HORIZON BANCORP /IN/
Form 10-Q
November 09, 2016
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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 September 30, 2016

Commission file number 0-10792

HORIZON BANCORP

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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: 22,172,103 shares of Common Stock, no par value, at November 9, 2016.

HORIZON BANCORP

FORM 10-Q

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PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollar Amounts in Thousands)

	September 30 2016 (Unaudited)	December 31 2015
Assets		
Cash and due from banks	**$ 83,721**	$ 48,650
Investment securities, available for sale	**557,213**	444,982
Investment securities, held to maturity (fair value of $194,294 and $193,703)	**187,027**	187,629
Loans held for sale	**7,369**	7,917
Loans, net of allowance for loan losses of $14,524 and $14,534	**2,175,995**	1,734,597
Premises and equipment, net	**67,265**	60,798
Federal Reserve and Federal Home Loan Bank stock	**20,877**	13,823
Goodwill	**74,308**	49,600
Other intangible assets	**9,583**	7,371
Interest receivable	**12,702**	10,535
Cash value of life insurance	**73,661**	54,504
Other assets	**55,929**	31,995
Total assets	**$ 3,325,650**	$ 2,652,401
Liabilities		
Deposits		
Non-interest bearing	**$ 479,771**	$ 335,955
Interest bearing	**1,856,391**	1,544,198
Total deposits	**2,336,162**	1,880,153
Borrowings	**569,908**	449,347
Subordinated debentures	**37,418**	32,797
Interest payable	**1,015**	507
Other liabilities	**35,411**	22,765
Total liabilities	**2,979,914**	2,385,569
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, Authorized, 1,000,000 shares Series B shares $.01 par value, $1,000 liquidation value Issued 0 and 12,500 shares		12,500

Common stock, no par value Authorized, 66,000,000 shares (Restated - See Note 1) Issued, 22,172,103 and 17,992,986 shares (Restated - See Note 1) Outstanding, 22,143,228 and 17,909,831 shares (Restated - See Note 1)		
Additional paid-in capital	**181,901**	106,370
Retained earnings	**161,026**	148,685
Accumulated other comprehensive income (loss)	**2,809**	(723)
Total stockholders equity	**345,736**	266,832
Total liabilities and stockholders equity	**$ 3,325,650**	$ 2,652,401

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2016 (Unaudited)	**2015 (Unaudited)**	**2016 (Unaudited)**	**2015 (Unaudited)**
Interest Income				
Loans receivable	**$ 25,313**	$ 20,297	**$ 65,854**	$ 55,140
Investment securities				
Taxable	**2,498**	2,156	**7,703**	6,377
Tax exempt	**1,151**	1,125	**3,583**	3,281
Total interest income	**28,962**	23,578	**77,140**	64,798
Interest Expense				
Deposits	**1,875**	1,566	**4,923**	4,035
Borrowed funds	**2,128**	1,729	**5,608**	4,747
Subordinated debentures	**549**	507	**1,556**	1,504
Total interest expense	**4,552**	3,802	**12,087**	10,286
Net Interest Income	**24,410**	19,776	**65,053**	54,512
Provision for loan losses	**455**	300	**1,219**	2,820
Net Interest Income after Provision for Loan Losses	**23,955**	19,476	**63,834**	51,692
Non-interest Income				
Service charges on deposit accounts	**1,483**	1,359	**4,056**	3,443
Wire transfer fees	**292**	160	**588**	493
Interchange fees	**2,016**	1,625	**5,137**	4,093
Fiduciary activities	**1,653**	1,520	**4,753**	4,033
Gain on sale of investment securities (includes $0 for the three months ended and $875 for the nine months ended September 30, 2016 and $0 for the three months ended and $124 for the nine months ended September 30, 2015, related to accumulated other comprehensive earnings reclassifications)			**875**	124
Gain on sale of mortgage loans	**3,528**	2,794	**9,171**	7,815
Mortgage servicing income net of impairment	**409**	246	**1,356**	725
Increase in cash value of bank owned life insurance	**449**	374	**1,145**	889
Death benefit on bank owned life insurance				145
Other income	**226**	322	**708**	892

