate, Constant prepayment rate, Probability of default	10% - 15% (12%), 4% - 7% (4.6%), 1% - 10% (4.5%)

	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 9,464	Collateral based measurement	Discount to reflect current market conditions and ultimate collectability	10% - 15% (12%)
Mortgage servicing rights	$ 7,642	Discounted cashflows	Discount rate, Constant prepayment rate, Probability of default	10% - 15% (12%), 4% - 7% (4.6%), 1% - 10% (4.5%)

Note 11 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments, as shown below, are not intended to reflect the estimated liquidation or market value of Horizon taken as a whole. The disclosed fair value estimates are limited to Horizon s significant financial instruments at September 30, 2015 and December 31, 2014. These include financial instruments recognized as assets and liabilities on the condensed 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.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

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

Interest Receivable/Payable The carrying amounts approximate fair value.

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

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

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

Commitments to Extend Credit and Standby Letters 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.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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).

	September 30, 2015			
	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	$ 48,155	$ 48,155	$	$
Investment securities, held to maturity	182,187		188,574	
Loans held for sale	5,583			5,583
Loans excluding loan level hedges, net	1,598,233			1,641,840
Stock in FHLB and FRB	13,823		13,823	
Interest receivable	10,862		10,862	
Liabilities				
Non-interest bearing deposits	$ 338,436	$ 338,436	$	$
Interest-bearing deposits	1,574,639		1,494,112	
Borrowings	373,901		372,971	
Subordinated debentures	32,758		33,334	
Interest payable	490		490	

	December 31, 2014			
	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	$ 43,476	$ 43,476	$	$

Investment securities, held to maturity	165,767		169,904	
Loans held for sale	6,143			6,143
Loans excluding loan level hedges, net	1,260,608			1,295,133
Stock in FHLB and FRB	11,348		11,348	
Interest receivable	8,246		8,246	
Liabilities				
Non-interest bearing deposits	$ 267,667	$ 267,667	$	$
Interest-bearing deposits	1,214,652		1,158,912	
Borrowings	351,198		348,597	
Subordinated debentures	32,642		32,669	
Interest payable	497		497	

37

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 12 Accumulated Other Comprehensive Income

	September 30 2015	December 31 2014
Unrealized gain on securities available for sale	$ 5,238	$ 4,018
Unamortized gain on securities held to maturity, previously transferred from AFS	1,219	1,658
Unrealized loss on derivative instruments	(3,671)	(3,337)
Tax effect	(975)	(818)
Total accumulated other comprehensive income	$ 1,811	$ 1,521

Note 13 Regulatory Capital

Horizon and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies and are assigned to a capital category. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators, which if undertaken, could have a direct material effect on the Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective actions, the Bank must meet specific capital guidelines involving quantitative measures of the Bank s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank s capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined), or leverage ratio. For September 30, 2015, Interim Final Basel III rules require the Bank to maintain minimum amounts and ratios of common equity Tier I capital (as defined in the regulation) to risk-weighted assets (as defined). Additionally, under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital. For December 31, 2014, regulatory capital ratios were calculated under Basel I rules.

To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier I risk-based, common equity Tier I risk-based (September 30, 2015) and Tier I leverage ratios as set forth in the table below. As of September 30, 2015 and December 31, 2014, the Bank met all capital adequacy requirements to be considered well capitalized. There have been no conditions or events since the end of the third quarter of 2015 that management believes have changed the Bank s classification as well capitalized. There is no threshold for well-capitalized status for bank holding companies.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Horizon and the Bank s actual and required capital ratios as of September 30, 2015 and December 31, 2014 were as follows:

	Actual		Required For Capital[1] Adequacy Purposes		Well Capitalized Under Prompt[1] Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2015						
Total capital[1] (to risk-weighted assets)						
Consolidated	$ 261,858	13.83%	$ 151,472	8.00%	N/A	N/A
Bank	246,162	13.17%	149,529	8.00%	$ 186,911	10.00%
Tier 1 capital[1] (to risk-weighted assets)						
Consolidated	245,690	12.98%	113,570	6.00%	N/A	N/A
Bank	229,994	12.30%	112,192	6.00%	149,590	8.00%
Common equity tier 1 capital[1] (to risk-weighted assets)						
Consolidated	200,122	10.57%	85,199	4.50%	N/A	N/A
Bank	229,994	12.30%	84,144	4.50%	121,542	6.50%
Tier 1 capital[1] (to average assets)						
Consolidated	245,690	9.98%	98,473	4.00%	N/A	N/A
Bank	229,994	9.31%	98,816	4.00%	123,520	5.00%
As of December 31, 2014						
Total capital[1] (to risk-weighted assets)						
Consolidated	$ 212,276	14.48%	$ 117,280	8.00%	N/A	N/A
Bank	192,604	13.08%	117,801	8.00%	$ 147,251	10.00%
Tier 1 capital[1] (to risk-weighted assets)						
Consolidated	195,775	13.35%	58,659	4.00%	N/A	N/A
Bank	176,103	11.96%	58,897	4.00%	88,346	6.00%
Tier 1 capital[1] (to average assets)						
Consolidated	195,775	9.76%	80,236	4.00%	N/A	N/A
Bank	176,103	8.80%	80,047	4.00%	100,059	5.00%

[1] As defined by regulatory agencies

Note 14 Future Accounting Matters

The FASB has issued ASU No. 2015-05, Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement.

