

HORIZON BANCORP INC /IN/

Form ARS

March 15, 2019

MESSAGE TO THE SHAREHOLDERS | 2018

Dear Shareholder,

In 2018, Horizon Bancorp, Inc. (“Horizon”) reported record net income of \$53.1 million. This represents a 60.4% increase over the prior year’s net income of \$33.1 million. Horizon’s Core Net Income for the year-end December 31, 2018, increased to \$48.9 million, a 38.0% increase over prior year’s Core Net Income of \$35.5 million. The increase in Horizon’s 2018 earnings is reflective of Horizon’s successful execution of its ongoing strategy to build mass and scale through both organic and acquisitive growth.

During 2018, the equity markets exhibited considerable volatility, which has caused some consternation with investors, specifically in the banking sector. The volatility in bank stocks was driven generally by passive investors, who move large volumes of stock based on their investment models, often overselling their positions. This overselling often creates an opportunity for value investors. At Horizon, we believe that our company represents both a value and a growth play for investors. The value play is based on our current trading multiple discount to peers, while the growth play has been demonstrated by our historical ability to expand the organization. This combination of value and growth makes Horizon an attractive long term investment.

2018 A Year of Process Improvement

This is the first year since 2013 that Horizon did not close or integrate an acquisition. As a company we completed, closed and integrated nine acquisitions between the years 2014 and 2017. Therefore during 2018 it was important for our Company to take a breather in order to revisit internal processes, up-grade systems and allow for full realization of the cost saves from prior acquisitions. I am pleased to report that Horizon was successful on all fronts which is a testament to the quality of our team and their ability to achieve solid growth, while also improving efficiency.

On October 29, 2018 Horizon announced a pending merger with Salin Bancshares, Inc. and its wholly owned subsidiary, Salin Bank and Trust Company (“Salin Bank”). Salin Bank is a well-managed, family owned bank headquartered in Indianapolis, Indiana, with 20 branches located throughout central Indiana. Salin’s leadership team successfully grew this franchise to approximately \$900 million in total assets, has maintained good asset quality and were early adopters of new banking technology in order to improve their customer experience. Horizon will be retaining several key leaders from Salin Bank who will add depth and experience to our current central Indiana team. As part of our merger plan, Horizon intends to close five of Salin Bank’s branches, which are primarily in markets where we have branch overlap. Our pledge is to retain all of Salin Bank’s branch employees and, therefore, the Salin customers will continue to recognize a friendly face when they walk into the newly branded Horizon offices. This formula has worked well with past mergers and has resulted in high customer retention rates.

We anticipate the closing of this transaction in the 1st or 2nd quarter of 2019, with the data processing conversion to take place in the 2nd quarter.

¹See the Non-GAAP Reconciliation of Net Income and Diluted Earnings Per Share beginning on page 59 of Horizon’s Annual Report on Form 10-K for a reconciliation of Core Net Income to its most directly comparable GAAP measure, Net Income, for the periods presented.

2018 | MESSAGE TO THE SHAREHOLDERS

Building for the Future

As a publicly traded company, Horizon's obligation and responsibility to its shareholders is to continue to look for growth opportunities, to improve upon the customer experience, and to build an efficient operation. Horizon believes that the best opportunities for future growth are in the States of Indiana, and Michigan. Both states are fiscally responsible, have pockets of strong economic growth and community banks with good core deposits. Horizon will continue to capitalize on these opportunities through organic and acquisitive growth initiatives.

In June 2018, Horizon opened a new full service office in Noblesville, Indiana. Noblesville is the county seat for Hamilton County, Indiana, which is one of the fastest growing counties in the Midwest. This new office complements Horizon's existing locations in central Indiana.

In July 2018, Horizon opened a loan production office in Holland, Michigan. Which complements our growth efforts in West Michigan. This office was established by hiring a seasoned team of experienced and local Holland bankers. Holland is a dynamic growth market with an excellent manufacturing base and is currently experiencing disruption in the banking space, which will improve Horizon's growth opportunities.

In 2018, Horizon launched a digital small business lending application process known as "InstaCap". This program has improved the turnaround time and accelerated the speed to fund loans for our small business loan customers. In 2019, Horizon will continue to invest in technology as we implement additional customer facing software programs to decrease customer friction points and improve their experience with the bank. The 2019 initiatives include stream-lined deposit opening software, and an efficient consumer loan application and underwriting system. Horizon is a company on the move and will continue to look for opportunities in the markets we serve and for process improvement to build shareholder value.

Focused Growth Outlook

Horizon's three-year strategic plan calls for continued acquisitive growth, which we anticipate will account for approximately fifty percent of our total growth during this time period. Horizon's acquisition strategy is to partner with like-minded community banks that have similar values and are located in the states of Indiana and Michigan. Both states have favorable economic environments for business and are well known to Horizon's senior leadership team. Horizon believes bank consolidation will continue as a result of the escalating costs of doing business, increased regulatory burden, shrinking net interest margins, the need for succession management, and the required investment in technology to remain competitive. Horizon's acquisition experience, reputation for executing smooth integrations, capacity of our internal systems, and ability to retain local people has positioned us well to capitalize on this strategy. Horizon's three-year organic growth strategy is focused on the markets where we believe we can gain market share or capitalize on demographic growth. These markets include major urban areas located in Indiana and Michigan. Most of these markets project population growth faster than Horizon's legacy branch locations, have strong local economies, and are dominated by very large banks headquartered outside of these states. We believe organic growth will be achieved by retaining and attracting top talent, rewarding our employees for our mutual success, taking market share from large banks and focusing on our customers' experience.

MESSAGE TO THE SHAREHOLDERS | 2018

Another key component in Horizon's strategic plan is to consistently focus on our four primary and diverse revenue streams which include: business and agricultural banking, retail banking, mortgage lending, and wealth and investment management. These four revenue streams provide the bank and shareholders with greater stability to weather varying economic cycles and a diversification of Horizon's capital at risk, the combination of which provides for stable and consistent returns over time.

General Banking Sector Outlook

The economic outlook has several uncertainties tied to the increasing probability for a recession to occur by 2020 including: the tightening of interest spreads as measured by the difference between the two year and ten year U.S. Treasury yields, the ongoing political environment in Washington D.C., and the general slowdown in the world economy.

In addition to the economic challenges, the banking sector will continue to see increased competition for low-cost deposits to fund growth in earning assets, and for top talent. We must also manage concentration risks well within our respective loan and investment portfolios. Horizon's 2019 plan is to seek merger partners with excess deposits and to allocate more resources to support core deposit growth. Horizon is also reviewing its underwriting standards for all loan portfolios in anticipation of a possible recession by 2020. And lastly, Horizon will continue to deploy a top talent retention program that has a goal of retaining 100% of our top performers.

Milestones Achieved Across the Company

Horizon achieved the following milestones in 2018:

- Record earnings of \$53.1 million
- Record efficiency ratio at 60.67%
- Return on average assets of 1.31%
- Return on average equity of 11.22%
- Good asset quality as measured by low 2018 net charge-offs at 0.05%

Creating Shareholder Value

Since 2003, Horizon has had a written shareholder value plan. This plan calls for Horizon to create long-term shareholder value by maintaining our core values, business discipline, and focus on strategic objectives. During 2018, this was demonstrated through several key actions and events including:

- Return on average common equity of 11.22%.
- An increase in the quarterly dividend of 15%.

As the result of a 3 for 2 stock split effective June 15, 2018, Horizon increased its total shares outstanding from approximately 25.5 million to 38.4 million shares as of December 31, 2017 and 2018 respectively. This stock split was for the purpose of increasing liquidity in our shares and to continue to make our shares affordable to retail investors.

Improved shareholder liquidity by 47.2% by increasing the average shares traded per day to 95,226 which is an increase over prior year's average shares traded per day of 64,714.

2018 | MESSAGE TO THE SHAREHOLDERS

As of December 31, 2018, Horizon's tangible book value per share was \$9.43 is the highest level since the Company became publically traded.

Maintaining enrollment in the Russell 2000 and 3000 indices and increasing shares of Horizon's common stock purchased in related index funds.

We continue to improve upon operational leverage by increasing mass and scale. In support of this strategy, we announced the merger with Salin Bank on October 29, 2018.

To improve efficiency and to better allocate our resources, Horizon recently announced the closing of 3 branches. The branches are on scheduled to close early in the second quarter of 2019.

During 2018, Horizon's price per common share decreased by 14.8%. This decline is in line with the overall drop in bank stocks during the year as evidenced by the KBW NASDAQ Bank index falling 19.6%, the SNL Midwest U.S. Bank falling 16.7%, and S&P 500 Banks falling 18.4%.

Horizon's commitment to people first, a cautious and focused approach to expansion, and maintaining a diverse number of revenue streams, gives us confidence in our ability to weather future economic fluctuations and to continue stable growth while continuing to deliver shareholder value.

On a Personal Note: In May 2019, long time director Larry Middleton will retire from our Board of Directors. Larry has provided Horizon with 26 years of exemplary service and has been a passionate customer advocate. We wish Larry the best in his retirement years and thank him for his years of loyal and dedicated service.

On behalf of the entire Horizon Bancorp family, thank you for your continued support and investment in Horizon.