Total non-interest income	**10,056**	8,400	**27,789**	22,652
Non-interest Expense				
Salaries and employee benefits	**12,210**	10,652	**32,592**	27,541
Net occupancy expenses	**2,174**	1,723	**6,011**	4,649
Data processing	**1,616**	1,281	**3,855**	3,170
Professional fees	**612**	409	**2,190**	1,596
Outside services and consultants	**2,686**	3,209	**5,983**	4,753
Loan expense	**1,482**	1,351	**4,086**	3,975
FDIC insurance expense	**465**	423	**1,279**	1,099
Other losses	**107**	246	**510**	351
Other expense	**3,468**	2,941	**9,616**	7,819
Total non-interest expense	**24,820**	22,235	**66,122**	54,953
Income Before Income Tax	**9,191**	5,641	**25,501**	19,391
Income tax expense (includes $0 for the three months ended and $306 for the nine months ended September 30, 2016 and $0 for the three months ended and $43 for the nine months ended September 30, 2015, related to income tax expense from reclassification items)	**2,589**	1,353	**7,192**	5,017
Net Income	**6,602**	4,288	**18,309**	14,374
Preferred stock dividend		(31)	**(42)**	(94)
Net Income Available to Common Shareholders	**$ 6,602**	$ 4,257	**$ 18,267**	$ 14,280
Basic Earnings Per Share (Restated - See Note 1)	**$ 0.31**	$ 0.24	**$ 0.95**	$ 0.95
Diluted Earnings Per Share (Restated - See Note 1)	**0.30**	0.24	**0.94**	0.92

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Dollar Amounts in Thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2016 (Unaudited)	**2015 (Unaudited)**	**2016 (Unaudited)**	**2015 (Unaudited)**
Net Income	**$ 6,602**	$ 4,288	**$ 18,309**	$ 14,374
Other Comprehensive Income (Loss)				
Change in fair value of derivative instruments:				
Change in fair value of derivative instruments for the period	**803**	(516)	**158**	(334)
Income tax effect	**(281)**	181	**(55)**	117
Changes from derivative instruments	**522**	(335)	**103**	(217)
Change in securities:				
Unrealized appreciation (depreciation) for the period on AFS securities	**(1,927)**	1,781	**6,712**	1,379
Amortization from transfer of securities from available-for-sale to held-to-maturity securities	**(83)**	(203)	**(560)**	(475)
Reclassification adjustment for securities gains realized in income			**(875)**	(124)
Income tax effect	**704**	(552)	**(1,848)**	(273)
Unrealized gains (losses) on securities	**(1,306)**	1,026	**3,429**	507
Other Comprehensive Income (Loss), Net of Tax	**(784)**	691	**3,532**	290
Comprehensive Income	**$ 5,818**	$ 4,979	**$ 21,841**	$ 14,664

See notes to condensed consolidated financial statements

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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 (Loss)	Total
Balances, January 1, 2016	**$ 12,500**	**$ 106,370**	**$ 148,685**	**$ (723)**	**$ 266,832**
Net income			18,309		18,309
Other comprehensive income, net of tax				3,532	3,532
Redemption of preferred stock	(12,500)				(12,500)
Amortization of unearned compensation		222			222
Stock option expense		247			247
Stock issued stock plans		286			286
Stock issued in KFI acquisition		14,470			14,470
Stock issued in LPSB acquisition		60,306			60,306
Cash dividends on preferred stock (1.00%)			(42)		(42)
Cash dividends on common stock ($.30 per share)			(5,926)		(5,926)
Balances, September 30, 2016	**$**	**$ 181,901**	**$ 161,026**	**$ 2,809**	**$ 345,736**

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Dollar Amounts in Thousands)

	Nine Months Ended September 30	
	2016 (Unaudited)	**2015 (Unaudited)**
Operating Activities		
Net income	**$ 18,309**	$ 14,374
Items not requiring (providing) cash		
Provision for loan losses	**1,219**	2,820
Depreciation and amortization	**3,790**	3,020
Share based compensation	**247**	216
Mortgage servicing rights net impairment	**840**	389
Premium amortization on securities available for sale, net	**4,389**	2,192
Gain on sale of investment securities	**(875)**	(124)
Gain on sale of mortgage loans	**(9,171)**	(7,815)
Proceeds from sales of loans	**246,435**	247,512
Loans originated for sale	**(236,719)**	(239,137)
Change in cash value of life insurance	**(1,145)**	(868)
Gain (Loss) on sale of other real estate owned	**118**	(214)
Net change in		
Interest receivable	**(687)**	(1,337)
Interest payable	**275**	(28)
Other assets	**(16,641)**	(61)
Other liabilities	**1,015**	1,020
Net cash provided by operating activities	**11,399**	21,959
Investing Activities		
Purchases of securities available for sale	**(152,283)**	(170,391)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**88,330**	61,785
Purchases of securities held to maturity	**(35,598)**	(26,128)
Proceeds from maturities of securities held to maturity	**14,654**	7,155
Change in FHLB stock	**(2,443)**	268
Net change in loans	**(26,920)**	(123,326)
Proceeds on the sale of OREO and repossessed assets	**1,524**	2,425
Change in premises and equipment, net	**(1,719)**	(4,757)
Acquisition of Peoples, net of cash received		182,413
Acquisition of Kosciusko, net of cash received	**30,437**	
Acquisition of LaPorte, net of cash received	**116,521**	
Net cash provided by (used in) investing activities	**32,503**	(70,556)