Existing GAAP does not include explicit guidance about a customer s accounting for fees paid in a cloud computing arrangement. Examples of cloud computing arrangements include: (a) software as a service; (b) platform as a service; (c) infrastructure as a service; and (d) other similar hosting arrangements.

The amendments add guidance to Subtopic 350-40, Intangibles - Goodwill and Other - Internal-Use Software, which will help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The guidance already exists in the FASB Accounting Standards Codification in paragraphs 985-605-55-121 through 55-123, but it is included in a Subtopic applied by cloud service providers to determine whether an arrangement includes the sale or license of software.

For public business entities, the amendments will be effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Adoption of the ASU is not expected to have a significant effect on the Company s consolidated financial statements.

The FASB has issued ASU No. 2015-02, Consolidation (Topic 810):

The amendments to the Consolidation Analysis, are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions).

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

The ASU focuses on the consolidation evaluation for reporting organizations (public and private companies and not-for-profit organizations) that are required to evaluate whether they should consolidate certain legal entities.

In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification (Codification) and improves current GAAP by:

- Placing more emphasis on risk of loss when determining a controlling financial interest. A reporting organization may no longer have to consolidate a legal entity in certain circumstances based solely on its fee arrangement, when certain criteria are met.

- Reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE).

- Changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs.

The ASU will be effective for periods beginning after December 15, 2015, for public companies. Early adoption is permitted, including adoption in an interim period. Adoption of the ASU is not expected to have a significant effect on the Company s consolidated financial statements.

Note 15 General Litigation

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

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

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 connection with any discussi 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, 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 are 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;
- rising interest rates and their impact on mortgage loan volumes;
- 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;

the risks presented by cyber terrorism and data security breaches;

containing costs and expenses;

the slowing or failure of economic recovery;

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

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.

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 2014 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 Northern and Central Indiana and Southwestern and Central 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 Select Market under the symbol HBNC. The Bank was chartered as a national banking association in 1873 and has operated continuously since that time. The Bank is a full-service commercial bank offering commercial and retail banking services, corporate and individual trust and agency services, and other services incident to banking.

On July 1, 2015, Horizon completed the acquisition of Peoples Bancorp, an Indiana corporation (Peoples) and Horizon Bank s acquisition of Peoples Federal Savings Bank of DeKalb County, a federally-chartered stock savings bank and wholly owned subsidiary of Peoples, through mergers effective July 1, 2015. Under the terms of the acquisition, the exchange ratio was 0.95 shares of Horizon common stock (the Exchange Ratio) and $9.75 in cash for each outstanding share of Peoples common stock. Peoples shareholders owning fewer than 100 shares of common stock received $33.14 in cash for each common share. Peoples shares outstanding at the closing were 2,311,858, and the shares of Horizon common stock issued to Peoples shareholders totaled 2,192,202. Horizon s stock price was $25.32 per share at the close of business on July 1, 2015. Based upon these numbers, the total value of the consideration for the acquisition was $78.1 million.

On April 3, 2014, Horizon completed the acquisition of SCB Bancorp, Inc., a Michigan corporation (Summit) and Horizon Bank s acquisition of Summit Community Bank, a Michigan-chartered commercial bank and wholly owned subsidiary of Summit, through mergers effective April 3, 2014. Under the terms of the acquisition, the exchange ratio was 0.4904 shares of Horizon common stock and $5.15 in cash for each outstanding share of Summit common stock. Summit shares outstanding at the closing were 1,164,442, and the shares of Horizon s common stock issued to Summit shareholders totaled 570,820. Horizon s stock price was $22.23 per share at the close of business on April 3, 2014. Based upon these numbers, the total value of the consideration for the acquisition was $18.9 million (not including the retirement of Summit debt).

Following are some highlights of Horizon s financial performance through the third quarter of 2015:

On July 1, 2015, Horizon closed the acquisition of Peoples and its wholly-owned subsidiary, Peoples Federal Savings Bank of DeKalb County, headquartered in Auburn, Indiana.

The quarterly dividend was increased from $.14 to $.15 per share on September 15, 2015.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

Third quarter 2015 net income was $4.3 million or $.36 diluted earnings per share.

Excluding merger expenses and gain on sale of investment securities, net income for the third quarter of 2015 increased 52.8% compared to the same period of 2014 to $6.7 million or $.56 diluted earnings per share.

Net income for the first nine months of 2015 was $14.4 million or $1.37 diluted earnings per share.

Excluding merger expenses, gain on sale of investment securities and the death benefit on bank owned life insurance, net income for the first nine months of 2015 increased 28.3% compared to the same period of 2014 to $17.2 million or $1.64 diluted earnings per share.

Net interest income for the first nine months of 2015 increased 17.3% or $8.1 million compared to the same period in 2014.

The net interest margin, excluding the impact of acquisitions (core net interest margin), decreased 7 basis points from the linked quarter and 3 basis points in the first nine months of 2015 compared to the same periods in 2014.

Non-interest income for the first nine months of 2015 increased 15.9% or $3.1 million compared to the same period in 2014.

Loans increased 11.9% on an annualized basis during the third quarter of 2015 excluding the Peoples acquisition, mortgage warehouse loans and loans held for sale.

Horizon s tangible book value per share increased to $16.34 at September 30, 2015, compared to $16.26 at December 31, 2014 and $15.75 at September 30, 2014.

