

HORIZON BANCORP /IN/
Form 10-Q
August 10, 2015
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HORIZON BANCORP

FORM 10-Q

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

Commission file number 0-10792

HORIZON BANCORP

(Exact name of registrant as specified in its charter)

Indiana
(State or other jurisdiction of

35-1562417
(I.R.S. Employer

incorporation or organization)

Identification No.)

515 Franklin Square, Michigan City, Indiana
(Address of principal executive offices)

46360
(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 ☒ 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 ☒ 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 ☒

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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 9,256,026 shares of Common Stock, no par value, at August 10, 2015.

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Table of Contents**PART 1 FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****HORIZON BANCORP AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(Dollar Amounts in Thousands)

	June 30 2015 (Unaudited)	December 31 2014
Assets		
Cash and due from banks	\$ 43,857	\$ 43,476
Investment securities, available for sale	330,970	323,764
Investment securities, held to maturity (fair value of \$167,581 and \$169,904)	162,661	165,767
Loans held for sale	7,677	6,143
Loans, net of allowance for loan losses of \$16,421 and \$16,501	1,502,862	1,362,053
Premises and equipment, net	54,778	52,461
Federal Reserve and Federal Home Loan Bank stock	11,080	11,348
Goodwill	28,176	28,176
Other intangible assets	3,531	3,965
Interest receivable	8,823	8,246
Cash value of life insurance	39,897	39,382
Other assets	24,995	32,141
Total assets	\$ 2,219,307	\$ 2,076,922
Liabilities		
Deposits		
Non-interest bearing	\$ 307,215	\$ 267,667
Interest bearing	1,277,508	1,214,652
Total deposits	1,584,723	1,482,319
Borrowings	385,236	351,198
Subordinated debentures	32,719	32,642
Interest payable	461	497
Other liabilities	14,037	15,852
Total liabilities	2,017,176	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

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Common stock, no par value Authorized, 22,500,000 shares Issued, 9,313,779 and 9,278,916 shares Outstanding, 9,256,026 and 9,213,036 shares

Additional paid-in capital	46,622	45,916
Retained earnings	141,889	134,477
Accumulated other comprehensive income	1,120	1,521
 Total stockholders' equity	 202,131	 194,414
 Total liabilities and stockholders' equity	 \$ 2,219,307	 \$ 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 June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest Income				
Loans receivable	\$ 17,981	\$ 16,631	\$ 34,843	\$ 29,585
Investment securities				
Taxable	2,067	2,395	4,221	4,785
Tax exempt	1,079	1,096	2,156	2,219
Total interest income	21,127	20,122	41,220	36,589
Interest Expense				
Deposits	1,237	1,355	2,469	2,632
Borrowed funds	1,539	1,478	3,018	2,900
Subordinated debentures	501	501	997	997
Total interest expense	3,277	3,334	6,484	6,529
Net Interest Income	17,850	16,788	34,736	30,060
Provision for loan losses	1,906	339	2,520	339
Net Interest Income after Provision for Loan Losses	15,944	16,449	32,216	29,721
Non-interest Income				
Service charges on deposit accounts	1,085	1,038	2,084	1,961
Wire transfer fees	182	145	333	257
Interchange fees	1,366	1,254	2,468	2,213
Fiduciary activities	1,216	1,199	2,513	2,247
Gain on sale of investment securities (includes \$0 for the three months ended and \$124 for the six months ended June 30, 2015 and \$0 for the three and six months ended June 30, 2014, related to accumulated other comprehensive earnings reclassifications)			124	
Gain on sale of mortgage loans	2,642	2,537	5,021	3,948
Mortgage servicing income net of impairment	300	233	479	440
Increase in cash value of bank owned life insurance	257	252	515	485
Death benefit on bank owned life insurance			145	
Other income	138	(31)	570	598

Total non-interest income	7,186	6,627	14,252	12,149
Non-interest Expense				
Salaries and employee benefits	8,385	8,293	16,889	15,776
Net occupancy expenses	1,375	1,360	2,926	2,784
Data processing	966	937	1,889	1,807
Professional fees	660	419	1,187	1,027
Outside services and consultants	918	1,298	1,544	1,959
Loan expense	1,367	1,272	2,624	2,287
FDIC insurance expense	339	285	676	541
Other losses	150	95	105	133
Other expense	2,490	2,449	4,878	4,608
Total non-interest expense	16,650	16,408	32,718	30,922
Income Before Income Tax	6,480	6,668	13,750	10,948
Income tax expense (includes \$0 for the three months ended and \$43 for the six months ended June 30, 2015 and \$0 for the three and six months ended June 30, 2014, related to income tax expense from reclassification items)	1,752	1,890	3,664	2,753
Net Income	4,728	4,778	10,086	8,195
Preferred stock dividend	(31)	(32)	(63)	(63)
Net Income Available to Common Shareholders	\$ 4,697	\$ 4,746	\$ 10,023	\$ 8,132
Basic Earnings Per Share	\$ 0.51	\$ 0.52	\$ 1.09	\$ 0.91
Diluted Earnings Per Share	0.49	0.50	1.04	0.88
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 June 30		Six Months Ended June 30	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net Income	\$ 4,728	\$ 4,778	\$ 10,086	\$ 8,195
Other Comprehensive Income				
Change in fair value of derivative instruments:				
Change in fair value of derivative instruments for the period	511	(317)	182	(542)
Income tax effect	(179)	111	(64)	190
Changes from derivative instruments	332	(206)	118	(352)
Change in securities available-for-sale:				
Unrealized appreciation (depreciation) for the period on AFS securities	(2,364)	2,336	(650)	6,762
Unrealized depreciation for the period on held-to-maturity	(158)	(108)	(272)	(108)
Reclassification adjustment for securities gains realized in income			124	
Income tax effect	882	(779)	279	(2,329)
Unrealized gains (losses) on available-for-sale securities	(1,640)	1,449	(519)	4,325
Other Comprehensive Income (Loss), Net of Tax	(1,308)	1,243	(401)	3,973
Comprehensive Income	\$ 3,420	\$ 6,021	\$ 9,685	\$ 12,168

See notes to condensed consolidated financial statements

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			10,086		10,086
Other comprehensive income, net of tax				(401)	(401)
Amortization of unearned compensation		179			179
Exercise of stock options		290			290
Tax benefit related to stock options		99			99
Stock option expense		138			138
Cash dividends on preferred stock (1.00%)			(63)		(63)
Cash dividends on common stock (\$.28 per share)			(2,611)		(2,611)
Balances, June 30, 2015	\$ 12,500	\$ 46,622	\$ 141,889	\$ 1,120	\$ 202,131

See notes to condensed consolidated financial statements

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

(Dollar Amounts in Thousands)

	Six Months Ended June 30	
	2015	2014
	(Unaudited)	(Unaudited)
Operating Activities		
Net income	\$ 10,086	\$ 8,195
Items not requiring (providing) cash		
Provision for loan losses	2,520	339
Depreciation and amortization	1,883	1,805
Share based compensation	138	87
Mortgage servicing rights net (recovery) impairment	356	(38)
Premium amortization on securities available for sale, net	1,289	1,132
Gain on sale of investment securities	(124)	
Gain on sale of mortgage loans	(5,021)	(3,948)
Proceeds from sales of loans	155,746	93,991
Loans originated for sale	(152,259)	(94,048)
Change in cash value of life insurance	(515)	(485)
Gain on sale of other real estate owned	(206)	(173)
Net change in		
Interest receivable	(577)	(432)
Interest payable	(36)	(50)
Other assets	4,099	702
Other liabilities	(1,511)	(1,190)
Net cash provided by operating activities	15,868	5,887
Investing Activities		
Purchases of securities available for sale	(47,958)	(52,484)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	40,359	35,828
Purchases of securities held to maturity		(4,839)
Proceeds from maturities of securities held to maturity	1,535	7,900
Purchase of Federal Reserve Bank stock		(6)
Proceeds from the sale of FHLB stock	268	
Net change in loans	(142,131)	(130,424)
Proceeds on the sale of OREO and repossessed assets	1,793	2,095
Purchases of premises and equipment	(3,587)	(3,326)
Acquisition of SCB		7,925
Purchase of Mortgage Company		(736)