Financing Activities				
Net change in				
Deposits		**(37,495)**		79,669
Borrowings		**46,846**		(26,064)
Redemption of preferred stock		**(12,500)**		
Proceeds from issuance of stock		**286**		4,178
Dividends paid on common shares		**(5,926)**		(4,413)
Dividends paid on preferred shares		**(42)**		(94)
Net cash provided by (used in) financing activities		**(8,831)**		53,276
Net Change in Cash and Cash Equivalents		**35,071**		4,679
Cash and Cash Equivalents, Beginning of Period		**48,650**		43,476
Cash and Cash Equivalents, End of Period	**$**	**83,721**	$	48,155
Additional Supplemental Information				
Interest paid	**$**	**11,579**	$	10,292
Income taxes paid		**7,310**		4,900
Transfer of loans to other real estate owned		**3,035**		2,825
The Company purchased all of the capital stock of Kosciusko for $22,983 on June 1, 2016 and Peoples for $78,147 on July 1, 2015. In conjunction with the acquisition, liabilities were assumed as follows:				
Fair value of assets acquired		**155,873**		485,077
Less: common stock issued		**14,470**		22,641
Cash paid for the capital stock		**8,513**		55,506
Liabilities assumed		**132,890**		406,930
The Company purchased all of the capital stock of LaPorte Bancorp for $98,634 on July 18, 2016. In conjunction with the acquisition, liabilities were assumed as follows:				
Fair value of assets acquired		**546,770**		
Less: common stock issued		**60,306**		
Cash paid for the capital stock		**38,328**		
Liabilities assumed		**448,136**		

See notes to condensed consolidated financial statements

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 1 - Accounting Policies

The accompanying unaudited condensed consolidated financial statements include the accounts of Horizon Bancorp (Horizon or the Company) and its wholly-owned subsidiaries, including Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended September 30, 2016 and September 30, 2015 are not necessarily indicative of the operating results for the full year of 2016 or 2015. 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 2015 filed with the Securities and Exchange Commission on February 29, 2016. The condensed consolidated balance sheet of Horizon as of December 31, 2015 has been derived from the audited balance sheet as of that date.

On October 18, 2016, the Board of Directors of the Company approved a three-for-two stock split of the Company s authorized common stock, no par value. All share and per share amounts in the condensed consolidated financial statements and notes thereto have been retroactively adjusted, where necessary, to reflect this three-for-two stock split. The effect of the three-for-two stock split on the outstanding common shares is that shareholders of record as of the close of business on October 31, 2016, the record date, will receive an additional half share of common stock held, with shareholders receiving cash in lieu of any fractional shares. The additional shares issued in the stock split are expected to be payable and issued on November 14, 2016, and that the common shares will begin trading on a split-adjusted basis on or about November 15, 2016.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016 (Unaudited)	**2015 (Unaudited)**	**2016 (Unaudited)**	**2015 (Unaudited)**
Basic earnings per share				
Net income	**$ 6,602**	$ 4,288	**$ 18,309**	$ 14,374
Less: Preferred stock dividends		31	**42**	94

Net income available to common shareholders	**$**	**6,602**	$	4,257	**$**	**18,267**	$	14,280
Weighted average common shares outstanding[1]		**21,538,752**		17,408,964		**19,252,295**		15,044,129
Basic earnings per share	**$**	**0.31**	$	0.24	**$**	**0.95**	$	0.95
Diluted earnings per share								
Net income available to common shareholders	**$**	**6,602**	$	4,257	**$**	**18,267**	$	14,280
Weighted average common shares outstanding[1]		**21,538,752**		17,408,964		**19,252,295**		15,044,129
Effect of dilutive securities:								
Warrants				321,888				436,044
Restricted stock		**33,650**		50,207		**27,590**		46,092
Stock options		**79,551**		58,823		**66,491**		54,446
Weighted average shares outstanding		**21,651,953**		17,839,882		**19,346,376**		15,580,711
Diluted earnings per share	**$**	**0.30**	$	0.24	**$**	**0.94**	$	0.92

(1) Adjusted for 3:2 stock split on November 14, 2016

There were no shares for both the three and nine months ended September 30, 2016, respectively, and 3,750 for both the three and nine months ended September 30, 2015 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, 2015 Annual Report on Form 10-K.

Note 2 Acquisitions

On July 1, 2015, Horizon completed the acquisition of Peoples Bancorp, an Indiana corporation (Peoples) and Horizon Bank N.A. s acquisition of Peoples Federal Savings Bank of DeKalb County (Peoples FSB), through mergers effective July 1, 2015. Under the terms of the acquisition, the exchange ratio was 1.425 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 3,288,303. Horizon s stock price was $16.88 per share at the close of business on July 1, 2015. Based upon these numbers, the total value of the consideration for the acquisition was $78.1 million. The Company had approximately $4.9 million in costs related to the acquisition as of December 31, 2015. These expenses were classified in the non-interest 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 increased its deposit base and reduced transaction costs. The Company also expects to reduce cost through economies of scale.