Horizon Bank s capital ratios, including Tier 1 Capital to Average Assets of 9.31% and Total Capital to Risk Weighted Assets of 13.17% as of September 30, 2015, 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 2014 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 September 30, 2015, Horizon had core deposit intangibles of $7.6 million subject to amortization and $49.6 million of

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

goodwill, which is not subject to amortization. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Horizon s goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of Horizon to provide quality, cost effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill that could adversely affect earnings in future periods. FASB ASC 350-10 requires an annual evaluation of goodwill for impairment. The evaluation of goodwill for impairment requires the use of estimates and assumptions. Market price at the close of business on September 30, 2015 was $23.75 per share compared to a book value of $21.14 per common share.

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

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

derivative instruments, which are recorded as assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair values of derivatives are reported in the consolidated income statements or other comprehensive income (OCI) depending on the use of the derivative and whether the instrument qualifies for hedge accounting. The key criterion for the hedge accounting is that the hedged relationship must be highly effective in achieving offsetting changes in those cash flows that are attributable to the hedged risk, both at inception of the hedge and on an ongoing basis.

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

Valuation Measurements

Valuation methodologies often involve a significant degree of judgment, particularly when there are no observable active markets for the items being valued. Investment securities, residential mortgage loans held for sale and derivatives are carried at fair value, as defined in FASB ASC 820, which requires key judgments affecting how fair value for such assets and liabilities is determined. In addition, the outcomes of valuations have a direct bearing on the carrying amounts of goodwill, mortgage servicing rights, and pension and other post-retirement benefit obligations. To determine the values of these assets and liabilities, as well as the extent, to which related assets may be impaired, management makes assumptions and estimates related to discount rates, asset returns, prepayment speeds and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results, which could affect Horizon s results of operations.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

Financial Condition

On September 30, 2015, Horizon s total assets were $2.6 billion, an increase of approximately $531.0 million compared to December 31, 2014 and includes $485.1 million of purchased assets from the closing of the Peoples merger in the third quarter. The increase was primarily in net loans of $348.3 million and investment securities of $128.3 million.

Investment securities were comprised of the following as of (dollars in thousands):

	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 24,725	$ 24,755	$ 26,996	$ 26,823
State and municipal	58,466	59,781	46,535	47,952
Federal agency collateralized mortgage obligations	134,494	135,567	122,930	122,860
Federal agency mortgage-backed pools	212,717	215,516	122,583	125,395
Private labeled mortgage-backed pools			670	689
Corporate notes	32	54	32	45
Total available for sale investment securities	$ 430,434	$ 435,673	$ 319,746	$ 323,764
Held to maturity				
U.S. Treasury and federal agencies	$ 5,852	$ 5,989	$ 9,804	$ 9,886
State and municipal	142,763	147,847	129,595	132,887
Federal agency collateralized mortgage obligations	9,356	9,403	4,039	4,073
Federal agency mortgage-backed pools	24,216	25,336	22,329	23,058
Total held to maturity investment securities	$ 182,187	$ 188,575	$ 165,767	$ 169,904

Total investment securities increased by approximately $128.3 million at September 30, 2015 compared to December 31, 2014 primarily due to the investing of cash from the closing of the Peoples merger.

Total loans increased $347.4 million since December 31, 2014 to $1.7 billion as of September 30, 2015. This increase was the result of an increase in commercial loans of $121.0 million, mortgage warehouse loans of $9.8 million, residential mortgage loans of $176.3 million and consumer loans of $40.8 million. The growth in total loans during the nine months ended September 30, 2015 is the direct result of increased calling efforts to increase Horizon s market share within the Company s footprint and market expansion as well as the loans added through the Peoples acquisition.

The following table presents the amount and growth rate of loans by product type for the nine months ended September 30, 2015, excluding the loans added through the Peoples acquisition.

46

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

Loan Growth by Type, Excluding Acquired Loans

Nine Months Ended September 30, 2015

(Dollars in Thousands)

	September 30 2015 (Unaudited)	December 31 2014	Amount Change	Acquired Peoples Loans	Excluding Acquired Loans Amount Change	Percent Change	Annualized Percent Change
Commercial loans	**$ 795,271**	$ 674,314	$ 120,957	$ (67,435)	$ 53,522	7.9%	10.6%
Residential mortgage loans	**430,946**	254,625	176,321	(137,331)	38,990	15.3%	20.5%
Consumer loans	**361,298**	320,459	40,839	(19,593)	21,246	6.6%	8.9%
Subtotal	**1,587,515**	1,249,398	338,117	(224,359)	113,758	9.1%	12.2%
Held for sale loans	**5,583**	6,143	(560)		(560)	-9.1%	-12.2%
Mortgage warehouse loans	**138,974**	129,156	9,818		9,818	7.6%	10.2%
Total loans	**$ 1,732,072**	$ 1,384,697	$ 347,375	$ (224,359)	$ 123,016	8.9%	11.9%

Total deposits increased $430.8 million since December 31, 2014 to $1.9 billion as of September 30, 2015. This increase was primarily the result of increased calling and marketing efforts, market expansion and the $351.1 million in deposits added through the Peoples acquisition. Non-interest bearing deposit accounts increased by $70.8 million, interest-bearing transaction accounts increased by $234.2 million and time deposits increased by $125.8 million during the nine months ended September 30, 2015.