Net cash used in investing activities	(149,721)	(138,067)
Financing Activities		
Net change in		
Deposits	102,404	86,564
Borrowings	34,115	66,993
Proceeds from issuance of stock	389	
Dividends paid on common shares	(2,611)	(2,231)
Dividends paid on preferred shares	(63)	(63)
Net cash provided by financing activities	134,234	151,263
Net Change in Cash and Cash Equivalents	381	19,083
Cash and Cash Equivalents, Beginning of Period	43,476	31,721
Cash and Cash Equivalents, End of Period	\$ 43,857	\$ 50,804
Additional Supplemental Information		
Interest paid	\$ 6,519	\$ 6,527
Income taxes paid	3,700	600
Transfer of loans to other real estate owned	(1,384)	1,999
Transfer of available-for-sale securities to held-to-maturity		167,047
The Company purchased all of the capital stock of Summit for \$18,896. In conjunction with the acquisition, liabilities were assumed as follows:		158,585
Fair value of assets acquired		6,207
Cash paid to retire Summit debt		1,029
Cash paid for the capital stock		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 June 30, 2015 and June 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		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Basic earnings per share				
Net income	\$ 4,728	\$ 4,778	\$ 10,086	\$ 8,195
Less: Preferred stock dividends	31	32	63	63
Net income available to common shareholders	\$ 4,697	\$ 4,746	\$ 10,023	\$ 8,132
Weighted average common shares outstanding	9,240,005	9,182,986	9,228,075	8,908,492
Basic earnings per share	\$ 0.51	\$ 0.52	\$ 1.09	\$ 0.91

Diluted earnings per share

Net income available to common shareholders	\$ 4,697	\$ 4,746	\$ 10,023	\$ 8,132
Weighted average common shares outstanding	9,240,005	9,182,986	9,228,075	8,908,492
Effect of dilutive securities:				
Warrants	324,698	303,399	323,198	308,060
Restricted stock	34,892	38,003	30,816	38,717
Stock options	37,991	36,551	33,462	38,154
Weighted average shares outstanding	9,637,586	9,560,939	9,615,551	9,293,423
Diluted earnings per share	\$ 0.49	\$ 0.50	\$ 1.04	\$ 0.88

There were 2,500 and 41,444 shares for the three and six months ended June 30, 2015, respectively, and 45,766 shares for both the three and six months ended June 30, 2014 which were not included in the computation of diluted earnings per share because they were non-dilutive.

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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 February 18, 2015, Horizon entered into an Agreement and Plan of Merger (the *Merger Agreement*) providing for Horizon's acquisition of Peoples Bancorp, Inc., an Indiana corporation (*Peoples*). Pursuant to the Merger Agreement, Peoples would merge with and into Horizon, with Horizon surviving the merger (the *Merger*), and Peoples Federal Savings Bank of DeKalb County (*Peoples FSB*), a federally chartered stock savings bank and wholly owned subsidiary of Peoples, would merge with and into a wholly owned subsidiary of Horizon, Horizon Bank, N.A. (*Horizon Bank*), with Horizon Bank as the surviving bank.

On July 1, 2015 Horizon completed the acquisition of Peoples and Horizon Bank N.A.'s acquisition of 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.

As of July 1, 2015, Peoples had total assets of approximately \$462.7 million, total deposits of approximately \$350.6 million and total net loans of approximately \$226.6 million.

Utilizing June 30, 2015 financials for both Horizon and Peoples and an estimate of the fair market value adjustments associated with the merger, Horizon would have total assets of approximately \$2.7 billion, total deposits of approximately \$1.9 billion and total net loans of approximately \$1.7 billion on a pro forma basis. The accounting for the business combination is not yet complete and therefore all required disclosures for a business combination have not been provided.

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 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.

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

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

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 preliminary 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		Borrowings	
	2,548		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 estimated 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 loans in the acquisition and the transferred loans had evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and 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 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.

Final estimates of certain loans, those for which 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.

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

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.

Note 3 Securities

The fair value of securities is as follows:

June 30, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	\$ 28,308	\$ 35	\$ (104)	\$ 28,239
State and municipal	49,739	1,212	(168)	50,783
Federal agency collateralized mortgage obligations	116,674	973	(705)	116,942
Federal agency mortgage-backed pools	132,762	2,661	(473)	134,950
Corporate notes	32	24		56
Total available for sale investment securities	\$ 327,515	\$ 4,905	\$ (1,450)	\$ 330,970
Held to maturity				
U.S. Treasury and federal agencies	\$ 9,845	\$ 102	\$	\$ 9,947
State and municipal	127,452	4,416	(511)	131,357
	3,670	33	(22)	3,681

Federal agency collateralized mortgage obligations				
Federal agency mortgage-backed pools	21,694	1,064	(162)	22,596
Total held to maturity investment securities	\$ 162,661	\$ 5,615	\$ (695)	\$ 167,581

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
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

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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 June 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 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 June 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 June 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.

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

	June 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Within one year	\$ 6,436	\$ 6,477	\$ 6,098	\$ 6,169
One to five years	50,332	51,057	44,720	45,093
Five to ten years	15,380	15,571	16,147	16,768
After ten years	5,931	5,973	6,598	6,790
	78,079	79,078	73,563	74,820
Federal agency collateralized mortgage obligations	116,674	116,942	122,930	122,860
Federal agency mortgage-backed pools	132,762	134,950	122,583	125,395
Private labeled mortgage-backed pools			670	689
Total available for sale investment securities	\$ 327,515	\$ 330,970	\$ 319,746	\$ 323,764
Held to maturity				
Within one year	\$	\$	\$	\$
One to five years	8,184	8,319	592	593
Five to ten years	101,504	105,071	99,225	101,323
After ten years	27,609	27,914	39,582	40,857
	137,297	141,304	139,399	142,773
Federal agency collateralized mortgage obligations	3,670	3,681	4,039	4,073
Federal agency mortgage-backed pools	21,694	22,596	22,329	23,058
Total held to maturity investment securities	\$ 162,661	\$ 167,581	\$ 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.

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2015						
U.S. Treasury and federal agencies	\$ 4,469	\$ (14)	\$ 13,897	\$ (90)	\$ 18,366	\$ (104)
State and municipal	38,471	(667)	1,249	(12)	39,720	(679)

Federal agency collateralized mortgage obligations	24,435	(170)	28,098	(557)	52,533	(727)
Federal agency mortgage-backed pools	23,044	(208)	26,017	(427)	49,061	(635)
Total temporarily impaired securities	\$ 90,419	\$ (1,059)	\$ 69,261	\$ (1,086)	\$ 159,680	\$ (2,145)

	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 June 30		Six Months Ended June 30	
	2015	2014	2015	2014
Sales of securities available for sale (Unaudited)				
Proceeds	\$	\$	\$ 13,332	\$
Gross gains			147	
Gross losses			(23)	

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

Note 4 Loans

	June 30 2015	December 31 2014
Commercial		
Working capital and equipment	\$ 323,709	\$ 300,940
Real estate, including agriculture	353,859	343,455
Tax exempt	8,665	8,595
Other	23,713	21,324
Total	709,946	674,314
Real estate		
1 - 4 family	273,753	250,799
Other	3,654	3,826
Total	277,407	254,625
Consumer		
Auto	166,501	154,538
Recreation	5,676	5,673
Real estate/home improvement	41,309	38,288
Home equity	112,095	112,426
Unsecured	3,711	3,613
Other	6,714	5,921
Total	336,006	320,459
Mortgage warehouse	195,924	129,156
Total loans	1,519,283	1,378,554
Allowance for loan losses	(16,421)	(16,501)
Loans, net	\$ 1,502,862	\$ 1,362,053

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.

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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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.