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

ASSETS	
Cash and due from banks	$ 205,054
Investment securities, held to maturity	2,038
Commercial	67,435
Residential mortgage	137,331
Consumer	19,593
Total loans	224,359
Premises and equipment, net	5,524
FRB and FHLB stock	2,743
Goodwill	21,424
Core deposit intangible	4,394

Interest receivable	1,279
Cash value of life insurance	13,898
Other assets	4,364
Total assets purchased	$ 485,077
Common shares issued	$ 55,506
Cash paid	22,641
Total estimated purchase price	$ 78,147
LIABILITIES	
Deposits	
Non-interest bearing	$ 28,251
NOW accounts	65,771
Savings and money market	125,176
Certificates of deposits	131,889
Total deposits	351,087
Borrowings	48,884
Interest payable	21
Other liabilities	6,938
Total liabilities assumed	$ 406,930

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

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

The Company acquired the $228.6 million loan portfolio at a fair value discount of $4.8 million. The performing portion of the portfolio, $223.4 million, had an estimated fair value of $220.0 million. The excess of expected cash flows above the fair value of the performing portion of loans will be accreted to interest income over the remaining lives of the loans in accordance with ASC 310-20.

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

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

Loans with specific credit-related deterioration, since origination, are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition of these loans is based on reasonable expectation about the timing and amount of cash flows to be collected.

The following table details the acquired loans that are accounted for in accordance with ASC 310-30 as of July 1, 2015.

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

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

The results of operations of Peoples and Peoples FSB have been included in the Company s consolidated financial statements since the acquisition dates. The following schedule includes pro forma results for the periods ended September 30, 2016 and 2015 as if the Peoples and Peoples FSB acquisitions had occurred as of the beginning of the comparable prior reporting period.

	Three Months Ended		Nine Months Ended	
	September 30 2016	September 30 2015	September 30 2016	September 30 2015
Summary of Operations:				
Net Interest Income	$ 24,410	$ 19,776	$ 65,053	$ 60,466
Provision for Loan Losses	455	300	1,219	2,880
Net Interest Income after Provision for Loan Losses	23,955	19,476	63,834	57,586
Non-interest Income	10,056	8,400	27,789	24,545
Non-Interest Expense	24,820	22,235	66,122	61,192
Income before Income Taxes	9,191	5,641	25,501	20,939
Income Tax Expense	2,589	1,353	7,192	5,164
Net Income	6,602	4,288	18,309	15,776
Net Income Available to Common Shareholders	$ 6,602	$ 4,257	$ 18,267	$ 15,682
Basic Earnings Per Share	$ 0.31	$ 0.24	$ 0.95	$ 0.91
Diluted Earnings Per Share	$ 0.30	$ 0.24	$ 0.94	$ 0.89

The pro forma information includes adjustments for interest income on loans, amortization of intangibles arising from the transaction, interest expense on deposits acquired, premises expense for the banking centers acquired and the related income tax effects.

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

On June 1, 2016, Horizon completed the acquisition of Kosciusko Financial, Inc., an Indiana corporation (Kosciusko) and Horizon Bank s acquisition of Farmers State Bank, a state-chartered bank and wholly owned subsidiary of Kosciusko, through mergers effective June 1, 2016. Under the terms of the Merger Agreement, shareholders of Kosciusko had the option to receive $81.75 per share in cash or 4.5183 shares of Horizon common stock for each share of Kosciusko s common stock, subject to allocation provisions to assure that in aggregate, Kosciusko shareholders received total consideration that consisted of 65% stock and 35% cash. Kosciusko shareholders owning fewer than 100 shares of common stock received $81.75 in cash for each common share. As a result of Kosciusko stockholder stock and cash elections and the related proration provisions of the Merger Agreement, Horizon issued

873,430 shares of its common stock in the merger. Based upon the June 1, 2016 closing price of $16.57 per share of Horizon common stock, the transaction has an implied valuation of approximately $23.0 million. The Company has had approximately $1.6 million in costs related to the acquisition. These expenses are classified in the non-interest expense section of the income statement and primarily located in the salaries and employee benefits, professional services and other expense line items. As a result of the acquisition, the Company will have an opportunity to increase its deposit base and reduce transaction costs. The Company also expects to reduce cost through economies of scale.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on preliminary valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on assumptions that are subject to change, the purchase price for the Kosciusko acquisition is detailed in the following table. The final valuation numbers were received in September 2016 which changed the goodwill estimate from $6.9 million to $6.4 million.