Craig M. Dwight
Chairman & Chief Executive Officer

SUMMARY OF SELECTED FINANCIAL DATA

I 2018

(Dollar Amounts In Thousands Except Per Share Data and Ratios)

| | 2018 | 2017 | 2016 | 2015 | 2014 | |
|---|--------------|--------------|--------------|--------------|--------------|---|
| Earnings | | | | | | |
| Net interest income | \$ 134,569 | \$ 112,100 | \$ 85,992 | \$ 74,734 | \$ 62,983 | |
| Provision for loan losses | 2,906 | 2,470 | 1,842 | 3,162 | 3,058 | |
| Other income | 34,413 | 33,136 | 35,455 | 30,402 | 26,277 | |
| Other expenses | 102,516 | 94,813 | 86,892 | 74,193 | 61,946 | |
| Income tax expense | 10,443 | 14,836 | 8,801 | 7,232 | 6,155 | |
| Net income | 53,117 | 33,117 | 23,912 | 20,549 | 18,101 | |
| Preferred stock dividend | — | — | (42) | (125) | (133) | |
| Net income available to common shareholders | \$ 53,117 | \$ 33,117 | \$ 23,870 | \$ 20,424 | \$ 17,968 | |
| Cash dividend declared | \$ 15,418 | \$ 11,720 | \$ 8,382 | \$ 6,216 | \$ 4,744 | |
| Per Share Data | | | | | | |
| Basic earnings per share ¹ | \$ 1.39 | \$ 0.96 | \$ 0.79 | \$ 0.87 | \$ 0.88 | |
| Diluted earnings per share ¹ | 1.38 | 0.95 | 0.79 | 0.84 | 0.85 | |
| Cash dividends declared per common share ¹ | 0.40 | 0.33 | 0.27 | 0.26 | 0.23 | |
| Book value per common share ¹ | 12.82 | 11.93 | 10.25 | 9.47 | 8.77 | |
| Weighted-average shares outstanding | | | | | | |
| Basic ¹ | 38,347,059 | 34,553,736 | 29,981,592 | 23,648,166 | 19,393,492 | |
| Diluted ¹ | 38,495,231 | 34,760,439 | 30,123,615 | 24,295,968 | 20,252,167 | |
| Period End Totals | | | | | | |
| Loans, net of deferred loan fees and unearned income | \$ 3,013,332 | \$ 2,831,995 | \$ 2,135,986 | \$ 1,749,131 | \$ 1,378,554 | |
| Allowance for loan losses | 17,820 | 16,394 | 14,837 | 14,534 | 16,501 | |
| Total assets | 4,246,688 | 3,964,303 | 3,141,156 | 2,652,401 | 2,076,922 | |
| Total deposits | 3,139,376 | 2,881,003 | 2,471,210 | 1,880,153 | 1,482,319 | |
| Total borrowings | 588,221 | 601,810 | 304,945 | 482,144 | 383,840 | |
| Ratios | | | | | | |
| Loan to deposit | 96.02 | % 98.30 | % 86.43 | % 93.03 | % 93.00 | % |
| Loan to total funding | 80.87 | % 81.31 | % 76.94 | % 74.04 | % 73.87 | % |
| Return on average assets | 1.31 | % 0.97 | % 0.81 | % 0.87 | % 0.93 | % |
| Average stockholders' equity to average total assets | 11.65 | % 11.15 | % 10.22 | % 9.30 | % 9.33 | % |
| Return on average stockholders' equity | 11.22 | % 8.74 | % 7.92 | % 9.87 | % 10.60 | % |
| Dividend payout ratio (dividends divided by net income) | 29.03 | % 34.78 | % 34.33 | % 29.85 | % 25.72 | % |
| Price to book value ratio | 123.09 | % 155.28 | % 182.13 | % 131.26 | % 132.39 | % |

Edgar Filing: HORIZON BANCORP INC /IN/ - Form ARS

| | | | | | |
|-------------------------|-------|-------|-------|-------|-------|
| Price to earnings ratio | 11.35 | 19.45 | 23.56 | 14.78 | 13.75 |
|-------------------------|-------|-------|-------|-------|-------|

¹Adjusted for 3:2 stock split on June 15, 2018 and November 14, 2016.

5

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

Commission file number 0-10792

Horizon Bancorp, Inc.

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:

| | |
|-----------------------------------|---|
| Title of each class | Name of each exchange on which registered |
| Common Stock, no par value | The NASDAQ Stock Market, LLC |

Edgar Filing: HORIZON BANCORP INC /IN/ - Form ARS

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act Yes No

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K.

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

| | |
|-------------------------|---------------------------|
| Large Accelerated Filer | Accelerated Filer |
| Non-Accelerated Filer | Smaller Reporting Company |
| Emerging Growth Company | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, based on the average sale price of such stock as of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$763.7 million.

As of February 27, 2019, the registrant had 38,375,407 shares of common stock outstanding.

Documents Incorporated by Reference

| Document | Part of Form 10-K into which portion of document is incorporated |
|--|--|
| Portions of the Registrant's Proxy Statement to be filed for its | Part III |

May 2, 2019 annual meeting of shareholders

Table of Contents

HORIZON BANCORP, INC.

2018 Annual Report on Form 10-K

Table of Contents

| | Page |
|--|-------------|
| <u>FORWARD-LOOKING STATEMENTS</u> | 3 |
| <u>PART I</u> | |
| Item 1 <u>Business</u> | 4 |
| Item 1A <u>Risk Factors</u> | 23 |
| Item 1B <u>Unresolved Staff Comments</u> | 33 |
| Item 2 <u>Properties</u> | 34 |
| Item 3 <u>Legal Proceedings</u> | 35 |
| Item 4 <u>Mine Safety Disclosures</u> | 35 |
| Special Item: <u>Executive Officers of Registrant</u> | 36 |
| <u>PART II</u> | |
| Item 5 <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 36 |
| Item 6 <u>Selected Financial Data</u> | 39 |
| Item 7 <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 40 |
| Item 7A <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 63 |
| Item 8 <u>Financial Statements and Supplementary Data</u> | 64 |
| Item 9 <u>Changes in and Disagreement with Accountants on Accounting and Financial Disclosure</u> | 138 |
| Item 9A <u>Controls and Procedures</u> | 138 |
| Item 9B <u>Other Information</u> | 138 |
| <u>PART III</u> | |
| Item 10 <u>Directors, Executive Officers and Corporate Governance</u> | 139 |
| Item 11 <u>Executive Compensation</u> | 139 |
| Item 12 <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 140 |
| Item 13 <u>Certain Relationships and Related Transactions, and Director Independence</u> | 140 |
| Item 14 <u>Principal Accounting Fees and Services</u> | 140 |
| <u>PART IV</u> | |
| Item 15 <u>Exhibits and Financial Statement Schedules</u> | 140 |
| <u>SIGNATURES</u> | 144 |

Table of Contents

HORIZON BANCORP, INC.

2018 Annual Report on Form 10-K

FORWARD-LOOKING STATEMENTS

A cautionary note about forward-looking statements: In addition to historical information, information included and incorporated by reference in this Annual Report on Form 10-K contains certain “forward-looking statements” within the meaning of the federal securities laws. Horizon Bancorp, Inc. (“Horizon”) intends such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and is including this statement for purposes of invoking those safe-harbor provisions. Forward-looking statements can include statements about estimated cost savings, plans and objectives for future operations and expectations about Horizon’s financial and business performance as well as economic and market conditions. They often can be identified by the use of words such as “expect,” “may,” “likely,” “could,” “should,” “will,” “intend,” “project,” “estimate,” “believe,” “anticipate,” “seek,” “plan,” “goals,” “strategy,” “future” and variations of such words and similar expressions.

Horizon may include forward-looking statements in filings it makes with the Securities and Exchange Commission (“SEC”), such as this Form 10-K, in other written materials, and in oral statements made by senior management to analysts, investors, representatives of the media and others. Horizon intends that these forward-looking statements speak only as of the date they are made, and Horizon undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward-looking statement is made or to reflect the occurrence of unanticipated events.

Although management believes that the expectations reflected in forward-looking statements are reasonable, actual results may differ materially, whether adversely or positively, from the expectations of Horizon that are expressed or implied by any forward-looking statement. Risks, uncertainties, and factors that could cause Horizon’s actual results to vary materially from those expressed or implied by any forward-looking statement include but are not limited to the following:

• 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 and the outflow of deposits;

• loss of key Horizon personnel;

• increases in disintermediation, as new technologies allow consumers to complete financial transactions without the assistance of banks;

• loss of fee income, including interchange fees, as new and emerging alternative payment platforms (e.g., Apple Pay or Bitcoin) take a greater market share of the payment systems;

• 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 and acquisition 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 of 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;

• the impact of whole or partial dismantling of provisions of the Dodd-Frank Act under the current federal administration, including the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act;

• the impact of the Basel III capital rules;

• 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;

Table of Contents

HORIZON BANCORP, INC.