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

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

June 30, 2015	Loan Balance	Interest	Deferred DueFees / (Costs)	Recorded Investment
Owner occupied real estate	\$ 238,883	\$ 471	\$ 611	\$ 239,965
Non owner occupied real estate	313,871	326	488	314,685
Residential spec homes	2,606	2	18	2,626
Development & spec land loans	13,593	32	27	13,652
Commercial and industrial	139,823	802	26	140,651
Total commercial	708,776	1,633	1,170	711,579
Residential mortgage	257,795	816	525	259,136
Residential construction	19,087	34		19,121
Mortgage warehouse	195,924	480		196,404
Total real estate	472,806	1,330	525	474,661
Direct installment	44,119	138	(398)	43,859
Direct installment purchased	179			179
Indirect installment	152,268	313		152,581
Home equity	140,316	555	(478)	140,393
Total consumer	336,882	1,006	(876)	337,012
Total loans	1,518,464	3,969	819	1,523,252
Allowance for loan losses	(16,421)			(16,421)
Net loans	\$ 1,502,043	\$ 3,969	\$ 819	\$ 1,506,831

December 31, 2014	Loan Balance	Interest	Deferred DueFees / (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

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(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:

	June 30 2015 Heartland	June 30 2015 Summit	June 30 2015 Total
Commercial	14,586	55,822	\$ 70,408
Real estate	8,284	20,617	28,901
Consumer	6,243	7,009	13,252
Outstanding balance	\$ 29,113	\$ 83,448	\$ 112,561
Carrying amount, net of allowance of \$283			\$ 112,278

	December 31 2014 Heartland	December 31 2014 Summit	December 31 2014 Total
Commercial	\$ 18,307	\$ 66,371	\$ 84,678
Real estate	9,734	24,653	34,387
Consumer	8,447	8,975	17,422

Outstanding balance	\$	36,488	\$	99,999	\$	136,487
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Carrying amount, net of allowance of \$359					\$	136,128
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Accretable yield, or income expected to be collected for the six months ended June 30, is as follows:

	Six Months Ended June 30, 2015		
	Heartland	Summit	Total
Balance at January 1	\$ 2,400	\$ 1,268	\$ 3,668
Additions			
Accretion	(205)	(180)	(385)
Reclassification from nonaccretable difference			
Disposals	(117)	(49)	(166)
Balance at June 30	\$ 2,078	\$ 1,039	\$ 3,117

	Six Months Ended June 30, 2014		
	Heartland	Summit	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 June 30	\$ 2,802	\$ 1,758	\$ 4,560

During the six months ended June 30, 2015 and 2014, the Company decreased the allowance for loan losses on purchased loans by a recovery to the income statement of \$76,000 and \$0, respectively.

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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		Six Months Ended	
	June 30		June 30	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Balance at beginning of the period	\$ 16,634	\$ 16,102	\$ 16,501	\$ 15,992
Loans charged-off:				
Commercial				
Owner occupied real estate	1,422		1,422	
Non owner occupied real estate			16	22
Residential development				
Development & Spec Land Loans		166		173
Commercial and industrial	253	127	253	127
Total commercial	1,675	293	1,691	322
Real estate				
Residential mortgage	164	172	186	194
Residential construction				
Mortgage warehouse				
Total real estate	164	172	186	194
Consumer				
Direct Installment	96	44	155	77
Direct Installment Purchased				
Indirect Installment	196	341	565	568
Home Equity	304	247	504	431
Total consumer	596	632	1,224	1,076
Total loans charged-off	2,435	1,097	3,101	1,592

Recoveries of loans previously charged-off:

Commercial				
Owner occupied real estate	78	2	86	6
Non owner occupied real estate		74		75
Residential development				
Development & Spec Land Loans				
Commercial and industrial	14	32	33	417
Total commercial	92	108	119	498
Real estate				
Residential mortgage	3	3	5	7
Residential construction				
Mortgage warehouse				
Total real estate	3	3	5	7
Consumer				
Direct Installment	47	21	76	39
Direct Installment Purchased				
Indirect Installment	134	147	235	266
Home Equity	40	37	66	111
Total consumer	221	205	377	416
Total loan recoveries	316	316	501	921
Net loans charged-off (recovered)	2,119	781	2,600	671
Provision charged to operating expense				
Commercial	2,093	(93)	2,048	119
Real estate	(29)	(383)	904	(987)
Consumer	(158)	815	(432)	1,207
Total provision charged to operating expense	1,906	339	2,520	339
Balance at the end of the period	\$ 16,421	\$ 15,660	\$ 16,421	\$ 15,660

Certain loans are individually evaluated for impairment, and the Company's general practice is to proactively charge down impaired loans to the fair value of the underlying collateral.

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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:

	Mortgage					
June 30, 2015	Commercial	Real Estate	Warehousing	Consumer	Total	
Allowance For Loan Losses						
Ending allowance balance attributable to loans:						
Individually evaluated for impairment	\$ 1,291	\$	\$	\$	\$	1,291
Collectively evaluated for impairment	6,841	3,044	1,319	3,672		14,876
Loans acquired with deteriorated credit quality	254					254
Total ending allowance balance	\$ 8,386	\$ 3,044	\$ 1,319	\$ 3,672	\$	16,421

Loans:

Individually evaluated for impairment	\$ 10,274	\$	\$	\$	\$ 10,274
Collectively evaluated for impairment	699,576	278,257	196,404	337,012	1,511,249
Loans acquired with deteriorated credit quality	1,729				1,729
Total ending loans balance	\$ 711,579	\$ 278,257	\$ 196,404	\$ 337,012	\$ 1,523,252

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

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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:

June 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	\$ 4,447	\$	\$	\$ 150	\$ 4,597
Non owner occupied real estate	4,898	207	2,352	68	7,525
Residential development					
Development & Spec Land Loans					
Commercial and industrial	477		785		1,262
Total commercial	9,822	207	3,137	218	13,384
Real estate					
Residential mortgage	2,319		760	2,482	5,561
Residential construction			258		258
Mortgage warehouse					
Total real estate	2,319		1,018	2,482	5,819
Consumer					
Direct Installment	447				447
Direct Installment Purchased					
Indirect Installment	405				405
Home Equity	2,057		368	571	2,996
Total Consumer	2,909		368	571	3,848
Total	\$ 15,050	\$ 207	\$ 4,523	\$ 3,271	\$ 23,051

December 31, 2014	Non-accrual	Loans Past Due Over 90	Non- Performing	Performing TDRs	Total Non- Performing
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		Days Still Accruing	TDRs		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

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Included in the \$15.1 million of non-accrual loans and the \$4.5 million of non-performing TDRs at June 30, 2015 were \$679,000 and \$302,000, 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, which is the appraised value less estimated selling costs. 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 June 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 six consecutive payments but is still reported as TDR unless the loan bears interest at a market rate. As of June 30, 2015, the Company had \$7.8 million in TDRs and \$3.3 million were performing according to the restructured terms and four TDR were returned to accrual status during the first six months of 2015. There was \$792,000 of specific reserves allocated to TDRs at June 30, 2015 based on the discounted cash flows or when appropriate the fair value of the collateral.

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

Loans transferred and classified as troubled debt restructuring during the three and six months ended June 30, 2015 and 2014, segregated by class, are shown in the table below.

	Three Months Ending		Three Months Ending		Six Months Ending		Six Months Ending	
	June 30, 2015		June 30, 2014		June 30, 2015		June 30, 2014	
	Unpaid		Unpaid		Unpaid		Unpaid	
	Number of	Principal	Number of	Principal	Number of	Principal	Number of	Principal
	Defaults	Balance	Defaults	Balance	Defaults	Balance	Defaults	Balance
Commercial								
Owner occupied real estate	2	\$ 111		\$	3	\$ 2,462		\$
Non owner occupied real estate								
Residential development								
Development & Spec Land Loans								
Commercial and industrial							2	371
Total commercial	2	111			3	2,462	2	371
Real estate								
Residential mortgage	1	81	1	226	1	81	1	226
Residential construction								
Mortgage warehouse								
Total real estate	1	81	1	226	1	81	1	226
Consumer								
Direct Installment								
Direct Installment Purchased								
Indirect Installment								
Home Equity			1	51	1	32	2	196
Total Consumer			1	51	1	32	2	196
Total	3	\$ 192	2	\$ 277	5	\$ 2,575	5	\$ 793

Troubled debt restructured loans which had payment defaults during the three and six months ended June 30, 2015 and 2014, segregated by class, are shown in the table below. Default occurs when a loan is 90 days or more past due or has been transferred to non-accrual.