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

ASSETS	
Cash and due from banks	$ 38,950
Investment securities, held to maturity	1,191
Commercial	70,006
Residential mortgage	26,244
Consumer	6,319
Total loans	102,569
Premises and equipment, net	1,466
FRB and FHLB stock	582
Goodwill	6,443
Core deposit intangible	526
Interest receivable	636
Cash value of life insurance	2,745
Other assets	765
Total assets purchased	$ 155,873
Common shares issued	$ 14,470
Cash paid	8,513
Total estimated purchase price	$ 22,983
LIABILITIES	
Deposits	
Non-interest bearing	$ 27,871
NOW accounts	35,213
Savings and money market	26,953
Certificates of deposits	32,771
Total deposits	122,808
Borrowings	9,038
Interest payable	55
Other liabilities	989
Total liabilities assumed	$ 132,890

Of the total estimated purchase price of $23.0 million, $526,000 has been allocated to core deposit intangible. Additionally, $6.4 million has been allocated to goodwill and none of the purchase price is deductible. The core deposit intangible will be amortized over seven years on a straight line basis.

The Company acquired 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.

Loans with specific credit-related deterioration, since origination, are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition of these loans is based on reasonable expectation about the timing and amount of cash flows to be collected.

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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 June 1, 2016.

Contractually required principal and interest at acquisition	$ 2,682
Contractual cash flows not expected to be collected (nonaccretable differences)	25
Expected cash flows at acquisition	2,657
Interest component of expected cash flows (accretable discount)	634
Fair value of acquired loans accounted for under ASC 310-30	$ 2,023

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.

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

On July 18, 2016, Horizon completed the acquisition of LaPorte Bancorp, Inc., a Maryland corporation (LaPorte Bancorp) and Horizon Bank s acquisition of The LaPorte Savings Bank, a state-chartered savings bank and wholly owned subsidiary of LaPorte Bancorp, through mergers effective July 18, 2016. Under the terms of the Merger Agreement, shareholders of LaPorte Bancorp had the option to receive $17.50 per share in cash or 0.9435 shares of Horizon common stock for each share of LaPorte Bancorp s common stock, subject to allocation provisions to assure that in aggregate, LaPorte Bancorp shareholders received total consideration that consisted of 65% stock and 35% cash. As a result of LaPorte Bancorp stockholder stock and cash elections and the related proration provisions of the Merger Agreement, Horizon issued 3,421,488 shares of its common stock in the merger. Based upon the July 18, 2016 closing price of $18.36 per share of Horizon common stock, less the consideration used to pay off LaPorte s ESOP loan receivable, the transaction has an implied valuation of approximately $98.6 million.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on preliminary valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on assumptions that are subject to change, the purchase price for the LaPorte Bancorp acquisition is detailed in the following table. Final estimates of fair value on the date of acquisition have not been received yet. Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation prospectively. If any adjustments are made to the preliminary assumptions (provisional amounts), disclosures will be made in the notes to the financial statements of the amounts recorded in the current period earnings by line item that have been recorded in previous reporting periods if the adjustments to the provisional amounts had been recognized as of the acquisition date.

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

ASSETS	
Cash and due from banks	$ 154,849
Investment securities, held to maturity	23,779
Commercial	154,223
Residential mortgage	42,603
Consumer	16,801
Mortgage Warehousing	99,752
Total loans	313,379
Premises and equipment, net	6,022
FHLB stock	4,029
Goodwill	18,265
Core deposit intangible	2,514
Interest receivable	844
Cash value of life insurance	15,267
Other assets	7,822
Total assets purchased	$ 546,770
Common shares issued	$ 60,306
Cash paid	38,328
Total estimated purchase price	$ 98,634
LIABILITIES	
Deposits	
Non-interest bearing	$ 66,733
NOW accounts	99,346
Savings and money market	117,688
Certificates of deposits	86,929
Total deposits	370,696
Borrowings	64,793
Interest payable	178
Subordinated debt	4,504
Other liabilities	7,965
Total liabilities assumed	$ 448,136

Of the total estimated purchase price of $98.6 million, $2.5 million has been allocated to core deposit intangible. Additionally, $18.3 million has been allocated to goodwill and none of the purchase price is deductible. The core deposit intangible will be amortized over seven years on a straight line basis.

The Company acquired 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.

Loans with specific credit-related deterioration, since origination, are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition of these loans is based on reasonable expectation about the timing and amount of cash flows to be collected.

HORIZON BANCORP AND SUBSIDIARIES

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

The following table details an estimate of the acquired loans that are accounted for in accordance with ASC 310-30 as of July 18, 2016. Final valuation estimates have not yet been determined for acquired loans as of September 30, 2016. If information becomes available which would indicate adjustments to the purchase price allocation, such adjustments would be made prospectively.