The Company s borrowings increased $22.7 million from December 31, 2014 primarily due to $47.8 million of long-term borrowings assumed as part of the Peoples acquisition net of maturities of long-term debt. At September 30, 2015, the Company had $133.0 million in short-term funds borrowed compared to $145.0 million at December 31, 2014. 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 municipal deposits and mortgage warehouse lending.

Stockholders equity totaled $264.7 million at September 30, 2015 compared to $194.4 million at December 31, 2014. The increase in stockholders equity during the period was the result of the generation of net income, net of dividends declared, as well as the stock issued in the Peoples acquisition and the exercise of stock warrants. At September 30, 2015, the ratio of average stockholders equity to average assets was 10.38% compared to 9.56% for December 31, 2014. Book value per common share at September 30, 2015 increased to $21.14 compared to $19.75 at December 31, 2014.

Results of Operations

Overview

Consolidated net income for the three-month period ended September 30, 2015 was $4.3 million, a decrease of 13.5% from the $5.0 million for the same period in 2014. Earnings per common share for the three months ended September 30, 2015 were $0.37 basic and $0.36 diluted, compared to $0.53 basic and $0.51 diluted for the same three-month period in the previous year. The decrease in net income and earnings per share from the previous year reflects an increase in non-interest expenses of $6.9 million primarily due to an increase in salaries and employee benefits and outside services and consultants expense, partially offset by an increase in net interest income of $3.4 million, a decrease in provision for loan losses of $1.4 million and an increase in non-interest income of $1.0 million. The decrease in earnings per share also reflects an increase in diluted shares due to the Peoples acquisition. Excluding acquisition-related expenses and purchase

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

accounting adjustments and gain on sale of investment securities, net income for the third quarter of 2015 was $6.5 million or $.54 diluted earnings per share compared to $4.1 million or $.42 diluted earnings per share in the same period of 2014.

Consolidated net income for the nine-month period ended September 30, 2015 was $14.4 million, an increase of 9.3% from the $13.2 million for the same period in 2014. Earnings per common share for the nine-month period ended September 30, 2015 were $1.42 basic and $1.37 diluted, compared to $1.45 basic and $1.39 diluted for the same period in the previous year. The increase in net income from the previous year reflects an increase in net interest income of $8.1 million and an increase in non-interest income of $3.1 million, partially offset by an increase in the provision for loan losses of $740,000 and an increase in non-interest expenses of $8.7 million. The decrease in earnings per share also reflects an increase in diluted shares due to the Peoples acquisition. Excluding acquisition-related expenses and purchase accounting adjustments, gain on sale of investment securities and the death benefit on bank owned life insurance, net income for the first nine months of 2015 was $15.7 million or $1.50 diluted earnings per share compared to $12.1 million or $1.27 diluted earnings per share in the same period of 2014.

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.

Net interest income during the three-month period ended September 30, 2015 was $19.8 million, an increase of $3.4 million from the $16.4 million earned during the same period in 2014. Yields on the Company s interest-earning assets decreased by 15 basis points to 4.17% for the three months ending September 30, 2015 from 4.32% for the three months ended September 30, 2014. Interest income increased $3.7 million from $19.9 million for the three months ended September 30, 2014 to $23.6 million for the same period in 2015. This increase was due to an increase in interest-earning assets, partially offset by lower yields on loans and investment securities and a decrease in interest income from acquisition-related purchase accounting adjustments from $438,000 for the three months ending September 30, 2014 to $402,000 for the same period of 2015.

Rates paid on interest-bearing liabilities decreased by 9 basis points for the three-month period ended September 30, 2015 compared to the same period in 2014 due to the continued low interest rate environment. Interest expense increased $351,000 compared to the three-month period ended September 30, 2014 to $3.8 million for the same period in 2015. This increase was due to higher average balances of interest-bearing deposits and higher interest rates paid on borrowings, partially offset by lower rates paid on interest-bearing deposits and lower average balances of borrowings. The net interest margin decreased 8 basis points from 3.59% for the three-month period ended September 30, 2014 to 3.51% for the same period in 2015. The decrease in the margin for the three-month period ended September 30, 2015 compared to the same period in 2014 was due to a reduction in the yield on interest-earning assets and a decrease of approximately $36,000 of interest income from acquisition-related purchase accounting adjustments. Excluding the interest income recognized from the acquisition-related purchase accounting adjustments, the margin would have been 3.44% for the three-month period ending September 30, 2015 compared to 3.50% for the same period in 2014.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

The following are the average balance sheets for the three months ending (dollars in thousands):

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	$ 23,086	$ 2	0.03%	$ 4,033	$ 5	0.49%
Interest-earning deposits	16,340	5	0.12%	5,941	4	0.27%
Investment securities - taxable	401,702	2,149	2.12%	394,954	2,330	2.34%
Investment securities - non-taxable (1)	154,050	1,125	4.39%	146,513	1,109	4.48%
Loans receivable (2)(3)	1,709,337	20,297	4.72%	1,325,625	16,403	4.92%
Total interest-earning assets (1)	2,304,515	23,578	4.17%	1,877,066	19,851	4.32%
Non-interest-earning assets						
Cash and due from banks	31,384			27,188		
Allowance for loan losses	(16,427)			(15,706)		
Other assets	151,035			155,021		
	$ 2,470,507			$ 2,043,569		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	$ 1,568,777	$ 1,566	0.40%	$ 1,204,122	$ 1,352	0.45%
Borrowings	303,521	1,729	2.26%	320,676	1,593	1.97%
Subordinated debentures	32,737	507	6.14%	32,580	506	6.16%
Total interest-bearing liabilities	1,905,035	3,802	0.79%	1,557,378	3,451	0.88%
Non-interest-bearing liabilities						
Demand deposits	343,780			282,494		
Accrued interest payable and other liabilities	15,149			12,979		
Stockholders equity	206,543			190,718		

	$ 2,470,507		$ 2,043,569	
Net interest income/spread	$ 19,776	3.38%	$ 16,400	3.44%
Net interest income as a percent of average interest earning assets (1)		3.51%		3.59%

(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 loan fees and late fees. The inclusion of these 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.