	Three Months Ending		Three Months Ending		Six Months Ending		Six Months Ending	
	June 30, 2015		June 30, 2014		June 30, 2015		June 30, 2014	
	Unpaid		Unpaid		Unpaid		Unpaid	
	Number of	Principal	Number of	Principal	Number of	Principal	Number of	Principal
	Defaults	Balance	Defaults	Balance	Defaults	Balance	Defaults	Balance
Commercial								
Owner occupied real estate		\$		\$	1	\$ 2,352		\$
Non owner occupied real estate								
Residential development								
Development & Spec Land Loans								
Commercial and industrial							2	371
Total commercial					1	2,352	2	371
Real estate								
Residential mortgage	1	81	1	223	1	81	2	377
Residential construction								
Mortgage warehouse								
Total real estate	1	81	1	223	1	81	2	377
Consumer								
Direct Installment								
Direct Installment Purchased								
Indirect Installment								
Home Equity	1	32	1	51	1	32	2	196
Total Consumer	1	32	1	51	1	32	2	196
Total	2	\$ 113	2	\$ 274	3	\$ 2,465	6	\$ 944

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

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

				Three Months Ending Average Cash/Accrual Balance in Impaired Loans	Interest Income Recognized	Six Months Ending Average Cash/Accrual Balance in Impaired Loans	Interest Income Recognized
June 30, 2015	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Loss Allocated				
With no recorded allowance							
Commercial							
Owner occupied real estate	\$ 1,605	\$ 1,606	\$	\$ 1,350	\$ 17	\$ 1,118	\$ 17
Non owner occupied real estate	2,820	2,824		3,168	7	3,270	14
Residential development							
Development & Spec Land							
Loans							
Commercial and industrial	379	379		639		599	
Total commercial	4,804	4,809		5,157	24	4,987	31
With an allowance recorded							
Commercial							
Owner occupied real estate	2,991	2,991	593	4,366	54	1,992	54
Non owner occupied real estate	1,590	1,590	200	1,590		1,590	
Residential development							
Development & Spec Land							
Loans							
Commercial and industrial	884	884	498	1,008		974	
Total commercial	5,465	5,465	1,291	6,964	54	4,556	54
Total	\$ 10,269	\$ 10,274	\$ 1,291	\$ 12,121	\$ 78	\$ 9,543	\$ 85

				Three Months Ending Average Cash/Accrual	Three Months Ending Average Cash/Accrual	Six Months Ending Average Cash/Accrual	Six Months Ending Average Cash/Accrual
	Unpaid Principal Balance	Recorded Investment	Loan Loss Allocated	Balance in Impaired Loans	Interest Income Recognized	Balance in Impaired Loans	Interest Income Recognized
June 30, 2014							
With no recorded allowance							
Commercial							
Owner occupied real estate	\$ 2,121	\$ 2,124	\$	\$ 1,885	\$ 40	\$ 1,432	\$ 51
Non owner occupied real estate	3,244	3,246		3,270	93	3,283	98
Residential development							
Development & Spec Land							
Loans							
Commercial and industrial	283	283		441		466	
Total commercial	5,648	5,653		5,596	133	5,181	149
With an allowance recorded							
Commercial							
Owner occupied real estate							
Non owner occupied real estate	340	340	170	342		347	
Residential development							
Development & Spec Land							
Loans							
Commercial and industrial	1,722	1,722	965	1,710		1,570	2
Total commercial	2,062	2,062	1,135	2,052		1,917	2
Total	\$ 7,710	\$ 7,715	\$ 1,135	\$ 7,648	\$ 133	\$ 7,098	\$ 151

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

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

June 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	\$ 157	\$ 21	\$	\$ 178	\$ 238,705	\$ 238,883
Non owner occupied real estate	82		207	289	313,582	313,871
Residential development					2,606	2,606
Development & Spec Land Loans					13,593	13,593
Commercial and industrial	591	46		637	139,186	139,823
Total commercial	830	67	207	1,104	707,672	708,776
Real estate						
Residential mortgage	308	147		455	257,340	257,795
Residential construction					19,087	19,087
Mortgage warehouse					195,924	195,924
Total real estate	308	147		455	472,351	472,806
Consumer						
Direct Installment	138	41		179	43,940	44,119
Direct Installment Purchased					179	179
Indirect Installment	721	130		851	151,417	152,268
Home Equity	699	245		944	139,372	140,316
Total consumer	1,558	416		1,974	334,908	336,882
Total	\$ 2,696	\$ 630	\$ 207	\$ 3,533	\$ 1,514,931	\$ 1,518,464
Percentage of total loans	0.18%	0.04%	0.01%	0.23%	99.77%	

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.

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).

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

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.

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

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

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

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

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

Risk Grade 4 Satisfactory/Monitored:

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.

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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.

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

The following table presents loans by credit grades.

June 30, 2015	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Owner occupied real estate	\$ 224,414	\$ 6,299	\$ 8,170	\$	\$ 238,883
Non owner occupied real estate	303,292	2,442	8,137		313,871
Residential development	2,606				2,606
Development & Spec Land Loans	13,520	73			13,593
Commercial and industrial	136,586	991	2,246		139,823
Total commercial	680,416	9,805	18,553		708,776
Real estate					
Residential mortgage	252,234		5,561		257,795
Residential construction	18,829		258		19,087
Mortgage warehouse	195,924				195,924
Total real estate	466,987		5,819		472,806
Consumer					
Direct Installment	43,672		447		44,119
Direct Installment Purchased	179				179
Indirect Installment	151,863		405		152,268
Home Equity	137,320		2,996		140,316
Total Consumer	333,034		3,848		336,882
Total	\$ 1,480,437	\$ 9,805	\$ 28,220	\$	\$ 1,518,464
Percentage of total loans	97.50%	0.65%	1.86%	0.00%	

December 31, 2014	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Owner occupied real estate	\$ 215,875	\$ 7,623	\$ 4,883	\$	\$ 228,381
Non owner occupied real estate	283,518	4,458	9,323		297,299
Residential development	2,027				2,027

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Development & Spec Land Loans	12,018	79		12,097
Commercial and industrial	128,589	1,799	2,868	133,256
Total commercial	642,027	13,959	17,074	673,060
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	\$ 1,335,854	\$ 13,959	\$ 27,661	\$ 1,377,473
Percentage of total loans	96.98%	1.01%	2.01%	0.00%

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(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 reacquire 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						Total
	Overnight and Continuous	Up to one year	One to three years	Three to five years	Five to ten years	Beyond ten years	
Repurchase Agreements and repurchase-to-maturity transactions							
Repurchase Agreements - Long-term	\$ 57,731	\$	\$ 35,000	\$ 50,000	\$ 10,000	\$	\$ 152,731
Securities lending transactions							
U.S. Treasury and federal agencies	\$ 8,468	\$	\$	\$	\$	\$	\$ 8,468
Federal agency collateralized mortgage obligations	41,140		87	1,020	7,413	46,412	96,071
Federal agency mortgage-backed pools	10,560			541	8,574	41,476	61,151
Total	60,168		87	1,561	15,987	87,888	165,691
Total borrowings	\$ (2,437)	\$	\$ 34,913	\$ 48,439	\$ (5,987)	\$ (87,888)	\$ (12,960)
Gross amount of recognized liabilities for repurchase agreements and securities lending							\$ 152,731

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 June 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 June 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 June 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.

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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 \$111.7 million at June 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 June 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:

Derivatives designated as hedging instruments (Unaudited)	Asset Derivative June 30, 2015		Liability Derivatives June 30, 2015	
	Balance Sheet		Balance Sheet	
	Location	Fair Value	Location	Fair Value
Interest rate contracts	Loans	\$	Other liabilities	\$ 1,022
Interest rate contracts	Other Assets	1,022	Other liabilities	3,155
Total derivatives designated as hedging instruments		1,022		4,177
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	751	Other liabilities	32
Total derivatives not designated as hedging instruments		751		32
Total derivatives		\$ 1,773		\$ 4,209

Derivatives designated as hedging instruments (Unaudited)	Asset Derivative December 31, 2014		Liability Derivatives December 31, 2014	
	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

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

	Comprehensive Income on Derivative (Effective Portion) Three Months Ended June 30		Comprehensive Income on Derivative (Effective Portion) Six Months Ended June 30	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	2015	2014	2015	2014
Derivative in cash flow hedging relationship	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest rate contracts	\$ 332	\$ (206)	\$ 118	\$ (352)

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.

	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended June 30		Amount of Gain (Loss) Recognized on Derivative Six Months Ended June 30	
		2015	2014	2015	2014
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		2015	2014	2015	2014
Derivative in fair value hedging relationship		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest rate contracts	Interest income - loans	\$ (1,186)	\$ 544	\$ (186)	\$ 751
Interest rate contracts	Interest income - loans	1,186	(544)	186	(751)
Total		\$	\$	\$	\$

	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended June 30		Amount of Gain (Loss) Recognized on Derivative Six Months Ended June 30	
		2015	2014	2015	2014
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		2015	2014	2015	2014
Derivative not designated as hedging relationship		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Mortgage contracts	Other income - gain on sale of loans	\$ 83	\$ 210	\$ 272	\$ 450

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 June 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.