Contractually required principal and interest at acquisition	$ 12,551
Contractual cash flows not expected to be collected (nonaccretable differences)	3,411
Expected cash flows at acquisition	9,140
Interest component of expected cash flows (accretable discount)	1,736
Fair value of acquired loans accounted for under ASC 310-30	$ 7,404

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.

The results of operations of LaPorte Bancorp and The LaPorte Savings Bank have been included in the Company s consolidated financial statements since the acquisition dates. The following schedule includes pro forma results for the periods ended September 30, 2016 and 2015 as if the LaPorte Bancorp and The LaPorte Savings Bank acquisitions had occurred as of the beginning of the comparable prior reporting periods.

	Three Months Ended		Nine Months Ended	
	September 30 2016	**September 30 2015**	**September 30 2016**	**September 30 2015**
Summary of Operations:				
Net Interest Income	$ 25,044	$ 23,981	$ 74,512	$ 67,243
Provision for Loan Losses	455	400	1,219	3,075
Net Interest Income after Provision for Loan Losses	24,589	23,581	73,293	64,168
Non-interest Income	11,056	9,099	33,052	24,767
Non-Interest Expense	31,611	25,541	80,937	64,956
Income before Income Taxes	4,034	7,139	25,408	23,979
Income Tax Expense	1,855	1,670	8,070	5,932

Net Income	2,179	5,469	17,338	18,047
Net Income Available to Common Shareholders	$ 2,179	$ 5,438	$ 17,296	$ 17,953
Basic Earnings Per Share	$ 0.10	$ 0.31	$ 0.90	$ 1.19
Diluted Earnings Per Share	$ 0.10	$ 0.30	$ 0.89	$ 1.15

The pro forma information includes adjustments for interest income on loans, amortization of intangibles arising from the transaction, interest expense on deposits acquired, premises expense for the banking centers acquired and the related income tax effects.

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

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Note 3 Securities

The fair value of securities is as follows:

September 30, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 27,383	$ 54	$ (15)	$ 27,422
State and municipal	62,825	1,321	(107)	64,039
Federal agency collateralized mortgage obligations	188,072	1,894	(282)	189,684
Federal agency mortgage-backed pools	272,144	4,240	(411)	275,973
Corporate notes	32	63		95
Total available for sale investment securities	$ 550,456	$ 7,572	$ (815)	$ 557,213
Held to maturity				
State and municipal	$ 158,543	$ 6,718	$ (761)	$ 164,500
Federal agency collateralized mortgage obligations	6,828	144		6,972
Federal agency mortgage-backed pools	21,656	1,166		22,822
Total held to maturity investment securities	$ 187,027	$ 8,028	$ (761)	$ 194,294

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 5,940	$ 3	$ (17)	$ 5,926
State and municipal	73,829	1,299	(33)	75,095
Federal agency collateralized mortgage obligations	157,291	567	(1,655)	156,203
Federal agency mortgage-backed pools	206,970	2,080	(1,346)	207,704
Corporate notes	32	22		54

Total available for sale investment securities	$ 444,062	$ 3,971	$ (3,051)	$ 444,982
Held to maturity				
U.S. Treasury and federal agencies	$ 5,859	$ 93	$	$ 5,952
State and municipal	146,331	5,375	(253)	151,453
Federal agency collateralized mortgage obligations	9,051	27	(124)	8,954
Federal agency mortgage-backed pools	26,388	1,141	(185)	27,344
Total held to maturity investment securities	$ 187,629	$ 6,636	$ (562)	$ 193,703

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

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At September 30, 2016, 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 September 30, 2016.

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The amortized cost and fair value of securities available for sale and held to maturity at September 30, 2016 and December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Within one year	$ 6,921	$ 6,953	$ 7,192	$ 7,232
One to five years	52,105	52,482	38,197	38,894
Five to ten years	12,934	13,325	16,807	17,152
After ten years	18,280	18,796	17,605	17,797
	90,240	91,556	79,801	81,075
Federal agency collateralized mortgage obligations	188,072	189,684	157,291	156,203
Federal agency mortgage-backed pools	272,144	275,973	206,970	207,704
Total available for sale investment securities	$ 550,456	$ 557,213	$ 444,062	$ 444,982
Held to maturity				
Within one year	$	$	$	$
One to five years	22,801	23,965	17,815	18,403
Five to ten years	88,924	93,501	106,167	110,026
After ten years	46,818	47,034	28,208	28,976
	158,543	164,500	152,190	157,405
Federal agency collateralized mortgage obligations	6,828	6,972	9,051	8,954
Federal agency mortgage-backed pools	21,656	22,822	26,388	27,344
Total held to maturity investment securities	$ 187,027	$ 194,294	$ 187,629	$ 193,703

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.