- rapid technological developments and changes;
- the risks presented by cyber terrorism and data security breaches;
- the rising costs of effective cybersecurity;
- containing costs and expenses;
- the slowing or failure of economic recovery;
- the ability of the U.S. federal government to manage federal debt limits;
- the potential influence on the U.S. financial markets and economy from material changes outside the U.S. or in overseas relations, including changes in U.S. trade relations related to imposition of tariffs, Brexit, and the phase out in 2021 of the London Interbank Offered Rate (“LIBOR”); 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. You are cautioned that actual results may differ materially from those contained in the forward-looking statements. The “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Form 10-K lists some of the factors that could cause Horizon’s actual results to vary materially from those expressed in or implied by any forward-looking statements. We direct your attention to this discussion.

Other risks and uncertainties that could affect Horizon’s future performance are set forth below in Item 1A, “Risk Factors.”

PART I

ITEM 1. BUSINESS

The disclosures in this Item 1 are qualified by the disclosures below in Item 1A, “Risk Factors,” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in other cautionary statements set forth elsewhere in this Annual Report on Form 10-K.

General

Horizon Bancorp, Inc. (“Horizon” or the “Company”) is a registered bank holding company incorporated in Indiana and headquartered in Michigan City, Indiana. Horizon provides a broad range of banking services in the Northern and Central regions of Indiana and the Southern, Central and Great Lakes Bay regions of Michigan through its bank subsidiary, Horizon Bank (“Horizon Bank” or the “Bank”) and other affiliated entities and Horizon Risk Management, Inc. 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. Horizon Bank (formerly known as “Horizon Bank, N.A.”) was a national association until its conversion to an Indiana commercial bank effective June 23, 2017. Prior to that date, Horizon was chartered as a national banking association founded in 1873. The Bank is a full-service commercial bank offering commercial and retail banking services, corporate and individual trust and agency services and other services incident to banking. Horizon Risk Management, Inc. is a captive insurance company incorporated in Nevada and was formed as a wholly owned subsidiary of Horizon.

On October 29, 2018, Horizon entered into an Agreement and Plan of Merger (the “Merger Agreement”) providing for Horizon’s acquisition of Salin Bancshares, Inc. (“Salin”). Pursuant to the Merger Agreement, Salin will merge with and into Horizon, with Horizon surviving the merger (the “Merger”), and Salin Bank and Trust Company, a wholly-owned subsidiary of Salin, will merge with and into Horizon Bank, with Horizon Bank as the surviving bank.

The boards of directors of each of Horizon and Salin have approved the merger and the Merger Agreement. Subject to the approval of the Merger by Salin shareholders, regulatory approvals and other closing conditions, the parties anticipate completing the Merger during the first quarter of 2019.

Table of Contents

HORIZON BANCORP, INC.

In connection with the Merger, shareholders of Salin will receive fixed consideration of 23,907.5 shares of Horizon common stock and \$84,417.17 in cash for each share of Salin common stock. Based on the closing price of Horizon's common stock on October 26, 2018 of \$16.95 per share, the transaction value for the shares of common stock is approximately \$135.3 million.

The Merger Agreement also provides for certain termination rights for both Horizon and Salin, and further provides that upon termination of the Merger Agreement under certain circumstances, Salin will be obligated to pay Horizon a termination fee.

As of December 31, 2018, Salin had total assets of approximately \$929.4 million, total deposits of approximately \$749.5 million and total loans of approximately \$593.7 million.

On October 17, 2017, Horizon completed the acquisition of Wolverine Bancorp, Inc., a Maryland corporation ("Wolverine") and Horizon Bank's acquisition of Wolverine Bank, a federally-chartered savings bank and wholly-owned subsidiary of Wolverine, through mergers effective October 17, 2017. Under the terms of the Merger Agreement, shareholders of Wolverine received 1.5228 shares of Horizon common stock and \$14.00 in cash for each outstanding share of Wolverine common stock. Wolverine shares outstanding at the closing to be exchanged were 2,129,331, and the shares of Horizon common stock issued to Wolverine shareholders totaled 3,241,045. Based upon the October 16, 2017 closing price of \$19.37 per share of Horizon common stock immediately prior to the effectiveness of the merger, less the consideration used to pay off Wolverine Bancorp's ESOP loan receivable, the transaction has an implied valuation of approximately \$93.8 million. As a result of the acquisition, the Company was able to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

On September 1, 2017, Horizon completed the acquisition of Lafayette Community Bancorp, an Indiana corporation ("Lafayette") and the Bank's acquisition of Lafayette Community Bank, a state-chartered bank and wholly-owned subsidiary of Lafayette, through mergers effective September 1, 2017. Under the terms of the Merger Agreement, shareholders of Lafayette received 0.8817 shares of Horizon common stock and \$1.73 in cash for each outstanding share of Lafayette common stock. Lafayette shareholders owning fewer than 100 shares of common stock received \$17.25 in cash for each common share. Lafayette shares outstanding at the closing to be exchanged were 1,856,679, and the shares of Horizon common stock issued to Lafayette shareholders totaled 1,636,888. Based upon the August 31, 2017 closing price of \$17.45 per share of Horizon common stock immediately prior to the effectiveness of the merger, the transaction has an implied valuation of approximately \$34.5 million. As a result of the acquisition, the Company was able to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale and to increase revenue in this vibrant growth market.

On February 3, 2017, Horizon completed the purchase and assumption of certain assets and liabilities of a single branch of First Farmers Bank & Trust Company, in Bargersville, Indiana. Net cash of \$11.0 million was received in the transaction, representing the deposit balances assumed at closing, net of amounts paid for loans acquired in the transaction of \$3.4 million and a 3.0% premium on deposits. Customer deposit balances were recorded at \$14.8 million and a core deposit intangible of \$452,000 was recorded in the transaction which will be amortized over ten years on a straight line basis. There was no goodwill generated in the transaction.

On November 7, 2016, Horizon completed the acquisition of CNB Bancorp, an Indiana corporation headquartered in Attica, Indiana ("CNB") and the Bank's acquisition of The Central National Bank and Trust Company ("Central National

Bank & Trust”), through mergers effective November 7, 2016. Under terms of the acquisition, shareholders of CNB received merger consideration in the form of cash. The total value of the consideration for the acquisition was \$5.3 million. As a result of the acquisition, the Company was able to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

On July 18, 2016, Horizon completed the acquisition of LaPorte Bancorp, Inc., a Maryland corporation (“LaPorte Bancorp”) and the 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 1.4153 shares of Horizon common stock for each share of LaPorte Bancorp’s common stock, subject to allocation provisions to assure that in aggregate,

Table of Contents

HORIZON BANCORP, INC.

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 5,132,232 shares of its common stock in the merger. Based upon the July 18, 2016 closing price of \$12.24 per share of Horizon common stock, less the consideration used to pay off LaPorte Bancorp's ESOP loan receivable, the transaction had an implied valuation of approximately \$98.6 million. As a result of the acquisition, the Company was able to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

On June 1, 2016, Horizon completed the acquisition of Kosciusko Financial, Inc., an Indiana corporation ("Kosciusko") and the 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 6.7775 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 1,310,145 shares of its common stock in the merger. Based upon the June 1, 2016 closing price of \$11.04 per share of Horizon common stock, the transaction had an implied valuation of approximately \$23.0 million. As a result of the acquisition, the Company was able to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

On July 1, 2015, Horizon completed the acquisition of Peoples Bancorp, an Indiana corporation ("Peoples") and the Bank'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 2.1375 shares of Horizon common stock 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 4,932,454. Horizon's stock price was \$11.25 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 a result of the acquisition, the Company experienced, and expects to continue to experience, increases in its deposit base, reductions in transaction costs and reduced costs through economies of scale.

On April 3, 2014 Horizon completed its acquisition of SCB Bancorp, Inc. ("Summit") and the Bank's acquisition of Summit Community Bank, through mergers effective as of that date. Under the final terms of the acquisition, the exchange ratio was 1.1034 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 1,284,345. Horizon's stock price was \$9.88 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). As a result of the acquisition, the Company experienced, and expects to continue to experience, increases in its deposit base, reductions in transaction costs and reduced costs through economies of scale.

The Bank maintains 63 full service offices and 3 loan and deposit production offices. At December 31, 2018, the Bank had total assets of \$4.25 billion and total deposits of \$3.14 billion. The Bank has wholly-owned direct and indirect

subsidiaries: Horizon Investments, Inc. (“Horizon Investments”), Horizon Properties, Inc. (“Horizon Properties”), Horizon Insurance Services, Inc. (“Horizon Insurance”), Horizon Grantor Trust, The Loan Store, Inc. and Wolverine Commercial Holdings, LLC. Horizon Investments manages the investment portfolio of the Bank. Horizon Properties manages the real estate investment trust. Horizon Insurance is used by the Company’s Wealth Management to sell certain life insurance products through a third party. Horizon Grantor Trust holds title to certain company owned life insurance policies. The Loan Store, Inc. does not presently engage in any business activities. Wolverine Commercial Holdings, LLC currently holds one piece of property but does not otherwise engage in significant business activities.