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

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

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 Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fair Value					
June 30, 2015						
Available-for-sale securities						
U.S. Treasury and federal agencies	\$ 28,239	\$		\$ 28,239	\$	

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State and municipal	50,783	50,783
Federal agency collateralized mortgage obligations	116,942	116,942
Federal agency mortgage-backed pools	134,950	134,950
Corporate notes	56	56
 Total available-for-sale securities	 330,970	 330,970
Hedged loans	109,448	109,448
Forward sale commitments	751	751
Interest rate swap agreements	(4,177)	(4,177)
Commitments to originate loans	(32)	(32)
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	(4,546)	(4,546)

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

	Three Months Ended June 30		Six Months Ended June 30	
Non Interest Income				
	2015	2014	2015	2014
Total gains and losses from:	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Hedged loans	\$ (1,186)	\$ 544	\$ (186)	\$ 751
Fair value interest rate swap agreements	1,186	(544)	186	(751)
Derivative loan commitments	83	210	272	450
	\$ 83	\$ 210	\$ 272	\$ 450

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)
June 30, 2015				
Impaired loans	\$ 8,978	\$	\$	\$ 8,978
Mortgage servicing rights	8,279			8,279
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 decreased by \$18,000 during the first six months of 2015 and increased by \$38,000 during the first six months of 2014.

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

	Fair Value at June 30, 2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans			Discount to reflect current market conditions and ultimate collectability	
	\$ 8,978	Collateral based measurement		10% - 15% (12%)
Mortgage servicing rights			Discount rate, Constant prepayment rate, Probability of default	
	\$ 8,279	Discounted cashflows		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			Discount to reflect current market conditions and ultimate collectability	
	\$ 9,464	Collateral based measurement		10% - 15% (12%)
Mortgage servicing rights			Discount rate, Constant prepayment rate, Probability of default	
	\$ 7,642	Discounted cashflows		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 June 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.

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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.

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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).

	June 30, 2015			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount			
Assets				
Cash and due from banks	\$ 43,857	\$ 43,857	\$	\$
Investment securities, held to maturity	162,661		167,581	
Loans held for sale	7,677			7,677
Loans excluding loan level hedges, net	1,393,414			1,426,252
Stock in FHLB and FRB	11,080		11,080	
Interest receivable	8,823		8,823	
Liabilities				
Non-interest bearing deposits	\$ 307,215	\$ 307,215	\$	\$
Interest-bearing deposits	1,277,508		1,204,516	
Borrowings	385,236		381,302	
Subordinated debentures	32,719		32,698	
Interest payable	461		461	

	December 31, 2014			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount			
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

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Note 12 Accumulated Other Comprehensive Income

	June 30 2015	December 31 2014
Unrealized gain on securities available for sale	\$ 3,455	\$ 4,018
Unamortized gain on securities held to maturity, previously transferred from AFS	1,423	1,658
Unrealized loss on derivative instruments	(3,155)	(3,337)
Tax effect	(603)	(818)
Total accumulated other comprehensive income	\$ 1,120	\$ 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 June 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 (June 30, 2015) and Tier I leverage ratios as set forth in the table below. As of June 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 second 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.

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

	Actual		Required For Capital¹		Well Capitalized Under Prompt¹	
	Amount	Ratio	Adequacy Purposes Amount	Ratio	Corrective Action Provisions Amount	Ratio
As of June 30, 2015						
Total capital ¹ (to risk-weighted assets)						
Consolidated	\$ 222,223	13.53%	\$ 131,396	8.00%	N/A	N/A
Bank	192,896	11.76%	131,222	8.00%	\$ 164,027	10.00%
Tier 1 capital ¹ (to risk-weighted assets)						
Consolidated	205,802	12.53%	98,548	6.00%	N/A	N/A
Bank	176,475	10.76%	98,406	6.00%	131,208	8.00%
Common equity tier 1 capital ¹ (to risk-weighted assets)						
Consolidated	160,234	9.75%	73,954	4.50%	N/A	N/A
Bank	176,475	10.76%	73,805	4.50%	106,607	6.50%
Tier 1 capital ¹ (to average assets)						
Consolidated	205,802	9.61%	85,662	4.00%	N/A	N/A
Bank	176,475	8.24%	85,667	4.00%	107,084	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).

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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

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Management's Discussion and Analysis of Financial Condition

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

Forward Looking Statements

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

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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 South 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 February 18, 2015, Horizon entered into an Agreement and Plan of Merger (the "Merger Agreement") providing for Horizon's acquisition of Peoples Bancorp, Inc., an Indiana corporation ("Peoples"). Pursuant to the Merger Agreement, Peoples would merge with and into Horizon, with Horizon surviving the merger (the "Merger"), and Peoples Federal Savings Bank of DeKalb County ("Peoples FSB"), a federally chartered stock savings bank and wholly owned subsidiary of Peoples, would merge with and into a wholly owned subsidiary of Horizon, Horizon Bank, N.A. ("Horizon Bank"), with Horizon Bank as the surviving bank.

On July 1, 2015 Horizon completed the acquisition of Peoples and Horizon Bank N.A.'s acquisition of 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.

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).

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

On July 1, 2015, Horizon closed the acquisition of Peoples Bancorp and its wholly-owned subsidiary, Peoples Federal Savings Bank of DeKalb County, headquartered in Auburn, Indiana. Peoples' results are not included in Horizon's June 30, 2015 financial results.

Total loans increased 16.2% on an annualized basis during the second quarter of 2015.

Commercial loans increased 8.2% on an annualized basis during the second quarter of 2015.

Second quarter 2015 net income was \$4.7 million or \$.49 diluted earnings per share.

Excluding merger expenses, net income for the second quarter of 2015 was \$5.2 million or \$.54 diluted earnings per share.

Pre-tax, pre-provision income for the second quarter of 2015 was \$8.4 million, an increase of 19.7% compared to the same period of 2014 and 6.4% compared to the previous quarter.

Net income for the first six months of 2015 increased 23.1% compared to the same period of 2014 to \$10.1 million or \$1.04 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 six months of 2015 was \$10.4 million or \$1.09 diluted earnings per share.

Pre-tax, pre-provision income for the first six months of 2015 was \$16.3 million, an increase of 44.1% compared to the first six months of 2014.

Net interest income for the first six months of 2015 increased 15.6% or \$4.7 million compared to the same period in 2014.

The net interest margin, excluding the impact of acquisitions (core net interest margin), increased 4 basis points from the linked quarter and 5 basis points in the first six months of 2015 compared to the same period of 2014.

Net charge-offs for the second quarter of 2015 were \$2.1 million compared to \$780,000 for the same period in 2014.

Non-interest income for the first six months of 2015 increased 17.3% or \$2.1 million compared to the same period in 2014.

Horizon's tangible book value per share rose to \$17.06 at June 30, 2015, compared to \$16.26 at December 31, 2014 and \$15.47 at June 30, 2014.

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

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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 June 30, 2015, Horizon had core deposit intangibles of \$3.5 million subject to amortization and \$28.2 million of goodwill, which is not subject to amortization. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Horizon's goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of Horizon to provide quality, cost effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill that could adversely affect earnings in future periods. FASB ASC 350-10 requires an annual evaluation of goodwill for impairment. The evaluation of goodwill for impairment requires the use of estimates and assumptions. Market price at the close of business on June 30, 2015 was \$24.96 per share compared to a book value of \$20.49 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

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prepayment activity associated with mortgage loans in the secondary market, current market interest rates and other factors, including Horizon's own historical prepayment experience. For purposes of model valuation, estimates are made for each product type within the mortgage servicing rights portfolio on a monthly basis. In addition, on a quarterly basis Horizon engages a third party to independently test the value of its servicing asset.

Derivative Instruments

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

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

Valuation Measurements

Valuation methodologies often involve a significant degree of judgment, particularly when there are no observable active markets for the items being valued. Investment securities, residential mortgage loans held for sale and derivatives are carried at fair value, as defined in FASB ASC 820, which requires key judgments affecting how fair value for such assets and liabilities is determined. In addition, the outcomes of valuations have a direct bearing on the carrying amounts of goodwill, mortgage servicing rights, and pension and other post-retirement benefit obligations. To determine the values of these assets and liabilities, as well as the extent, to which related assets may be impaired,

management makes assumptions and estimates related to discount rates, asset returns, prepayment speeds and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results, which could affect Horizon's results of operations.

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On June 30, 2015, Horizon's total assets were \$2.2 billion, an increase of approximately \$142.4 million compared to December 31, 2014. The increase was primarily due to the growth in net loans of \$140.8 million.