Net interest income during the nine months ended September 30, 2015 was $54.5 million, an increase of $8.1 million from the $46.5 million earned during the same period in 2014. Yields on the Company s interest-earning assets decreased by 12 basis points to 4.25% for the nine months ended September 30, 2015 from 4.37% for the same period in 2014. Interest income increased $8.4 million from $56.4 million for the nine months ended September 30, 2014 to $64.8 million for the same period in 2015. This increase was due to an increase in average loans balances and interest income from acquisition-related purchase accounting adjustments from $2.0 million for the nine months ending September 30, 2014 to $2.3 million for the same period of 2015, partially offset by lower yields on loans and investment securities and lower average investment securities balances.

Rates paid on interest-bearing liabilities decreased by 10 basis points for the nine months ended September 30, 2015 compared to the same period in 2014 due to the continued low interest rate environment. Interest expense increased $306,000 to $10.3 million for the nine-month period ending September 30, 2015. This increase was due to a higher volume of interest-bearing liabilities, partially offset by lower rates being paid on the Company s interest-bearing liabilities. The net interest margin decreased 3 basis points from 3.62% for

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

the nine months ended September 30, 2014 to 3.59% for the same period in 2015. The decrease in the margin for the nine months ended September 30, 2015 compared to the same period in 2014 was due to a reduction in the yield on interest-earning assets. Excluding the interest income recognized from the acquisition-related purchase accounting adjustments, the margin would have been 3.44% for the nine months ending September 30, 2015 compared to 3.47% for the same period in 2014.

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

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	$ 10,563	$ 11	0.14%	$ 6,559	$ 9	0.18%
Interest-earning deposits	11,927	10	0.11%	6,547	7	0.14%
Investment securities - taxable	375,548	6,356	2.26%	395,255	7,108	2.40%
Investment securities - non-taxable (1)	145,576	3,281	3.96%	146,643	3,328	4.33%
Loans receivable (2)(3)	1,528,662	55,140	4.83%	1,215,183	45,988	5.07%
Total interest-earning assets (1)	2,072,276	64,798	4.25%	1,770,187	56,440	4.37%
Non-interest-earning assets						
Cash and due from banks	30,729			26,736		
Allowance for loan losses	(16,557)			(15,892)		
Other assets	155,657			140,698		
	$ 2,242,105			$ 1,921,729		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	$ 1,347,882	$ 4,035	0.40%	$ 1,171,343	$ 3,984	0.45%
Borrowings	340,593	4,747	1.86%	274,322	4,493	2.19%
Subordinated debentures	32,698	1,504	6.15%	32,541	1,503	6.18%

Total interest-bearing liabilities	1,721,173	10,286	0.80%	1,478,206	9,980	0.90%
Non-interest-bearing liabilities						
Demand deposits	303,309			253,331		
Accrued interest payable and other liabilities	14,692			12,454		
Stockholders equity	202,931			177,738		
	$ 2,242,105			$ 1,921,729		
Net interest income/spread		$ 54,512	3.45%		$ 46,460	3.47%
Net interest income as a percent of average interest earning assets (1)			3.59%			3.62%

(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 loan fees and late fees. The inclusion of these 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.

<u>Provision for Loan Losses</u>

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (ALLL) by regularly reviewing the performance of its loan portfolio. During the three-month period ended September 30, 2015, a provision of $300,000 was required to adequately fund the ALLL compared to $1.7 million for the same period of 2014. Commercial loan net charge-offs during the three-month period ended September 30, 2015 were $77,000, residential mortgage loan net charge-offs were $96,000 and consumer loan net charge-offs were $380,000. The lower provision for loan losses in the third quarter of 2015 compared to the same period of 2014 was

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

due to the improvement of non-performing and substandard loans and a $1.0 million charge-off associated with one commercial credit during the third quarter of 2014. The ALLL balance at September 30, 2015 was $16.2 million or 0.93% of total loans. This compares to an ALLL balance of $16.5 million at December 31, 2014 or 1.19% of total loans. The decrease in the ratio at September 30, 2015 compared to December 31, 2014 was due to improving credit trends and $223.9 million in loans added through the Peoples transaction with purchase accounting adjustments.

The provision for loan losses was $2.8 million the first nine months of 2015 compared to $2.1 million for the same period of 2014. The higher provision for loan losses in the first nine months of 2015 compared to the same period of 2014 was due to the charge-off of one commercial credit of $1.3 million in the second quarter of 2015 as well as continued loan growth. The $1.3 million commercial charge-off was a legacy workout loan that was determined to be impaired due to the borrower s inability to make payments and a decrease in collateral value.