September 30, 2016	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury and federal agencies	$ 6,594	$ (15)	$	$	$ 6,594	$ (15)
State and municipal	26,360	(868)			26,360	(868)
Federal agency collateralized mortgage obligations	48,837	(184)	12,304	(98)	61,141	(282)
Federal agency mortgage-backed pools	47,054	(365)	6,779	(46)	53,833	(411)
Total temporarily impaired securities	$ 128,845	$ (1,432)	$ 19,083	$ (144)	$ 147,928	$ (1,576)

December 31, 2015	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	12 Months or More Fair Value	12 Months or More Unrealized Losses	Total Fair Value	Total Unrealized Losses
U.S. Treasury and federal agencies	$ 5,468	$ (17)	$	$	$ 5,468	$ (17)
State and municipal	17,353	(280)	446	(6)	17,799	(286)
Federal agency collateralized mortgage obligations	89,459	(1,124)	25,428	(655)	114,887	(1,779)
Federal agency mortgage-backed pools	113,244	(1,212)	16,506	(319)	129,750	(1,531)
Total temporarily impaired securities	$ 225,524	$ (2,633)	$ 42,380	$ (980)	$ 267,904	$ (3,613)

	Three Months Ended September 30 2016	Three Months Ended September 30 2015	Nine Months Ended September 30 2016	Nine Months Ended September 30 2015
Sales of securities available for sale (Unaudited)				
Proceeds	**$**	$	**$ 25,077**	$ 13,332
Gross gains			**1,060**	147
Gross losses			**(185)**	(23)

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

Note 4 Loans

	September 30 2016	December 31 2015
Commercial		
Working capital and equipment	**$ 440,599**	$ 381,245
Real estate, including agriculture	**564,602**	391,668
Tax exempt	**12,621**	8,674
Other	**29,628**	23,408
Total	**1,047,450**	804,995
Real estate		
1 4 family	**523,721**	433,015
Other	**6,441**	4,129
Total	**530,162**	437,144
Consumer		
Auto	**167,541**	168,397
Recreation	**5,458**	5,365
Real estate/home improvement	**55,505**	47,015
Home equity	**140,156**	127,113
Unsecured	**4,230**	4,120
Other	**13,141**	10,290
Total	**386,031**	362,300
Mortgage warehouse	**226,876**	144,692
Total loans	**2,190,519**	1,749,131
Allowance for loan losses	**(14,524)**	(14,534)
Loans, net	**$ 2,175,995**	$ 1,734,597

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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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 and the related mortgagee are underwritten by Horizon to the end investor guidelines and 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 reacquires the loan under its option within the agreement. Due to the reacquire 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 reacquire 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 reacquire 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 reacquire its loan on an individual mortgage, Horizon would be able to exercise its rights under the agreement.

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

September 30, 2016	**Loan Balance**	**Interest Due**	**Deferred Fees / (Costs)**	**Recorded Investment**
Owner occupied real estate	$ 321,762	$ 1,151	$ 1,192	$ 324,105
Non owner occupied real estate	457,555	627	529	458,711
Residential spec homes	7,949	20	6	7,975
Development & spec land loans	39,798	79	74	39,951
Commercial and industrial	218,414	1,992	171	220,577
Total commercial	1,045,478	3,869	1,972	1,051,319
Residential mortgage	506,545	1,599	2,556	510,700
Residential construction	21,061	38		21,099
Mortgage warehouse	226,876	498		227,374
Total real estate	754,482	2,135	2,556	759,173
Direct installment	66,495	178	(439)	66,234
Direct installment purchased	124			124
Indirect installment	147,829	296		148,125
Home equity	172,905	665	(883)	172,687
Total consumer	387,353	1,139	(1,322)	387,170
Total loans	2,187,313	7,143	3,206	2,197,662
Allowance for loan losses	(14,524)			(14,524)
Net loans	$ 2,172,789	$ 7,143	$ 3,206	$ 2,183,138

December 31, 2015	**Loan Balance**	**Interest Due**	**Deferred Fees / (Costs)**	**Recorded Investment**
Owner occupied real estate	$ 268,281	$ 613	$ 1,328	$ 270,222
Non owner occupied real estate	326,399	306	497	327,202
Residential spec homes	5,018	9	17	5,044
Development & spec land loans	18,183	33	26	18,242
Commercial and industrial	184,911	1,246	335	186,492

Total commercial	802,792	2,207	2,203	807,202
Residential mortgage	414,924	1,275	2,470	418,669
Residential construction	19,751	34		19,785
Mortgage warehouse	144,692	480		145,172
Total real estate	579,367	1,789	2,470	583,626
Direct installment	54,341	168	(359)	54,150
Direct installment purchased	153			153
Indirect installment	151,523	323		151,846
Home equity	157,164	628	(522)	157,270
Total consumer	363,181	1,119	(881)	363,419
Total loans	1,745,340	5,115	3,792	1,754,247
Allowance for loan losses	(14,534)			(14,534)
Net loans	$ 1,730,806	$ 5,115	$ 3,792	$ 1,739,713

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HORIZON BANCORP AND SUBSIDIARIES

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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. Amounts for LaPorte were estimated as of September 30, 2016 as the final analysis of loans with deterioration was not completed.