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

	June 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
U.S. Treasury and federal agencies	\$ 28,308	\$ 28,239	\$ 26,996	\$ 26,823
State and municipal	49,739	50,783	46,535	47,952
Federal agency collateralized mortgage obligations	116,674	116,942	122,930	122,860
Federal agency mortgage-backed pools	132,762	134,950	122,583	125,395
Private labeled mortgage-backed pools			670	689
Corporate notes	32	56	32	45
Total available for sale investment securities	\$ 327,515	\$ 330,970	\$ 319,746	\$ 323,764
Held to maturity				
U.S. Treasury and federal agencies	\$ 9,845	\$ 9,947	\$ 9,804	\$ 9,886
State and municipal	127,452	131,357	129,595	132,887
Federal agency collateralized mortgage obligations	3,670	3,681	4,039	4,073
Federal agency mortgage-backed pools	21,694	22,596	22,329	23,058
Total held to maturity investment securities	\$ 162,661	\$ 167,581	\$ 165,767	\$ 169,904

Total investment securities increased by approximately \$4.1 million at June 30, 2015 compared to December 31, 2014 due to the reinvestment of investment security cash flows.

Total loans increased \$142.3 million since December 31, 2014 to \$1.5 billion as of June 30, 2015. This increase was the result of an increase in commercial loans of \$35.6 million, mortgage warehouse loans of \$66.8 million, residential mortgage loans of \$22.8 million and consumer loans of \$15.5 million. The growth in total loans during the six months ended June 30, 2015 is the direct result of increased calling efforts to increase Horizon's market share within the

Company's footprint and market expansion.

The following table presents the amount and growth rate of loans by product type for the six months ended June 30, 2015.

Loan Growth by Type

Six Months Ended June 30, 2015

(Dollars in Thousands)

	June 30 2015 (Unaudited)	December 31 2014	Amount Change	Percent Change	Annualized Percent Change
Commercial loans	\$ 709,946	\$ 674,314	\$ 35,632	5.3%	10.7%
Residential mortgage loans	277,407	254,625	22,782	8.9%	18.0%
Consumer loans	336,006	320,459	15,547	4.9%	9.8%
Held for sale loans	7,677	6,143	1,534	25.0%	50.4%
Subtotal	1,331,036	1,255,541	75,495	6.0%	12.1%
Mortgage warehouse loans	195,924	129,156	66,768	51.7%	104.2%
Total loans	\$ 1,526,960	\$ 1,384,697	\$ 142,263	10.3%	20.7%

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Total deposits increased \$102.4 million since December 31, 2014 to \$1.6 billion as of June 30, 2015. This increase was primarily the result of increased calling and marketing efforts and market expansion. Non-interest bearing deposit accounts increased by \$39.5 million, interest-bearing transaction accounts decreased by \$53.3 million and time deposits decreased by \$9.5 million during the six months ended June 30, 2015.

The Company's borrowings increased \$34.0 million from December 31, 2014 as total loan growth of \$142.3 million outpaced the deposit growth of \$102.4 million during the six months ended June 30, 2015, thereby increasing the Company's reliance on borrowings to fund loan growth during the period. At June 30, 2015, the Company had \$107.0 million in short-term funds borrowed compared to \$95.0 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 \$202.1 million at June 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. At June 30, 2015, the ratio of average stockholders' equity to average assets was 9.32% compared to 9.56% for December 31, 2014. Book value per common share at June 30, 2015 increased to \$20.49 compared to \$19.75 at December 31, 2014.

Results of Operations

Overview

Consolidated net income for the three-month period ended June 30, 2015 was \$4.7 million, a decrease of 1.0% from the \$4.8 million for the same period in 2014. Earnings per common share for the three months ended June 30, 2015 were \$0.51 basic and \$0.49 diluted, compared to \$0.52 basic and \$0.50 diluted for the same three-month period in the previous year. The decrease in net income and diluted earnings per share reflects an increase in the provision for loan losses of \$1.6 million primarily due to one commercial loan charge-off of \$1.3 million, and an increase in non-interest expenses of \$242,000 primarily due to an increase in salaries and employee benefits, professional fees and loan expense.

Consolidated net income for the six-month period ended June 30, 2015 was \$10.1 million, an increase of 23.1% from the \$8.2 million for the same period in 2014. Earnings per common share for the six-month period ended June 30, 2015 were \$1.09 basic and \$1.04 diluted, compared to \$.91 basic and \$0.88 diluted for the same three-month period in the previous year. The increase in net income and diluted earnings per share reflects a \$4.6 million increase in interest income due to loan growth and accretion income from acquisition-related purchase accounting adjustments and a \$2.1 million increase in non-interest income primarily due to an increase in gain on sale of loans, fiduciary activities and interchange fees, partially offset by a \$1.8 million increase in non-interest expense primarily due to an increase in salaries and employee benefits, professional fees and loan expense from company growth and an increase in loan

volume.

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.

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Net interest income during the three-month period ended June 30, 2015 was \$17.9 million, an increase of \$1.1 million from the \$16.8 million earned during the same period in 2014. Yields on the Company's interest-earning assets decreased by 18 basis points to 4.33% for the three months ending June 30, 2015 from 4.51% for the three months ended June 30, 2014. Interest income increased \$1.0 million from \$20.1 million for the three months ended June 30, 2014 to \$21.1 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 \$1.2 million for the three months ending June 30, 2014 to \$797,000 for the same period of 2015.

Rates paid on interest-bearing liabilities decreased by 8 basis points for the three-month period ended June 30, 2015 compared to the same period in 2014 due to the continued low interest rate environment. Interest expense decreased \$57,000 compared to the three-month period ended June 30, 2014 to \$3.3 million for the same period in 2015. This decrease was due to lower rates paid on interest-bearing deposits and borrowings, partially offset by higher average balances of interest-bearing deposits and borrowings. The net interest margin decreased 11 basis points from 3.78% for the three-month period ended June 30, 2014 to 3.67% for the same period in 2015. The decrease in the margin for the three-month period ended June 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 \$420,000 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 3.51% for the three-month period ending June 30, 2015 compared to 3.51% for the same period in 2014.

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

	Three Months Ended			Three Months Ended		
	June 30, 2015			June 30, 2014		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	\$ 3,597	\$ 2	0.22%	\$ 9,062	\$ 5	0.22%
Interest-earning deposits	8,608	5	0.23%	7,987	4	0.20%
Investment securities - taxable	363,919	2,060	2.27%	403,910	2,386	2.37%
Investment securities - non-taxable (1)	141,784	1,079	4.24%	145,591	1,096	4.25%
Loans receivable (2)(3)	1,490,283	17,981	4.87%	1,266,026	16,631	5.27%
Total interest-earning assets (1)	2,008,191	21,127	4.33%	1,832,576	20,122	4.51%
Non-interest-earning assets						
Cash and due from banks	31,783			28,106		
Allowance for loan losses	(16,756)			(15,808)		
Other assets	157,795			129,608		
	\$ 2,181,013			\$ 1,974,482		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	\$ 1,255,123	\$ 1,237	0.40%	\$ 1,229,025	\$ 1,355	0.44%
Borrowings	381,782	1,539	1.62%	273,968	1,478	2.16%
Subordinated debentures	32,699	501	6.15%	32,541	501	6.18%
Total interest-bearing liabilities	1,669,604	3,277	0.79%	1,535,534	3,334	0.87%
Non-interest-bearing liabilities						
Demand deposits	294,425			253,093		

Accrued interest payable and other liabilities	13,770	12,245
Stockholders' equity	203,214	173,610
	\$ 2,181,013	\$ 1,974,482

Net interest income/spread	\$ 17,850	3.54%	\$ 16,788	3.63%
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Net interest income as a percent of average interest earning assets (1)	3.67%	3.78%
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- (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 six months ended June 30, 2015 was \$34.7 million, an increase of \$4.7 million from the \$30.1 million earned during the same period in 2014. Yields on the Company's interest-earning assets decreased by 4 basis points to 4.35% for the six months ended June 30, 2015 from 4.39% for the same period in 2014. Interest income increased \$4.6 million from \$36.6 million for the six months ended June 30, 2014 to \$41.2 million for the same period in 2015. This increase was due to an increase in loans and interest income from acquisition-related purchase accounting adjustments from \$1.6 million for the three months ending June 30, 2014 to \$1.9 million for the same period of 2015, partially offset by lower yields on loans.