Horizon s loan loss reserve ratio, excluding loans with credit-related purchase accounting adjustments, stood at 1.12% as of September 30, 2015. The table below illustrates Horizon s loan loss reserve ratio composition as of September 30, 2015.

Allowance for Loan and Lease Loss Detail

As of September 30, 2015

(Dollars in Thousands, Unaudited)

	Horizon Legacy	Heartland	Summit	Peoples	Total
Pre-discount loan balance	$ 1,419,778	$ 24,827	$ 78,215	$ 213,059	$ 1,735,880
Allowance for loan losses (ALLL)	15,896	264	8		16,168
Loan discount	N/A	1,576	3,213	4,601	9,390
ALLL+loan discount	15,896	1,840	3,221	4,601	25,558
Loans, net	$ 1,403,882	$ 22,987	$ 74,994	$ 208,458	$ 1,710,322
ALLL/ pre-discount loan balance	1.12%	1.06%	0.01%	0.00%	0.93%

Loan discount/ pre-discount loan balance	N/A	6.35%	4.11%	2.16%	0.54%
ALLL+loan discount/ pre-discount loan balance	1.12%	7.41%	4.12%	2.16%	1.47%

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 September 30, 2015.

Non-performing loans totaled $21.0 million as of September 30, 2015, down from $22.4 million on December 31, 2014. Compared to December 31, 2014, non-performing commercial loans and consumer loans decreased by $708,000 and $927,000, respectively, while non-performing real estate loans increased by $253,000.

At September 30, 2015, loans acquired represented $1.9 million in non-performing, $3.0 million in substandard and $0 in 90 day delinquent loans.

Other Real Estate Owned (OREO) totaled $1.3 million on September 30, 2015 compared to $1.2 million on December 31, 2014 and $1.3 million on September 30, 2014.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

Non-interest Income

The following is a summary of changes in non-interest income (table dollar amounts in thousands):

	Three Months Ended September 30 2015	September 30 2014	Amount Change	Percent Change
Non-interest Income				
Service charges on deposit accounts	**$ 1,359**	$ 1,076	$ 283	26.3%
Wire transfer fees	**160**	151	9	6.0%
Interchange fees	**1,625**	1,223	402	32.9%
Fiduciary activities	**1,520**	1,131	389	34.4%
Gain on sale of securities		988	(988)	0.0%
Gain on sale of mortgage loans	**2,794**	2,153	641	29.8%
Mortgage servicing net of impairment	**246**	116	130	112.1%
Increase in cash surrender value of bank owned life insurance	**374**	296	78	26.4%
Other income	**322**	256	66	25.8%
Total non-interest income	**$ 8,400**	$ 7,390	$ 1,010	13.7%

Total non-interest income was $1.0 million higher in the third quarter of 2015 compared to the same period of 2014. Service charges on deposit accounts increased $283,000, interchange fees increased by $402,000 and fiduciary activities increased $389,000, primarily due to overall company growth and increased volume. Residential mortgage loan activity during the third quarter of 2015 generated $2.8 million of income from the gain on sale of mortgage loans, up $641,000 from the same period in 2014. The increase in the gain on sale of mortgage loans was due to an increase in total loans sold of $16.3 million from $70.6 million in the third quarter of 2014 to $86.9 million in the same period of 2015, partially offset by a decrease in the percentage earned on the sale of these loans from 3.32% in the third quarter of 2014 to 3.30% in the same period of 2015. Mortgage servicing net of impairment increased by $130,000 during the third quarter of 2015 compared to the same period of 2014 due to a larger portfolio of mortgage loans serviced.

	Nine Months Ended	2014 - 2015

	September 30 2015	September 30 2014	Amount Change	Percent Change
Non-interest Income				
Service charges on deposit accounts	**$ 3,443**	$ 3,037	$ 406	13.4%
Wire transfer fees	**493**	408	85	20.8%
Interchange fees	**4,093**	3,436	657	19.1%
Fiduciary activities	**4,033**	3,378	655	19.4%
Gain on sale of investment securities	**124**	988	(864)	100.0%
Gain on sale of mortgage loans	**7,815**	6,101	1,714	28.1%
Mortgage servicing net of impairment	**725**	556	169	30.4%
Increase in cash surrender value of bank owned life insurance	**889**	781	108	13.8%
Death benefit on officer life insurance	**145**		145	100.0%
Other income	**892**	854	38	4.4%
Total non-interest income	**$ 22,652**	$ 19,539	$ 3,113	15.9%

Total non-interest income was $3.1 million higher in the first nine months of 2015 compared to the same period of 2014. Service charges on deposit accounts increased $406,000, interchange fees increased by $657,000 and fiduciary activities increased $655,000, primarily due to overall company growth and increased volume. Gain on sale of securities was $864,000 lower during the first nine months of 2015 as the result of

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

an analysis that determined market conditions provided the opportunity to add gains to capital in the nine months ended September 30, 2014 without negatively impacting long-term earnings. Residential mortgage loan activity during the first nine months of 2015 generated $7.8 million of income from the gain on sale of mortgage loans, up $1.7 million from the same period in 2014. The increase in the gain on sale of mortgage loans was due to an increase in total loans sold of $74.5 million from $164.6 million in the first nine months of 2014 to $239.1 million in the same period of 2015, partially offset by a decrease in the percentage earned on the sale of these loans from 3.37% in the first nine months of 2014 to 3.19% in the same period of 2015. Mortgage servicing net of impairment increased by $169,000 during the first nine months of 2015 compared to the same period of 2014 primarily due to a larger portfolio of mortgage loans serviced. The cash surrender value of bank owned life insurance increased by $108,000 in the first nine months of 2015 compared to the same period in 2014 due to the addition of bank owned life insurance policies as a result of the Peoples acquisition. The Company also recognized a $145,000 death benefit on officer life insurance during the first nine months of 2015.