The carrying amounts of those loans included in the balance sheet amounts of loans receivable are as follows:

	September 30 2016 Heartland	September 30 2016 Summit	September 30 2016 Peoples	September 30 2016 Kosciusko	September 30 2016 LaPorte	September 30 2016 Total
Commercial	$ 867	$ 5,323	$ 724	$ 1,667	$ 5,731	$ 14,312
Real estate	605	989	204	492	1,673	3,963
Consumer	2	9				11
Outstanding balance	$ 1,474	$ 6,321	$ 928	$ 2,159	$ 7,404	$ 18,286
Carrying amount, net of allowance of $0						$ 18,286

	December 31 2015 Heartland	December 31 2015 Summit	December 31 2015 Peoples	December 31 2015 Kosciusko	December 31 2015 LaPorte	December 31 2015 Total
Commercial	$ 1,633	$ 5,567	$ 1,061	$	$	$ 8,261
Real estate	693	1,216	179			2,088
Consumer	6	35				41

Outstanding balance	$ 2,332	$ 6,818	$ 1,240	$	$	$ 10,390
Carrying amount, net of allowance of $63						$ 10,327

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

	Nine Months Ended September 30, 2016					
	Heartland	**Summit**	**Peoples**	**Kosciusko**	**LaPorte**	**Total**
Balance at January 1	$ 795	$ 708	$ 555	$	$	$ 2,058
Additions				634	1,736	2,370
Accretion	(127)	(139)	(92)	(38)		(396)
Reclassification from nonaccretable difference						
Disposals	(74)	(35)	(59)	(23)		(191)
Balance at September 30	$ 594	$ 534	$ 404	$ 573	$ 1,736	$ 3,841

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

During the nine months ended September 30, 2016 and 2015, the Company decreased the allowance for loan losses on purchased loans by a recovery to the income statement of $0 and $87,000, respectively.

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 6 Allowance for Loan Losses

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Balance at beginning of the period	$ 14,226	$ 16,421	$ 14,534	$ 16,501
Loans charged-off:				
Commercial				
Owner occupied real estate	4	56	182	1,478
Non owner occupied real estate	(1)		471	16
Residential development				
Development & Spec Land Loans				
Commercial and industrial	8	38	47	291
Total commercial	11	94	700	1,785
Real estate				
Residential mortgage	12	101	127	287
Residential construction				
Mortgage warehouse				
Total real estate	12	101	127	287
Consumer				
Direct Installment	55	51	159	206
Direct Installment Purchased				
Indirect Installment	296	218	851	783
Home Equity	32	262	271	766
Total consumer	383	531	1,281	1,755
Total loans charged-off	406	726	2,108	3,827
Recoveries of loans previously charged-off:				

Commercial				
Owner occupied real estate	2	8	31	94
Non owner occupied real estate	1	1	55	1
Residential development	2		6	
Development & Spec Land Loans				
Commercial and industrial	12	8	107	41
Total commercial	17	17	199	136
Real estate				
Residential mortgage	12	5	75	10
Residential construction				
Mortgage warehouse				
Total real estate	12	5	75	10
Consumer				
Direct Installment	26	15	70	91
Direct Installment Purchased				
Indirect Installment	160	112	400	347
Home Equity	34	24	135	90
Total consumer	220	151	605	528
Total loan recoveries	249	173	879	674
Net loans charged-off (recovered)	157	553	1,229	3,153
Provision charged to operating expense				
Commercial	165	532	(471)	2,580
Real estate	102	(955)	(147)	(51)
Consumer	188	723	1,837	291
Total provision charged to operating expense	455	300	1,219	2,820
Balance at the end of the period	$ 14,524	$ 16,168	$ 14,524	$ 16,168

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

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

Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company s policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except 1-4 family residential properties and consumer, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower s ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges-off 1-4 family residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down or specific allocation of 1-4 family first and junior lien mortgages to the net realizable value less costs to sell when the value is known but no later than when a loan is 180 days past due. Pursuant to such guidelines, the Company also charges-off unsecured open-end loans when the loan is 90 days past due, and charges down to the net realizable value other secured loans when they are 90 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection in full will occur regardless of delinquency status, are not charged off.

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment analysis:

September 30, 2016	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$	$	$	$	$
Collectively evaluated for impairment	6,222	1,947	1,337	5,018	14,524
Loans acquired with deteriorated credit quality					
Total ending allowance balance	$ 6,222	$ 1,947	$ 1,337	$ 5,018	$ 14,524
Loans:					

Individually evaluated for impairment	$	5,855	$		$