Rates paid on interest-bearing liabilities decreased by 12 basis points for the six months ended June 30, 2015 compared to the same period in 2014 due to the continued low interest rate environment. Interest expense decreased \$45,000 to \$6.5 million for the six-month period ending June 30, 2015. This decrease was due to lower rates being paid on the Company's interest-bearing liabilities partially offset with a higher volume of interest-bearing liabilities. The net interest margin increased 6 basis points from 3.62% for the six months ended June 30, 2014 to 3.68% for the same period in 2015. The increase in the margin for the six-month

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period ended June 30, 2015 compared to the same period in 2014 was due to loan growth resulting in a higher ratio of loans to average earning assets, lower funding costs and an increase of \$292,000 of interest income from acquisition-related purchase accounting adjustments, partially offset by a decrease in yield on loans. Excluding the interest income recognized from the acquisition-related purchase accounting adjustments, the margin would have been 3.49% for the six-month period ending June 30, 2015 compared to 3.44% for the same period in 2014.

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

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	\$ 4,198	\$ 11	0.53%	\$ 7,842	\$ 9	0.23%
Interest-earning deposits	9,684	10	0.21%	6,855	7	0.21%
Investment securities - taxable	362,250	4,200	2.34%	395,406	4,769	2.43%
Investment securities - non-taxable (1)	141,269	2,156	4.27%	146,709	2,219	4.07%
Loans receivable (2)(3)	1,436,886	34,843	4.90%	1,159,127	29,585	5.15%
Total interest-earning assets (1)	1,954,287	41,220	4.35%	1,715,939	36,589	4.39%
Non-interest-earning assets						
Cash and due from banks	30,396			26,507		
Allowance for loan losses	(16,623)			(15,987)		
Other assets	157,669			133,408		
	\$ 2,125,729			\$ 1,859,867		
LIABILITIES AND SHAREHOLDERS' EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	\$ 1,235,601	\$ 2,469	0.40%	\$ 1,154,682	\$ 2,632	0.46%
Borrowings	359,436	3,018	1.69%	250,761	2,900	2.33%
Subordinated debentures	32,678	997	6.15%	32,522	997	6.18%

Total interest-bearing liabilities	1,627,715	6,484	0.80%	1,437,965	6,529	0.92%
Non-interest-bearing liabilities						
Demand deposits	282,796			238,579		
Accrued interest payable and other liabilities	14,374			12,191		
Stockholders' equity	200,844			171,132		
	\$ 2,125,729			\$ 1,859,867		

Net interest income/spread	\$ 34,736	3.55%	\$ 30,060	3.47%
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Net interest income as a percent of average interest earning assets (1)	3.68%	3.62%
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- (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.

Provision for Loan Losses

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (ALLL) by regularly reviewing the performance of its loan portfolio. During the three-month period ended June 30, 2015, a provision of \$1.9 million was required to adequately fund the ALLL compared to \$339,000 for the same period of 2014. Commercial loan net charge-offs during the three-month period ended June 30, 2015 were \$1.6 million, residential mortgage loan net charge-offs were \$141,000 and consumer loan net charge-offs were negative

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\$97,000. The higher provision for loan losses in the second quarter of 2015 compared to the same period of 2014 was primarily due to continued loan growth as well as the charge-off of one commercial credit of \$1.3 million. The \$1.3 million commercial charge-off was a legacy workout loan that was recently determined to be impaired due to the borrower's inability to make payments and a decrease in collateral value. The ALLL balance at June 30, 2015 was \$16.4 million or 1.08% 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 June 30, 2015 compared to December 31, 2014 was due to an increase in total loans of \$142.3 million and improving credit trends.

For the six-month period ended June 30, 2015, the provision for loan losses totaled \$2.5 million compared to \$339,000 in the same period of 2014. The higher provision for loan losses in the first six months of 2015 compared to the previous year was due to continued loan growth as well as the charge-off of one commercial credit of \$1.3 million.

Horizon's loan loss reserve ratio, excluding loans with credit-related purchase accounting adjustments, stood at 1.15% as of June 30, 2015. The table below details Horizon's loan loss reserve ratio composition as of June 30, 2015.

Allowance for Loan and Lease Loss Detail**As of June 30, 2015**

(Dollars in Thousands, Unaudited)

	Horizon Legacy	Heartland	Summit	Total
Pre-discount loan balance	\$ 1,403,809	\$ 31,777	\$ 88,908	\$ 1,524,494
Allowance for loan losses (ALLL)	16,138	276	7	16,421
Loan discount	N/A	1,903	3,308	5,211
ALLL+loan discount	16,138	2,179	3,315	21,632
Loans, net	\$ 1,387,671	\$ 29,598	\$ 85,593	\$ 1,502,862
ALLL/ pre-discount loan balance	1.15%	0.87%	0.01%	1.08%
Loan discount/ pre-discount loan balance	N/A	5.99%	3.72%	0.34%
ALLL+loan discount/ pre-discount loan balance	1.15%	6.86%	3.73%	1.42%

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 June 30, 2015.

Non-performing loans totaled \$23.1 million on June 30, 2015, up from \$22.4 million on December 31, 2014. Compared to December 31, 2014, non-performing commercial loans increased by \$1.5 million and non-performing real estate loans and consumer loans decreased by \$75,000 and \$845,000, respectively.

At June 30, 2015, loans acquired represented \$2.8 million in non-performing, \$3.4 million in substandard and \$233,000 in delinquent loans.

Other Real Estate Owned (OREO) totaled \$471,000 on June 30, 2015, down from \$1.2 million on December 31, 2014 and \$1.2 million on June 30, 2014.

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

	Three Months Ended			
Non-interest Income	June 30 2015	June 30 2014	Amount Change	Percent Change
Service charges on deposit accounts	\$ 1,085	\$ 1,038	\$ 47	4.5%
Wire transfer fees	182	145	37	25.5%
Interchange fees	1,366	1,254	112	8.9%
Fiduciary activities	1,216	1,199	17	1.4%
Gain on sale of securities				0.0%
Gain on sale of mortgage loans	2,642	2,537	105	4.1%
Mortgage servicing net of impairment	300	233	67	28.8%
Increase in cash surrender value of bank owned life insurance	257	252	5	2.0%
Other income	138	(31)	169	-545.2%
Total non-interest income	\$ 7,186	\$ 6,627	\$ 559	8.4%

Total non-interest income was \$559,000 higher in the second quarter of 2015 compared to the same period of 2014. Interchange fees increased by \$112,000, primarily due to an increase in volume. Residential mortgage loan activity during the second quarter of 2015 generated \$2.6 million of income from the gain on sale of mortgage loans, up \$105,000 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 \$25.3 million from \$58.1 million in the second quarter of 2014 to \$83.3 million in the same period of 2015, partially offset by a decrease in the percentage earned on the sale of these loans. Other income increased by \$169,000 compared to the previous year due to a liquidation of an asset in the second quarter of 2014 that resulted in a net loss.

	Six Months Ended		2014 - 2015	
Non-interest Income	June 30 2015	June 30 2014	Amount Change	Percent Change
Service charges on deposit accounts	\$ 2,084	\$ 1,961	\$ 123	6.3%
Wire transfer fees	333	257	76	29.6%

Interchange fees	2,468	2,213	255	11.5%
Fiduciary activities	2,513	2,247	266	11.8%
Gain on sale of investment securities	124		124	100.0%
Gain on sale of mortgage loans	5,021	3,948	1,073	27.2%
Mortgage servicing net of impairment	479	440	39	8.9%
Increase in cash surrender value of bank owned life insurance	515	485	30	6.2%
Death benefit on officer life insurance	145		145	100.0%
Other income	570	598	(28)	-4.7%
Total non-interest income	\$ 14,252	\$ 12,149	\$ 2,103	17.3%

Total non-interest income was \$2.1 million higher in the first six months of 2015 compared to the same period of 2014. Service charges on deposit accounts increased \$123,000, interchange fees increased by \$255,000 and fiduciary activities increased \$266,000, primarily due to overall company growth and increased volume. Gain on sale of securities was \$124,000 higher during the first half of 2015 as the result of an analysis that determined market conditions provided the opportunity to add gains to capital without negatively impacting long-term earnings. Residential mortgage loan activity during the first six months of 2015 generated \$5.0 million of income from the gain on sale of mortgage loans, up \$1.1 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 \$58.2 million from \$94.0 million in the first half of 2014 to \$152.3 million in the same period of 2015, partially offset by a decrease in the percentage earned on the sale of these loans. The Company also recognized a \$145,000 death benefit on officer life insurance during the first half 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 Six Months ended June 30, 2015**Non-interest Expense

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

	Three Months Ended		Amount Change	Percent Change
	June 30 2015	June 30 2014		
Non-interest expense				
Salaries	\$ 5,993	\$ 6,002	\$ (9)	-0.1%
Commission and bonuses	1,200	1,009	191	18.9%
Employee benefits	1,192	1,282	(90)	-7.0%
Net occupancy expenses	1,375	1,360	15	1.1%
Data processing	966	937	29	3.1%
Professional fees	660	419	241	57.5%
Outside services and consultants	918	1,298	(380)	-29.3%
Loan expense	1,367	1,272	95	7.5%
FDIC deposit insurance	339	285	54	18.9%
Other losses	150	95	55	57.9%
Other expense	2,490	2,449	41	1.7%
Total non-interest expense	\$ 16,650	\$ 16,408	\$ 242	1.5%

Total non-interest expenses were \$242,000 higher in the second quarter of 2015 compared to the same period of 2014. Commission and bonuses increased by \$191,000 due to an increase in loan volume and a larger employee base. Professional fees increased \$241,000 due to company growth. Loan expense increased \$95,000 primarily due to an increase in loan origination volume. These increases were partially offset by a decrease in expenses from outside services and consultants due to the expense associated with the Summit acquisition in the second quarter of 2014.