Horizon formed Horizon Bancorp Capital Trust II in 2004 (“Trust II”) and Horizon Bancorp Capital Trust III in 2006 (“Trust III”) for the purpose of participating in pooled trust preferred securities offerings. The Company assumed additional debentures as the result of the acquisition of Alliance Financial Corporation in 2005, which formed Alliance Financial Statutory Trust I (“Alliance Trust”). The Company also assumed additional debentures as the result of the

Table of Contents

HORIZON BANCORP, INC.

acquisition of American Trust & Savings Bank (“American”) in 2010, which formed Am Tru Statutory Trust I (“Am Tru Trust”). The Company also assumed additional debentures as the result of the Heartland transaction, which formed Heartland (IN) Statutory Trust II (“Heartland Trust”). In 2016, the Company also assumed additional debentures as the result of the LaPorte Bancorp transaction. LaPorte Bancorp acquired City Savings Financial Corporation in 2007. City Savings Financial Corporation issued the debentures and formed City Savings Statutory Trust I (“City Savings”) in 2003. See Note 15 of the Consolidated Financial Statements included at Item 8 for further discussion regarding these previously consolidated entities that are now reported separately.

The business of Horizon is not seasonal to any material degree. No material part of Horizon’s business is dependent upon a single or small group of customers, the loss of any one or more of which would have a materially adverse effect on the business of Horizon. In 2018, revenues from loans accounted for 73.5% of the total consolidated revenue, and revenues from investment securities accounted for 9.1% of total consolidated revenue.

Available Information

The Company’s Internet address is www.horizonbank.com. The Company makes available, free of charge through the “About Us - Investor Relations – Documents - SEC Filings” section of its Internet website, copies of the Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after those reports are filed with or furnished to the SEC.

Employees

The Company and its subsidiaries employed approximately 716 full and part-time employees as of December 31, 2018.

Competition

Horizon faces a high degree of competition in all of its primary markets. The Bank’s primary market consists of areas throughout the northern, northwestern, northeastern and central regions of the state of Indiana along with the southern, central and Great Lakes Bay regions of the state of Michigan. The Bank’s primary market is further defined by the Indiana counties of La Porte, Lake, Porter, St. Joseph, Elkhart, Kosciusko, LaGrange, DeKalb, Noble, Whitley, Allen, Fountain, Tippecanoe, Hamilton, Marion and Johnson, as well as the Michigan counties of Berrien, Cass, St. Joseph, Kalamazoo, Ingham, Midland, Saginaw, Oakland and Ottawa. The Bank competes with other commercial banks, savings and loan associations, consumer finance companies, credit unions and other non-bank and digital financial service providers. To a more moderate extent, the Bank competes with Chicago money center banks, mortgage banking companies, insurance companies, brokerage houses, other institutions engaged in money market financial services and certain government agencies.

Horizon was the largest of the eight bank and thrift institutions in La Porte County with a 54.99% market share, as of June 30, 2018. In July 2016, Horizon completed its acquisition of The LaPorte Savings Bank adding its market share and a net of four branches located in La Porte County. In Porter County, Horizon was the fifth largest of 12 institutions with a market share of 10.93%. As of June 30, 2018, Horizon held 1.70% of the market share in Lake County. Horizon entered Kosciusko County in June 2016 through its acquisition of Farmers State Bank. As of

June 30, 2018, Horizon held a market share of 7.63% and was ranked fourth out of 10 institutions in Kosciusko County. Horizon entered the Indiana counties of Allen, DeKalb, LaGrange, Noble and Whitley in 2015 through its acquisition of Peoples FSB. As of June 30, 2018, Horizon was the second largest of the 11 bank and thrift institutions in DeKalb County with a market share of 21.96%, followed by market shares of 7.97% in Whitley County; 7.63% in Noble County; 5.33% in LaGrange County; and less than 1% in Allen County. Horizon's market share in the counties of St. Joseph and Elkhart were less than 1% at June 30, 2018. At June 30, 2018, Horizon held a 10.49% market share in Fountain County, which it entered in late 2016 through the acquisition of Central National Bank and Trust. On September 1, 2017, Horizon acquired Lafayette Community Bank and entered Tippecanoe County. At June 30, 2018, Horizon ranked fifth out of 15 institutions in Tippecanoe County with a 11.06% market share. In 2012, Horizon entered Johnson County through its acquisition of Heartland Bank and ranked second of the 19 institutions with a market share of 12.24%, as of June 30, 2018. Horizon's market share of deposits was less than 1% each in Hamilton and Marion Counties.

Table of Contents

HORIZON BANCORP, INC.

Horizon was the fourth largest of the 10 bank and thrift institutions in Berrien County with an 8.88% market share, as of June 30, 2018. The branches acquired from Peoples FSB in Michigan are located in Cass, St. Joseph and Kalamazoo Counties where Horizon held market share of 6.18%, 4.62% and 1.36%, respectively, as of June 30, 2018. Horizon entered Ingham County through its acquisition of Summit Community Bank in 2014 and held 2.26% market share as of June 30, 2018. On October 17, 2017, Horizon acquired Wolverine Bank and entered Midland and Saginaw counties. At June 30, 2018, Horizon was the second largest of seven institutions in Midland County with a 6.32% market share. Horizon held less than 1% market share in Saginaw County and Kent County, Michigan at June 30, 2018. (Source: FDIC Summary of Deposits Market Share Reports, available at www.fdic.gov.)

Regulation and Supervision

General

As a bank holding company and a financial holding company, the Company is subject to extensive regulation, supervision and examination by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board” or “Federal Reserve”) as its primary federal regulator under the Bank Holding Company Act of 1956, as amended (“BHC Act”). The Company is required to file annual reports with the Federal Reserve and provide other information that the Federal Reserve may require. The Federal Reserve may also make examinations and inspections of the Company.

The Bank, as an Indiana-chartered bank, is subject to extensive regulation, supervision and examination by the Indiana Department of Financial Institutions (“DFI”) as its primary state regulator. Also, as to certain matters, the Bank is under the supervision of, and subject to examination by, the Federal Deposit Insurance Corporation (“FDIC”) because the FDIC provides deposit insurance to the Bank and is the Bank’s primary federal regulator.

The supervision, regulation and examination of Horizon and the Bank by the bank regulatory agencies are intended primarily for the protection of depositors rather than for the benefit of Horizon’s shareholders.

Horizon is also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. Horizon’s common stock is listed on the NASDAQ Global Select Market under the trading symbol “HBNC,” and Horizon is subject to the NASDAQ rules applicable to listed companies.

Included below is a brief summary of significant aspects of the laws, regulations and policies applicable to Horizon and the Bank. This summary is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are referenced and is not intended to be an exhaustive description of the statutes, regulations and policies applicable to the business of Horizon and the Bank. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and by federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to Horizon and the Bank could have a material effect on Horizon’s business, financial condition and results of operations.

The Bank Holding Company Act

The BHC Act generally limits the business in which a bank holding company and its subsidiaries may engage to banking or managing or controlling banks and those activities that the Federal Reserve Board has determined to be so

closely related to banking as to be a proper incident thereto. Those closely related activities currently can include such activities as consumer finance, mortgage banking and securities brokerage. Certain well-managed and well-capitalized bank holding companies may elect to be treated as a “financial holding company” and, as a result, will be permitted to engage in a broader range of activities that are financial in nature and in activities that are determined to be incidental or complementary to activities that are financial in nature. Horizon has both qualified as, and elected to be, a financial holding company. Activities that are considered financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

Table of Contents

HORIZON BANCORP, INC.

To commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least “satisfactory” in its most recent examination under the Community Reinvestment Act. The Federal Reserve Board has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the Federal Reserve Board has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

Federal Reserve Board policy has historically required bank holding companies to act as a source of financial and managerial strength for their subsidiary banks. The Dodd-Frank Act, which was signed into law on July 21, 2010, codified this policy. Under this requirement, Horizon is required to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which Horizon might not otherwise do so. For this purpose, “source of financial strength” means Horizon’s ability to provide financial assistance to the Bank in the event of the Bank’s financial distress.

The BHC Act, the Bank Merger Act (which is the popular name for Section 18(c) of the Federal Deposit Insurance Act) and other federal and state statutes regulate acquisitions of banks and bank holding companies. The BHC Act requires the prior approval of the Federal Reserve before a bank holding company may acquire more than a 5% voting interest or substantially all the assets of any bank or bank holding company. Banks must also seek prior approval from their primary state and federal regulators for any such acquisitions. In reviewing applications seeking approval for mergers and other acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s performance record under the Community Reinvestment Act and the effectiveness of the subject organizations in combating money laundering activities.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become “undercapitalized” (as defined in FDICIA), with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency.

Bank holding companies, such as Horizon, and their insured depository institutions, such as the Bank, are subject to various regulatory capital requirements administered by the federal and state regulators. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. For an additional discussion of the Company’s regulatory capital ratios and regulatory requirements as of December 31, 2018, please refer to the subsection titled “*Capital Regulation*” in this “Regulation and Supervision” section.

Branching and Acquisitions

Indiana law, the BHC Act and the Bank Merger Act restrict certain types of expansion by the Company and the Bank. The Company and the Bank may be required to apply for prior approval from (or give prior notice and an opportunity for review to) the Federal Reserve, the DFI and the FDIC, and or other regulatory agencies as a condition to the

acquisition or establishment of new offices, or the acquisition by merger, purchase or otherwise of the stock, business or assets of other banks or companies.