Non-interest Expense

The following is a summary of changes in non-interest expense (table dollar amounts in thousands):

	Three Months Ended			
	September 30 2015	**September 30 2014**	**Amount Change**	**Percent Change**
Non-interest expense				
Salaries	**$ 6,412**	$ 5,730	$ 682	11.9%
Commission and bonuses	**1,958**	1,239	719	58.0%
Employee benefits	**2,282**	1,246	1,036	83.1%
Net occupancy expenses	**1,723**	1,404	319	22.7%
Data processing	**1,281**	907	374	41.2%
Professional fees	**409**	358	51	14.2%
Outside services and consultants	**3,209**	595	2,614	439.3%
Loan expense	**1,351**	1,202	149	12.4%
FDIC deposit insurance	**423**	313	110	35.1%
Other losses	**246**	(35)	281	-802.9%
Other expense	**2,941**	2,394	547	22.8%
Total non-interest expense	**$ 22,235**	$ 15,353	$ 6,882	44.8%

Total non-interest expenses were $6.9 million higher in the third quarter of 2015 compared to the same period of 2014. Salaries increased by $1.2 million and employee benefits increased by $552,000 due to a larger employee base. Commission and bonuses increased by $719,000 due to an increase in loan volume and a larger employee base. Net occupancy expense increased $319,000 due to Horizon s investment in growth markets and the Peoples acquisition. Data processing expenses increased $374,000, FDIC deposit insurance expense increased by $110,000 and other expenses increased by $547,000 primarily due to company growth. Outside services and consultants expense increased by $2.6 million due to the one-time fees associated with Peoples acquisition. Loan expense increased $149,000 primarily due to an increase in loan origination volume. One-time non-interest expense related to the Peoples acquisition totaled $3.6 million in the third quarter of 2015.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

	Nine Months Ended			
	September 30 2015	**September 30 2014**	**Amount Change**	**Percent Change**
Non-interest expense				
Salaries	**$ 18,038**	$ 17,088	$ 950	5.6%
Commission and bonuses	**4,325**	2,728	1,597	58.5%
Employee benefits	**5,178**	4,175	1,003	24.0%
Net occupancy expenses	**4,649**	4,188	461	11.0%
Data processing	**3,170**	2,714	456	16.8%
Professional fees	**1,596**	1,385	211	15.2%
Outside services and consultants	**4,753**	2,554	2,199	86.1%
Loan expense	**3,975**	3,489	486	13.9%
FDIC deposit insurance	**1,099**	854	245	28.7%
Other losses	**351**	98	253	258.2%
Other expense	**7,819**	7,002	817	11.7%
Total non-interest expense	**$ 54,953**	$ 46,275	$ 8,678	18.8%

Total non-interest expenses were $8.7 million higher in the first nine months of 2015 compared to the same period of 2014. Salaries increased by $1.4 million and employee benefits increased by $519,000 due to a larger employee base. Commission and bonuses increased by $1.6 million due to an increase in loan volume and a larger employee base. Net occupancy expense increased $461,000 due to Horizon s investment in growth markets and the Peoples acquisition. Data processing expenses increased $456,000, FDIC deposit insurance expense increased by $245,000 and other expenses increased by $817,000 primarily due to company growth. Outside services and consultants expense increased by $2.2 million due to the one-time fees associated with the Peoples acquisition. Loan expense increased $486,000 primarily due to an increase in loan origination volume. One-time non-interest expense related to the Peoples acquisition totaled $4.4 million in the first nine months of 2015.

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 nine months ended September 30, 2015, cash and cash equivalents increased by approximately $4.7 million. At September 30, 2015, in addition to liquidity available from the normal operating, funding, and investing activities of Horizon, the Bank had approximately $328.0 million in unused credit lines with various money center banks, including the FHLB and the FRB Discount Window compared to $301.4 million at December 31, 2014 and $284.0 million at

September 30, 2014.

Capital Resources

The capital resources of Horizon and the Bank exceeded regulatory capital ratios for well capitalized banks at September 30, 2015. Stockholders equity totaled $264.7 million as of September 30, 2015, compared to $194.4 million as of December 31, 2014. For the three months ended September 30, 2015, the ratio of average stockholders equity to average assets was 10.38% compared to 9.56% for the three months ended December 31, 2014. The increase in stockholders equity during the period was the result of the generation of net income and the shares issued as part of the purchase price for the Peoples acquisition, net of dividends declared.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

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 September 30, 2015, the dividend cost was approximately $31,000, or 1.0% annualized. Quarterly dividend payments for the third and fourth quarters of 2015 will be approximately $31,000, or 1.0% annualized. The Company plans to reserve cash so that it has the ability to redeem this preferred stock if and when the cost of this capital exceeds the cost of other forms of capital, subject to regulatory approval.

Horizon declared common stock dividends in the amount of $0.43 per share during the first nine months of 2015 compared to $0.37 per share for the same period of 2014. The dividend payout ratio (dividends as a percent of basic earnings per share) was 30.2% and 25.5% for the first nine months of 2015 and 2014, respectively. For additional information regarding dividends, see Horizon s Annual Report on Form 10-K for 2014.