	Six Months Ended		2014 - 2015	
	June 30 2015	June 30 2014	Amount Change	Percent Change
Non-interest expense				
Salaries	\$ 11,626	\$ 11,358	\$ 268	2.4%
Commission and bonuses	2,367	1,489	878	59.0%
Employee benefits	2,896	2,929	(33)	-1.1%

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Net occupancy expenses	2,926	2,784	142	5.1%
Data processing	1,889	1,807	82	4.5%
Professional fees	1,187	1,027	160	15.6%
Outside services and consultants	1,544	1,959	(415)	-21.2%
Loan expense	2,624	2,287	337	14.7%
FDIC deposit insurance	676	541	135	25.0%
Other losses	105	133	(28)	-21.1%
Other expense	4,878	4,608	270	5.9%

Total non-interest expense	\$ 32,718	\$ 30,922	\$ 1,796	5.8%
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Total non-interest expenses were \$1.8 million higher in the first half of 2015 compared to the same period of 2014. Salaries increased \$268,000 due to changes in annual merit pay and a larger employee base. Commission and bonuses increased by \$878,000 due to an increase in loan volume and a larger employee base. Net occupancy expense increased \$142,000 due to the Summit acquisition in the first half of 2014 and

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HORIZON BANCORP AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Six Months ended June 30, 2015

Horizon's investment in growth markets. Professional fees increased \$160,000 due to company growth. Loan expense increased \$337,000 primarily due to an increase in loan origination volume. FDIC expense increased \$135,000 due to an increase in deposits. Other expenses increased \$270,000 primarily due to the Company's growth and expansion efforts. Outside services and consultants decreased by \$415,000 compared to the same period of 2014 due to one-time fees associated with the Summit acquisition which occurred in the first half of 2014.

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 six months ended June 30, 2015, cash and cash equivalents decreased by approximately \$381,000. At June 30, 2015, in addition to liquidity available from the normal operating, funding, and investing activities of Horizon, the Bank had approximately \$361.7 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 \$268.9 million at June 30, 2014.

Capital Resources

The capital resources of Horizon and the Bank exceeded regulatory capital ratios for well capitalized banks at June 30, 2015. Stockholders' equity totaled \$202.1 million as of June 30, 2015, compared to \$194.4 million as of December 31, 2014. For the three months ended June 30, 2015, the ratio of average stockholders' equity to average assets was 9.32% 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, net of dividends declared.

The Company currently intends to continue its participation in the Small Business Lending Fund, pursuant to which it issued preferred stock to the US Treasury, since the growth in the Company's small business lending has reduced the dividend cost. For the three months ending June 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 \$0.28 per share during the first six months of 2015 compared to \$0.24 per share for the same period of 2014. The dividend payout ratio (dividends as a percent of basic earnings per share) was 25.8% and 26.3% for the first six 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

Table of Contents**HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of Financial Condition****And Results of Operations****For the Three and Six Months ended June 30, 2015**

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 Pre-tax, Pre-Provision Income

(Dollar in Thousands, Unaudited)

	Three Months Ended			Six Months Ended	
	June 30	March 31	June 30	June 30	
	2015	2015	2014	2015	2014
Net income as reported	\$ 4,728	\$ 5,358	\$ 4,778	\$ 10,086	\$ 8,195
Income tax expense	1,752	1,912	1,890	3,664	2,753
Provision for loan losses	1,906	614	339	2,520	339
Pre-tax, pre-provision income	\$ 8,386	\$ 7,884	\$ 7,007	\$ 16,270	\$ 11,287

Non-GAAP Reconciliation of Net Interest Margin

(Dollar Amounts in Thousands, Unaudited)

	Three Months Ended			Six Months Ended	
	June 30	March 31	June 30	June 30	
	2015	2015	2014	2015	2014
Net Interest Margin As Reported					
Net interest income	\$ 17,850	\$ 16,886	\$ 16,788	\$ 34,736	\$ 30,060
Average interest-earning assets	2,008,191	1,899,870	1,832,576	1,954,287	1,715,939
Net interest income as a percent of average interest-earning assets (Net Interest Margin)	3.67%	3.70%	3.78%	3.68%	3.62%

Impact of Acquisitions

Interest income from acquisition-related purchase accounting adjustments (PAUs)	\$ (797)	\$ (1,083)	\$ (1,199)	\$ (1,880)	\$ (1,588)
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Excluding Impact of Acquisitions

Net interest income	\$ 17,053	\$ 15,803	\$ 15,589	\$ 32,856	\$ 28,472
Average interest-earning assets	2,008,191	1,899,870	1,832,576	1,954,287	1,715,939
Core Net Interest Margin	3.51%	3.47%	3.51%	3.49%	3.44%

Table of Contents**HORIZON BANCORP AND SUBSIDIARIES****Management's Discussion and Analysis of Financial Condition****And Results of Operations****For the Three and Six Months ended June 30, 2015****Non-GAAP Reconciliation of Net Income and Diluted Earnings per Share**

(Dollar in Thousands Except per Share Data, Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
Non-GAAP Reconciliation of Net Income	2015	2014	2015	2014
Net income as reported	\$ 4,728	\$ 4,778	\$ 10,086	\$ 8,195
Merger expenses	570	900	716	1,211
Tax effect	(132)	(315)	(183)	(424)
Net income excluding merger expenses	5,166	5,363	10,619	8,982
Gain on sale of investment securities			(124)	
Tax effect			43	
Net income excluding gain on sale of investment securities	5,166	5,363	10,538	8,982
Death benefit on bank owned life insurance (BOLI)			(145)	
Tax effect			51	
Net income excluding death benefit on BOLI	5,166	5,363	10,444	8,982
Acquisition-related PAUs	(797)	(1,199)	(1,880)	(1,588)
Tax effect	279	420	658	556
Net income excluding PAUs	\$ 4,648	\$ 4,584	\$ 9,222	\$ 7,950
Non-GAAP Reconciliation of Diluted Earnings per Share				
Diluted earnings per share as reported	\$ 0.49	\$ 0.50	\$ 1.04	\$ 0.88
Merger expenses	0.06	0.09	0.07	0.13
Tax effect	(0.01)	(0.03)	(0.02)	(0.05)
Diluted earnings per share excluding merger expenses	0.54	0.56	1.09	0.96
Gain on sale of investment securities			(0.01)	
Tax effect			0.00	

Net income excluding gain on sale of investment securities	0.54	0.56	1.09	0.96
Death benefit on BOLI			(0.02)	
Tax effect			0.01	
Net income excluding death benefit on BOLI	0.54	0.56	1.08	0.96
Acquisition-related PAUs	(0.08)	(0.13)	(0.20)	(0.17)
Tax effect	0.03	0.04	0.07	0.06
Diluted earnings per share excluding PAUs	\$ 0.49	\$ 0.47	\$ 0.95	\$ 0.85

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HORIZON BANCORP AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market Risk

For the Three and Six 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 June 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 June 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.

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HORIZON BANCORP AND SUBSIDIARIES

Part II Other Information

For the Three and Six months ended June 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

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HORIZON BANCORP AND SUBSIDIARIES

Part II Other Information

For the Three and Six months ended June 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

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SIGNATURES

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

HORIZON BANCORP

Dated: August 10, 2015

/s/ Craig M. Dwight
Craig M. Dwight
Chief Executive Officer

Dated: August 10, 2015

/s/ Mark E. Secor
Mark E. Secor
Chief Financial Officer

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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