Under current law, Indiana chartered banks may establish branches throughout the state and in other states, subject to certain limitations. Indiana law also authorizes an Indiana bank to establish one or more branches in states other than Indiana through interstate merger transactions and to establish one or more interstate branches through de novo branching or the acquisition of a branch. The Dodd-Frank Act permits the establishment of de novo branches in states where such branches could be opened by a state bank chartered by that state. The consent of the state in which the new branch will be opened is no longer required.

Table of Contents

HORIZON BANCORP, INC.

Deposit Insurance and Assessments

The Bank's deposits are insured to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC. Generally, deposits are insured up to the statutory limit of \$250,000. Banks are subject to deposit insurance premiums and assessments to maintain the DIF. The FDIC has authority to raise or lower assessment rates on insured banks in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments.

The Dodd-Frank Act resulted in significant changes to the FDIC's deposit insurance system. Under the Dodd-Frank Act, the FDIC is authorized to set the reserve ratio for the DIF at no less than 1.35%, and must achieve the 1.35% designated reserve ratio by September 30, 2020. The FDIC must offset the effect of the increase in the minimum designated reserve ratio from 1.15% to 1.35% on insured depository institutions of less than \$10 billion and may declare dividends to depository institutions when the reserve ratio at the end of a calendar quarter is at least 1.5%, although the FDIC has the authority to suspend or limit such permitted dividend declarations. The FDIC has set the long term goal for the designated reserve ratio of the deposit insurance fund at 2% of estimated insured deposits.

Also as a consequence of the Dodd-Frank Act, the assessment base for deposit insurance premiums was changed in 2011 from adjusted domestic deposits to average consolidated total assets minus average tangible equity. Tangible equity for this purpose means Tier 1 capital. The initial base assessment rates ranged from 5-35 basis points. For small Risk Category I banks, such as Horizon Bank, the rates ranged from 5-9 basis points.

Adjustments are made to the initial assessment rates based on long-term unsecured debt, depository institution debt, and brokered deposits.

Effective as of June 30, 2016, the reserve ratio reached 1.15% and a new assessment rate schedule became effective July 1, 2016, with rates ranging from 3 to 30 basis points instead of 5 to 35 basis points. Assessment rates for all established smaller banks will be determined using financial measures and supervisory ratings derived from a statistical model estimating the probability of failure over three years. The new pricing system eliminates risk categories, but establishes minimum and maximum assessment rates for established small banks based on a bank's CAMELS composite ratings (*i.e.*, capital adequacy, asset quality, management, earnings, liquidity and sensitivity).

Horizon's FDIC deposit insurance expense decreased \$513,000 during 2017 compared to 2016 as a result of the new assessment rate schedule effective July 1, 2016. Horizon's FDIC deposit insurance expense increased \$398,000 during 2018 compared to 2017 primarily due to an increase in average consolidated total assets.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe and unsound condition to continue operations or has violated any applicable law, regulation, order or any condition imposed in writing by, or written agreement with, the FDIC. The FDIC may also suspend deposit insurance temporarily during the hearing process for a permanent termination of insurance if the institution has no tangible capital.

FDIC-insured institutions are also subject to the requirement to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the insolvent Federal Savings and Loan Insurance Corporation, an early predecessor of the DIF. The FICO bonds were scheduled to be repaid between 2017 and 2019, and the last bond is now scheduled to be repaid in

September 2019. For 2018, the Bank paid 0.46 basis points for each \$100 of insured deposits for the first quarter, 0.44 basis points for the second quarter, and 0.32 basis points for the third and fourth quarters. The assessment rate was further reduced to 0.14 basis points for the first quarter of 2019. The Federal Housing Finance Agency, which is the agency authorized by Congress to prescribe regulations relating to FICO, recently adopted a final rule effective January 7, 2019, that projects that the last FICO assessment on institutions like Horizon Bank will be collected on the March 29, 2019, FDIC Quarterly Certified Statement Invoice.

Table of Contents

HORIZON BANCORP, INC.

Transactions with Affiliates and Insiders

Horizon and the Bank are subject to the Federal Reserve Act, which restricts financial transactions between banks, affiliated companies and their executive officers, including limits on credit transactions between these parties. The statute prescribes terms and conditions in order for bank affiliate transactions to be deemed to be consistent with safe and sound banking practices, and it also restricts the types of collateral security permitted in connection with a bank's extension of credit to an affiliate. In general, extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, and subject to credit underwriting procedures that are at least as stringent as those prevailing at the time for comparable transactions with non-affiliates, and (ii) must not involve more than the normal risk of repayment or present other unfavorable features.

Capital Regulation

The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and account for off-balance sheet items. Generally, to satisfy the capital requirements, the Company must maintain capital sufficient to meet both risk-based asset ratio tests and a leverage ratio test on a consolidated basis. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments into various risk-weighted categories, with higher weighting assigned to categories perceived as representing greater risk. A risk-based ratio represents the applicable measure of capital divided by total risk-weighted assets. The leverage ratio is a measure of the Company's core capital divided by total assets adjusted as specified in the guidelines.

The capital guidelines divide a bank holding company's or bank's capital into two tiers. The first tier ("Tier I") includes common equity, certain non-cumulative perpetual preferred stock and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (except mortgage servicing rights and purchased credit card relationships, subject to certain limitations). Supplementary capital ("Tier II") includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatory convertible securities, certain hybrid capital instruments, term subordinated debt and the allowance for loan and lease losses, subject to certain limitations, less required deductions. The regulations also require the maintenance of a leverage ratio designed to supplement the risk-based capital guidelines. This ratio is computed by dividing Tier I capital, net of all intangibles, by the quarterly average of total assets. Pursuant to the regulations, banks must maintain capital levels commensurate with the level of risk, including the volume and severity of problem loans to which they are exposed.

Effective January 1, 2015 (subject to certain phase-in provisions through January 1, 2019), the Company became subject to new federal banking rules implementing changes arising from Dodd-Frank and the U.S. Basel Committee on Banking Supervision, providing a capital framework for all U.S. banks and bank holding companies ("Basel III"). Basel III increased the minimum requirements for both the quantity and quality of capital held by Horizon and the Bank. The rules include a new common equity Tier 1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6.0% (increased from 4.0%), a total capital ratio of 8.0% (unchanged from prior rules) and a minimum leverage ratio of 4.0%. The final rules also require a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets, which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain the required capital conservation buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of certain bonuses to

senior executive management. The capital conservation buffer requirement was phased in over three years beginning in 2016 at 0.625% of risk-weighted assets and increased each year until fully implemented at 2.5% on January 1, 2019. The capital conservation buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5% and the total capital ratio to 10.5% on a fully phased-in basis.

Basel III also introduced other changes, including an increase in the capital required for certain categories of assets, including higher-risk construction real estate loans and certain exposures related to securitizations. Banking organizations with less than \$15 billion in assets as of December 31, 2010, such as Horizon, are permitted to retain non-qualifying Tier 1 capital trust preferred securities issued prior to May 19, 2010, subject generally to a limit of 25% of Tier 1 capital.

Table of Contents

HORIZON BANCORP, INC.

In May 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Regulatory Relief Act”) was enacted, which could change the regulatory capital requirements applicable to Horizon. The Regulatory Relief Act was enacted to modify or remove certain financial reform rules and regulations, including some implemented under the Dodd-Frank Act. Of particular significance for financial institutions and their holding companies with total consolidated assets of less than \$10 billion, the Regulatory Relief Act directs the federal banking regulators to establish a single “Community Bank Leverage Ratio” of between 8% to 10% to replace the leverage and risk-based regulatory capital ratios. Any qualifying depository institution or its holding company that exceeds the “Community Bank Leverage Ratio” will be considered to have met generally applicable leverage and risk-based regulatory capital ratios, and any qualifying depository institution that exceeds the new ratio will be considered to be “well-capitalized” under the prompt correction action rules.

Horizon’s management believes that, as of December 31, 2018, Horizon and the Bank met all capital adequacy requirements under the Basel III capital rules currently in effect.

The following is a summary of Horizon’s and the Bank’s regulatory capital and capital requirements at December 31, 2018.

| | Actual | | Required for Capital ¹ Adequacy Purposes | | Required For Capital ¹ Adequacy Purposes with Capital Buffer | | Well Capitalized Under Prompt ¹ Corrective Action Provisions | |
|---|------------|--------|---|-------|---|--------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| December 31, 2018 | | | | | | | | |
| Total capital ¹ (to risk-weighted assets) | | | | | | | | |
| Consolidated | \$ 427,616 | 13.39% | \$ 255,419 | 8.00% | \$ 315,283 | 9.875% | N/A | N/A |
| Bank | 396,755 | 12.43% | 255,419 | 8.00% | 315,283 | 9.875% | \$ 319,274 | 10.00% |
| Tier 1 capital ¹ (to risk-weighted assets) | | | | | | | | |
| Consolidated | 409,760 | 12.83% | 191,565 | 6.00% | 251,429 | 7.875% | N/A | N/A |
| Bank | 378,899 | 11.87% | 191,565 | 6.00% | 251,429 | 7.875% | 255,420 | 8.00% |
| Common equity tier 1 capital ¹ (to risk-weighted assets) | | | | | | | | |
| Consolidated | 371,297 | 11.63% | 143,673 | 4.50% | 203,537 | 6.375% | N/A | N/A |
| Bank | 378,899 | 11.87% | 143,674 | 4.50% | 203,537 | 6.375% | 207,528 | 6.50% |
| Tier 1 capital ¹ (to average assets) | | | | | | | | |

| | | | | | | | | |
|--------------|---------|--------|---------|-------|---------|--------|---------|-------|
| Consolidated | 409,760 | 10.12% | 162,033 | 4.00% | 162,033 | 4.000% | N/A | N/A |
| Bank | 378,899 | 9.34% | 162,327 | 4.00% | 162,327 | 4.000% | 202,908 | 5.00% |

¹ As defined by regulatory agencies

The Dodd-Frank Act also requires the Federal Reserve to set minimum capital levels for bank holding companies that are as stringent as those required for insured depository subsidiaries, except that bank holding companies with less than \$1 billion in assets are exempt from these capital requirements.