Use of Non-GAAP Financial Measures

Certain information set forth in this quarterly report on Form 10-Q refers to financial measures determined by methods other than in accordance with GAAP. Specifically, we have included non-GAAP financial measures of the net interest margin and the allowance for loan and lease losses excluding the impact of acquisition-related purchase accounting adjustments and net income and diluted earnings per share excluding the impact of one-time costs related to acquisitions, acquisition-related purchase accounting adjustments and other events that are considered to be non-recurring. Horizon believes that these non-GAAP financial measures are helpful to investors and provide a greater understanding of our business without giving effect to the purchase accounting impacts and one-time costs of acquisitions and non-core items, although these measures are not necessarily comparable to similar measures that may be presented by other companies and should not be considered in isolation or as a substitute for the related GAAP measure.

Non-GAAP Reconciliation of Net Interest Margin

(Dollar Amounts in Thousands, Unaudited)

	Three Months Ended			**Nine Months Ended**	
	September 30 2015	**June 30 2015**	**September 30 2014**	**September 30 2015**	**September 30 2014**
Net Interest Margin As Reported					
Net interest income	**$ 19,776**	$ 17,850	$ 16,400	**$ 54,512**	$ 46,460
Average interest-earning assets	**2,304,515**	2,008,191	1,877,066	**2,072,276**	1,770,187
	3.51%	3.67%	3.59%	**3.59%**	3.62%

Net interest income as a percent of average interest-earning assets (Net Interest Margin)										
Impact of Acquisitions										
Interest income from acquisition-related purchase accounting adjustments (PAUs)	**$**	**(402)**	$	(797)	$	(438)	**$**	**(2,282)**	$	(2,027)
Excluding Impact of Acquisitions										
Net interest income	**$**	**19,374**	$	17,053	$	15,962	**$**	**52,230**	$	44,433
Average interest-earning assets		**2,304,515**		2,008,191		1,877,066		**2,072,276**		1,770,187
Core Net Interest Margin		**3.44%**		3.51%		3.50%		**3.44%**		3.47%

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2015

Non-GAAP Reconciliation of Net Income and Diluted Earnings per Share

(Dollar in Thousands Except per Share Data, Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2015 (Unaudited)	2014 (Unaudited)	2015 (Unaudited)	2014 (Unaudited)
Non-GAAP Reconciliation of Net Income				
Net income as reported	**$ 4,288**	$ 4,958	**$ 14,374**	$ 13,153
Merger expenses	**3,648**	124	**4,364**	1,335
Tax effect	**(1,219)**	(43)	**(1,402)**	(467)
Net income excluding merger expenses	**6,717**	5,039	**17,336**	14,021
Gain on sale of investment securities		(988)	**(124)**	(988)
Tax effect		346	**43**	346
Net income excluding gain on sale of investment securities	**6,717**	4,396	**17,255**	13,379
Death benefit on bank owned life insurance (BOLI)			**(145)**	
Tax effect			**51**	
Net income excluding death benefit on BOLI	**6,717**	4,396	**17,161**	13,379
Acquisition-related PAUs	**(402)**	(438)	**(2,282)**	(2,027)
Tax effect	**141**	153	**799**	709
Net income excluding PAUs	**$ 6,456**	$ 4,112	**$ 15,678**	$ 12,061
Non-GAAP Reconciliation of Diluted Earnings per Share				
Diluted earnings per share as reported	**$ 0.36**	$ 0.51	**$ 1.37**	$ 1.39
Merger expenses	**0.30**	0.01	**0.42**	0.14
Tax effect	**(0.10)**	(0.00)	**(0.13)**	(0.05)

Diluted earnings per share excluding merger expenses		**0.56**		0.52		**1.66**		1.48
Gain on sale of investment securities				(0.10)		**(0.01)**		(0.11)
Tax effect				0.03		**0.00**		0.04
Net income excluding gain on sale of investment securities		**0.56**		0.45		**1.65**		1.41
Death benefit on BOLI						**(0.01)**		
Tax effect						**0.00**		
Net income excluding death benefit on BOLI		**0.56**		0.45		**1.64**		1.41
Acquisition-related PAUs		**(0.03)**		(0.05)		**(0.22)**		(0.22)
Tax effect		**0.01**		0.02		**0.08**		0.08
Diluted earnings per share excluding PAUs	**$**	**0.54**	$	0.42	**$**	**1.50**	$	1.27

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market Risk

For the Three and Nine Months ended June 30, 2015

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We refer you to Horizon s 2014 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 2014 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

Based on an evaluation of disclosure controls and procedures as of September 30, 2015, 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 September 30, 2015, 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.

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Part II Other Information

For the Three and Nine Months ended September 30, 2015

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 2014.

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

Table of Contents

HORIZON BANCORP AND SUBSIDIARIES

Part II Other Information

For the Three and Nine Months ended September 30, 2015

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit No.	Description
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

59

Table of Contents

SIGNATURES

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

	HORIZON BANCORP
Dated: November 9, 2015	/s/ Craig M. Dwight Craig M. Dwight Chief Executive Officer
Dated: November 9, 2015	/s/ Mark E. Secor Mark E. Secor Chief Financial Officer

Table of Contents

INDEX TO EXHIBITS

Exhibit No.	Description	Location
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