Dividends

Horizon is a legal entity separate and distinct from the Bank. The primary source of Horizon's cash flow, including cash flow to pay dividends on its common stock, is the payment of dividends to Horizon by the Bank. Under Indiana law, the Bank may pay dividends of so much of its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered appropriate by the Bank's Board of Directors. However, the Bank must obtain the approval of the DFI for the payment of a dividend if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income" means net income as calculated for call report purposes, less all dividends declared for the applicable period. The Bank is generally exempt from this DFI pre-approval process for dividends if (i) the Bank has been assigned a composite uniform financial institutions rating of 1 or 2 as a result of the most recent federal or state examination; (ii) the proposed dividend will not result in a Tier 1 leverage ratio below 7.5%; and (iii) the Bank is not subject to any corrective action, supervisory order, supervisory agreement or board approved operating agreement.

The FDIC has the authority to prohibit the Bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank.

Table of Contents

HORIZON BANCORP, INC.

In addition, under Federal Reserve supervisory policy, a bank holding company generally should not maintain its existing rate of cash dividends on common shares unless (i) the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and (ii) the prospective rate of earnings retention appears consistent with the organization's capital needs, assets, quality and overall financial condition. The Federal Reserve issued a letter dated February 24, 2009, to bank holding companies informing them that it expects bank holding companies to consult with it in advance of declaring dividends that could raise safety and soundness concerns (*i.e.*, such as when the dividend is not supported by earnings or involves a material increase in the dividend rate) and in advance of repurchasing shares of common stock or preferred stock. Although the effect of this letter was revised in December 2015 to become inapplicable to certain large U.S. bank holding companies (generally, those with at least \$50 billion in average total consolidated assets), the guidance remains effective for bank holding companies like Horizon.

Prompt Corrective Regulatory Action

Under FDICIA, federal banking regulatory authorities are required to take regulatory enforcement actions known as "prompt corrective action" with respect to depository institutions that do not meet minimum capital requirements. The extent of the regulators' powers depends on whether the institution in question is categorized as "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the submission of a capital restoration plan; (ii) placing limits on asset growth and restrictions on activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions with affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, for critically undercapitalized institutions, appointing a receiver for the institution.

New prompt corrective action requirements that became effective January 1, 2015, increased the capital level requirements necessary to qualify as "well capitalized." At December 31, 2018, the Bank was categorized as "well capitalized," meaning that the Bank's total risk-based capital ratio exceeded 10%, the Bank's Tier 1 risk-based capital ratio exceeded 8%, the Bank's common equity Tier 1 risk-based capital ratio exceeded 6.5%, the Bank's leverage ratio exceeded 5%, and the Bank was not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure.

Banking regulators may change these capital requirements from time to time, depending on the economic outlook generally and the outlook for the banking industry. For instance, when established, the new Community Bank Leverage Ratio prescribed by the Regulatory Relief Act will set the standard for a "well-capitalized" institution for purposes of "prompt corrective action." The Company is unable to predict whether and when any such further capital requirements would be imposed and, if so, to what levels and on what schedule.

Anti-Money Laundering – The USA Patriot Act and the Bank Secrecy Act

Horizon is subject to the provisions of the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and requires financial institutions to implement additional policies and procedures to

address money laundering, suspicious activities and currency transaction reporting, and currency crimes. The regulations promulgated under the USA PATRIOT Act of 2001 require financial institutions such as the Bank to adopt controls to detect, prevent and report money laundering and terrorist financing and to verify the identities of their customers.

The Bank Secrecy Act of 1970, which was amended to incorporate certain provisions of the USA PATRIOT Act of 2001, also focuses on combating money laundering and terrorist financing and requires financial institutions to develop policies, procedures and practices to prevent, detect and deter these activities, including customer identification programs and procedures for filing suspicious activity reports. Banks had until May 2018 at the latest to update their policies with respect to new customer due diligence regulations adopted by the U.S. Department of the Treasury under the Bank Secrecy Act. During 2018, Horizon Bank implemented the Fifth Pillar of the Bank Secrecy Act (“BSA”) which focuses on identifying beneficial ownership. The BSA officer and BSA analysts incorporated these enhanced due diligence requirements into the Bank’s policies, procedures and training programs in 2018.

Table of Contents

HORIZON BANCORP, INC.

Failure to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations relating thereto, could have serious legal and reputational consequences for Horizon and the Bank.

Federal Securities Law and NASDAQ

The shares of common stock of Horizon have been registered with the SEC under the Securities Exchange Act (the “1934 Act”). Horizon is subject to the information, proxy solicitation, insider trading restrictions and other requirements of the 1934 Act and the rules of the SEC promulgated thereunder.

Shares of common stock held by persons who are affiliates of Horizon may not be resold without registration unless sold in accordance with the resale restrictions of Rule 144 under the Securities Act of 1933. If Horizon meets the current public information requirements under Rule 144, each affiliate of Horizon who complies with the other conditions of Rule 144 (including those that require the affiliate’s sale to be aggregated with those of certain other persons) would be able to sell in the public market, without registration, a number of shares not to exceed, in any three-month period, the greater of (i) 1% of the outstanding shares of Horizon or (ii) the average weekly volume of trading in such shares during the preceding four calendar weeks.

Under the Dodd-Frank Act, Horizon is required to provide its shareholders an opportunity to vote on the executive compensation payable to its named executive officers and on golden parachute payments in connection with mergers and acquisitions. These votes are non-binding and advisory. At least once every six years, Horizon must also permit shareholders to determine, on an advisory basis, whether such votes on executive compensation (called “say on pay” votes) should be held every one, two, or three years. In both 2012 and 2018, Horizon’s shareholders voted in favor of presenting the executive compensation “say on pay” question every year.

Shares of common stock of Horizon are listed on The NASDAQ Global Select Market under the trading symbol “HBNC,” and Horizon is subject to the rules of NASDAQ for listed companies.

Sarbanes-Oxley Act of 2002

Horizon is subject to the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), which revised the laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act applies to all companies with equity or debt securities registered under the 1934 Act. In particular, the Sarbanes-Oxley Act established: (i) new requirements for audit committees, including independence, expertise and responsibilities; (ii) additional responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers; and (v) new and increased civil and criminal penalties for violation of the securities laws.

Pursuant to the final rules adopted by the SEC to implement Section 404 of the Sarbanes-Oxley Act, Horizon is required to include in each Form 10-K it files a report of management on Horizon’s internal control over financial reporting. The internal control report must include a statement of management’s responsibility for establishing and maintaining adequate control over financial reporting of Horizon, identify the framework used by management to evaluate the effectiveness of Horizon’s internal control over financial reporting and provide management’s assessment

of the effectiveness of Horizon's internal control over financial reporting. This Annual Report on Form 10-K also includes an attestation report issued by Horizon's registered public accounting firm on Horizon's internal control over financial reporting.

Table of Contents

HORIZON BANCORP, INC.

Financial System Reform – The Dodd-Frank Act, the CFPB and the 2018 Regulatory Relief Act

The Dodd-Frank Act, which was signed into law in 2010, significantly changed the regulation of financial institutions and the financial services industry. The Dodd-Frank Act includes provisions affecting large and small financial institutions alike, including several provisions that have profoundly affected how community banks, thrifts, and small bank and thrift holding companies are regulated. Among other things, these provisions eliminated the Office of Thrift Supervision and transferred its functions to the other federal banking agencies, relaxed rules regarding interstate branching, allowed financial institutions to pay interest on business checking accounts, changed the scope of federal deposit insurance coverage and imposed new capital requirements on bank and thrift holding companies.

The Dodd-Frank Act created the Consumer Financial Protection Bureau (“CFPB”) as an independent bureau within the Federal Reserve System with broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. In July 2011, many of the consumer financial protection functions formerly assigned to the federal banking and other designated agencies were transferred to the CFPB. The CFPB has a large budget and staff, and has the authority to implement regulations under federal consumer protection laws and enforce those laws against financial institutions. The CFPB has examination and primary enforcement authority over depository institutions with \$10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by the federal banking regulators for consumer compliance purposes. The CFPB also has authority to prevent unfair, deceptive or abusive practices in connection with offering consumer financial products. Additionally, the CFPB is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities.

The CFPB has indicated that mortgage lending is an area of supervisory focus and that it will concentrate its examination and rulemaking efforts on the variety of mortgage-related topics required under the Dodd-Frank Act, including minimum standards for the origination of residential mortgages. The CFPB has published several final regulations impacting the mortgage industry, including rules related to ability-to-repay, mortgage servicing, escrow accounts, and mortgage loan originator compensation. The ability-to-repay rule makes lenders liable if they fail to assess a borrower’s ability to repay under a prescribed test, but also creates a safe harbor for so called “qualified mortgages.” Failure to comply with the ability-to-repay rule may result in possible CFPB enforcement action and special statutory damages plus actual, class action, and attorneys’ fees damages, all of which a borrower may claim in defense of a foreclosure action at any time.

The CFPB also amended Regulation C to implement amendments to the Home Mortgage Disclosure Act made by the Dodd-Frank Act. The amendment added a significant number of new information collecting and reporting requirements for financial institutions, most of which became effective as of January 1, 2018.

The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on the operating environment of Horizon in substantial and unpredictable ways. Horizon has incurred higher operating costs in complying with the Dodd-Frank Act, and expects these higher costs to continue for the foreseeable future.

In May 2018, the Regulatory Relief Act was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Regulatory Relief Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than \$10 billion and for large banks with assets of more than \$50 billion. Many of these changes could result in meaningful regulatory relief for community banks such as Horizon Bank.

The Regulatory Relief Act, among other matters, expands the definition of qualified mortgages which may be held by a financial institution and simplifies the regulatory capital rules for financial institutions and their holding companies with total consolidated assets of less than \$10 billion by instructing the federal banking regulators to establish a single “Community Bank Leverage Ratio” of between 8% and 10% to replace the leverage and risk-based regulatory capital ratios. The federal banking agencies may consider a financial institution’s risk profile when evaluating whether it qualifies as a community bank for purposes of the new ration. In addition, the Regulatory Relief Act includes regulatory relief for community banks regarding regulatory examination cycles, call reports, the Volcker Rule (proprietary trading prohibitions), mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

Table of Contents

HORIZON BANCORP, INC.

It is difficult at this time to predict when or how any new standards under the Regulatory Relief Act will ultimately be applied to us or what specific impact the yet-to-be-written implementing rules and regulations will have on community banks.

Horizon's management will continue to review the status of the rules and regulations adopted pursuant to the Dodd-Frank Act and the Regulatory Relief Act, and to assess their probable impact on the business, financial condition and results of operations of Horizon.

Federal Home Loan Bank ("FHLB") System

The Bank is a member of the FHLB of Indianapolis, which is one of twelve regional FHLBs. Each FHLB serves as a reserve or central bank for its members within its assigned region. The FHLB is funded primarily from funds deposited by banks and savings associations and proceeds derived from the sale of consolidated obligations of the FHLB system. It makes loans to members (*i.e.*, advances) in accordance with policies and procedures established by the Board of Directors of the FHLB. All FHLB advances must be fully secured by sufficient collateral as determined by the FHLB. The Federal Housing Finance Board ("FHFB"), an independent agency, controls the FHLB System, including the FHLB of Indianapolis.

The FHLB imposes various limitations on advances such as limiting the amount of certain types of real estate related collateral to 30% of a member's capital and limiting total advances to a member. Interest rates charged for advances vary depending upon maturity, the cost of funds to the FHLB of Indianapolis and the purpose of the borrowing.

The FHLBs are required to provide funds for the resolution of troubled savings associations and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low and moderate income housing projects.

As a member of the FHLB, the Bank is required to purchase and maintain stock in the FHLB of Indianapolis in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts, or similar obligations at the beginning of each year. At December 31, 2018, the Bank's investment in stock of the FHLB of Indianapolis was \$18.1 million. For the year ended December 31, 2018, dividends paid by the FHLB of Indianapolis to the Bank on the FHLB stock totaled approximately \$875,000, for an annualized rate paid in dividends of 4.9%.

Limitations on Rates Paid for Deposits; Restrictions on Brokered Deposits

FDIC regulations restrict the interest rates that less than well-capitalized insured depository institutions may pay on deposits and also restrict the ability of such institutions to accept brokered deposits. These regulations permit a "well capitalized" depository institution to accept, renew or roll over brokered deposits without restriction, and an "adequately capitalized" depository institution to accept, renew or roll over brokered deposits with a waiver from the FDIC (subject to certain restrictions on payments of rates). The regulations prohibit an "undercapitalized" depository institution from accepting, renewing or rolling over brokered deposits. These regulations contemplate that the definitions of "well capitalized," "adequately capitalized" and "undercapitalized" will be the same as the definitions adopted by the agencies to implement the prompt corrective action provisions of FDICIA. The Bank is a well-capitalized institution, and management does not believe that these regulations have a materially adverse effect on the Bank's current operations.

Community Reinvestment Act

Under the Community Reinvestment Act (“CRA”), the Bank has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular

Table of Contents

HORIZON BANCORP, INC.

community, consistent with the CRA. The CRA requires the FDIC in connection with its examination of the Bank, to assess its record of meeting the credit needs of its community and to take that record into account in its evaluation of certain applications by the Bank. For example, the regulations specify that a bank’s CRA performance will be considered in its expansion proposals (e.g., branching and acquisitions of other financial institutions) and may be the basis for approving, denying or conditioning the approval of an application. As of the date of its most recent regulatory examination, the Bank was rated “satisfactory” with respect to its CRA compliance.

Gramm-Leach-Bliley Act, Financial Privacy

The Gramm-Leach-Bliley Act adopted in 1999 (“Gramm-Leach”) was intended to modernize the banking industry by removing barriers to affiliation among banks, insurance companies, the securities industry and other financial service providers. Gramm-Leach was responsible for establishing a distinct type of bank holding company, known as a financial holding company, which is allowed to engage in an expanded range of financial services, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. As previously discussed, Horizon has qualified as, and elected to become, a financial holding company under the Gramm-Leach amendments to the BHC Act.

Under Gramm-Leach, federal banking regulators adopted rules limiting the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. The rules require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The privacy provisions of Gramm-Leach affect how consumer information is transmitted through diversified financial services companies and conveyed to outside vendors.

As a financial institution, the Bank handles a significant amount of sensitive data, including personal information. The Company does not disclose any non-public information about any current or former customers to anyone except as permitted by law and subject to contractual confidentiality provisions which restrict the release and use of such information.

We are also subject to guidance from the Federal Financial Institutions Examination Council (“FFIEC”), an interagency body for five federal banking regulators, with respect to such matters as data privacy, disaster recovery and cybersecurity.

Horizon continues to monitor existing and new privacy and data security laws for their impact on Horizon’s business operations, including the applicability of laws such as the European Union’s comprehensive 2018 General Data Privacy Regulation to Horizon and its customers.

Interchange Fees for Debit Cards

Under the Dodd-Frank Act, interchange fees for bank card transactions must be reasonable and proportional to the issuer’s incremental cost incurred with respect to the transaction plus certain fraud related costs. Interchange fees are transaction fees between banks for each bank card transaction, designed to reimburse the card-issuing bank for the costs of handling and credit risk inherent in a bank credit or debit card transaction. Although institutions with total assets of less than \$10 billion, like the Bank, are exempt from this requirement, competitive pressures are likely to

require smaller depository institutions to reduce fees with respect to these bank card transactions.

Other Regulation

In addition to the matters discussed above, the Bank is subject to additional regulation of its activities, including a variety of consumer protection regulations affecting its lending, deposit and debt collection activities and regulations affecting secondary mortgage market activities. Both federal and state law extensively regulate various aspects of the banking business, such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations.

Table of Contents

HORIZON BANCORP, INC.

Effect of Governmental Monetary Policies

The Bank's earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Legislative Initiatives

Additional legislative and administrative actions affecting the banking industry may be considered by the United States Congress, state legislatures and various regulatory agencies, including those referred to above such as the 2018 Regulatory Relief Act. Horizon cannot predict with certainty whether such legislative or administrative action will be enacted or the extent to which the banking industry in general or Horizon and its affiliates in particular will be affected.

BANK HOLDING COMPANY STATISTICAL DISCLOSURES**I. DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL**

Information required by this section of Securities Act Industry Guide 3 is presented in "Management's Discussion and Analysis of Financial Condition and Results of Operations" as set forth in Item 7 below, herein incorporated by reference.

II. INVESTMENT PORTFOLIO

A. The following is a schedule of the amortized cost and fair value of investment securities available for sale and held to maturity.

| (dollars in thousands) | December 31, 2018 | | December 31, 2017 | | December 31, 2016 | |
|------------------------------------|-------------------|------------|-------------------|------------|-------------------|------------|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Available for sale | | | | | | |
| U.S. Treasury and federal agencies | \$ 16,815 | \$ 16,608 | \$ 19,277 | \$ 19,052 | \$ 8,051 | \$ 7,989 |
| State and municipal | 210,386 | 209,303 | 148,045 | 149,564 | 117,327 | 116,592 |
| | 187,563 | 185,003 | 132,871 | 130,365 | 139,040 | 137,195 |

Federal agency collateralized mortgage obligations

| | | | | | | |
|---------------------------------------|------------|------------|------------|------------|------------|------------|
| Federal agency mortgage-backed pools | 183,479 | 178,736 | 211,487 | 208,657 | 180,183 | 176,726 |
| Private labeled mortgage-backed pools | — | — | 1,650 | 1,642 | — | — |
| Corporate notes | 10,666 | 10,698 | 272 | 385 | 1,238 | 1,329 |
| Total available for sale | 608,909 | 600,348 | 513,602 | 509,665 | 445,839 | 439,831 |
| Total held to maturity | 210,112 | 208,273 | 200,448 | 201,085 | 193,194 | 194,086 |
| Total investment securities | \$ 819,021 | \$ 808,621 | \$ 714,050 | \$ 710,750 | \$ 639,033 | \$ 633,917 |

Table of Contents

HORIZON BANCORP, INC.

B. The following is a schedule of maturities of each category of available for sale and held-to-maturity debt securities and the related weighted-average yield of such securities as of December 31, 2018:

| (dollars in thousands) | One Year or Less | | After One Year Through Five Years | | After Five Years Through Ten Years | | After Ten Years | |
|---|---------------------|--------------|--------------------------------------|--------------|---------------------------------------|--------------|-------------------|--------------|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| Available for sale | | | | | | | | |
| U.S. Treasury and federal agencies ⁽¹⁾ | \$ — | 0.00% | \$ 11,607 | 2.17% | \$ 5,001 | 3.36% | \$ — | 0.00% |
| State and municipal | 20,448 | 2.36% | 30,099 | 2.89% | 91,740 | 4.09% | 67,016 | 4.01% |
| Federal agency collateralized mortgage obligations ⁽²⁾ | — | 0.00% | 1,031 | 2.52% | 56,511 | 2.61% | 127,461 | 3.36% |
| Federal agency mortgage-backed pools ⁽²⁾ | 14 | 4.42% | 4,115 | 2.52% | 93,174 | 2.53% | 81,433 | 2.96% |
| Private labeled mortgage-backed pools ⁽²⁾ | — | 0.00% | — | 0.00% | — | 2.53% | — | 0.00% |
| Corporate notes | — | 0.00% | — | 0.00% | 10,365 | 3.17% | 333 | 0.00% |
| Total available for sale | 20,462 | 2.36% | 46,852 | 2.67% | 256,791 | 3.15% | 276,243 | 3.39% |
| Total held to maturity | 70 | 2.00% | 58,405 | 3.59% | 103,326 | 4.04% | 46,472 | 3.80% |
| Total investment securities | \$ 20,532 | 2.36% | \$ 105,257 | 3.18% | \$ 360,117 | 3.40% | \$ 322,715 | 3.45% |

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

(2) Maturity based upon final maturity date

The weighted-average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount. Yields are not presented on a tax-equivalent basis.

Excluding those holdings of the investment portfolio in Treasury securities and other agencies and corporations of the U.S. Government, there were no investments in securities of any one issuer that exceeded 10% of the consolidated stockholders' equity of Horizon at December 31, 2018.

III. LOAN PORTFOLIO

A.

Types of Loans—Total loans on the balance sheet are comprised of the following classifications for the years indicated.

| | December 31 2018 | December 31 2017 | December 31 2016 | December 31 2015 | December 31 2014 |
|---------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| (dollars in thousands) | | | | | |
| Commercial | \$ 1,721,590 | \$ 1,669,934 | \$ 1,069,956 | \$ 804,995 | \$ 674,314 |
| Real estate | 668,141 | 609,739 | 531,874 | 437,144 | 254,625 |
| Mortgage warehouse | 74,120 | 94,508 | 135,727 | 144,692 | 129,156 |
| Consumer | 549,481 | 460,999 | 398,429 | 362,300 | 320,459 |
| Total loans | 3,013,332 | 2,835,180 | 2,135,986 | 1,749,131 | 1,378,554 |
| Allowance for loan losses | (17,820) | (16,394) | (14,837) | (14,534) | (16,501) |
| Loans, net | \$ 2,995,512 | \$ 2,818,786 | \$ 2,121,149 | \$ 1,734,597 | \$ 1,362,053 |

B. Maturities and Sensitivities of Loans to Changes in Interest Rates—The following is a schedule of maturities and sensitivities of loans to changes in interest rates, excluding real estate mortgage, mortgage warehouse and consumer loans, as of December 31, 2018:

| (dollars in thousands) | One Year or Less | One Through Five Years | After Five Years | Total |
|---|-----------------------------|-----------------------------------|-----------------------------|--------------|
| Maturing or repricing Commercial, financial, agricultural and commercial tax-exempt loans | \$ 1,044,106 | \$ 621,879 | \$ 55,605 | \$ 1,721,590 |

Table of Contents

HORIZON BANCORP, INC.

The following is a schedule of fixed-rate and variable-rate commercial, financial, agricultural and commercial tax-exempt loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

| (dollars in thousands) | Fixed Rate | Variable Rate |
|---|-----------------------|--------------------------|
| Total commercial, financial, agricultural, and commercial tax-exempt loans due after one year | \$ 464,046 | \$ 213,438 |

C. Risk Elements

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

| (dollars in thousands) | December 31 2018 | December 31 2017 | December 31 2016 | December 31 2015 | December 31 2014 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Non-performing loans | | | | | |
| Commercial | | | | | |
| More than 90 days past due | \$ 208 | \$ — | \$ 183 | \$ — | \$ — |
| Non-accrual | 6,094 | 6,902 | 2,249 | 5,030 | 10,024 |
| Trouble debt restructuring - accruing | 109 | 1 | — | 60 | 610 |
| Trouble debt restructuring - non-accrual | 492 | 451 | — | 1,915 | 1,221 |
| Real estate | | | | | |
| More than 90 days past due | 180 | — | — | 1 | 40 |
| Non-accrual | 2,846 | 3,693 | 2,959 | 4,354 | 2,297 |
| Trouble debt restructuring - accruing | 1,558 | 1,672 | 1,254 | 808 | 2,526 |
| Trouble debt restructuring - non-accrual | 423 | 351 | 809 | 1,074 | 1,031 |
| Mortgage warehouse | | | | | |
| More than 90 days past due | — | — | — | — | — |
| Non-accrual | — | — | — | — | — |
| Trouble debt restructuring - accruing | — | — | — | — | — |
| Trouble debt restructuring - non-accrual | — | — | — | — | — |
| Consumer | | | | | |
| More than 90 days past due | 180 | 167 | 58 | 27 | 75 |
| Non-accrual | 2,608 | 2,681 | 2,728 | 2,878 | 2,991 |
| Trouble debt restructuring - accruing | 335 | 285 | 238 | 350 | 1,236 |
| Trouble debt restructuring - non-accrual | 142 | 211 | 205 | 183 | 391 |
| Total non-performing loans | 15,175 | 16,414 | 10,683 | 16,680 | 22,442 |

| | | | | | |
|--|-----------|-----------|-----------|-----------|-----------|
| Other real estate owned and repossessed collateral | | | | | |
| Commercial | 1,967 | 578 | 542 | 161 | 411 |
| Real estate | 60 | 200 | 2,648 | 3,046 | 636 |
| Mortgage warehouse | — | — | — | — | — |
| Consumer | 48 | 60 | 26 | — | 154 |
| Total other real estate owned and repossessed collateral | 2,075 | 838 | 3,216 | 3,207 | 1,201 |
| Total non-performing assets | \$ 17,250 | \$ 17,252 | \$ 13,899 | \$ 19,887 | \$ 23,643 |

(dollars in thousands)

| | |
|--|--------|
| Gross interest income that would have been recorded on non-accrual loans outstanding as of December 31, 2018, in the period if the loans had been current, in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period. | \$ 835 |
| Interest income actually recorded on non-accrual loans outstanding as of December 31, 2018, and included in net income for the period. | 341 |
| Interest income not recognized during the period on non-accrual loans outstanding as of December 31, 2018. | \$ 494 |

Table of Contents

HORIZON BANCORP, INC.

Discussion of Non-Accrual Policy

1. From time to time, the Bank obtains information which may lead management to believe that the collection of payments may be doubtful on a particular loan. In recognition of such, it is management's policy to convert the loan from an "earning asset" to a non-accruing loan. Further, it is management's policy to place a commercial loan on a non-accrual status when delinquent in excess of 90 days or it has had the accrual of interest discontinued by management. The officer responsible for the loan, the Chief Credit Officer and the senior commercial loan workout officer must review all loans placed on non-accrual status.

2. Potential Problem Loans:

Impaired and non-accrual loans for which the discounted cash flows or collateral value exceeded the carrying value of the loan totaled \$15.2 million and \$16.4 million at December 31, 2018 and 2017. The allowance for impaired and non-accrual loans included in the Bank's allowance for loan losses totaled \$1.0 million and \$184,000 at those respective dates. The average balance of impaired loans during 2018 and 2017 was \$7.4 million and \$3.8 million.

3. Foreign Outstandings:

None.

4. Loan Concentrations:

As of December 31, 2018, there are no significant concentrations of loans exceeding 10% of total loans. See Item III A above for a listing of the types of loans by concentration.

D. Other Interest-Bearing Assets

There are no other interest-bearing assets as of December 31, 2018, which would be required to be disclosed under Item III C.1 or 2 if such assets were loans.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

A. The following is an analysis of the activity in the allowance for loan losses account:

December 31 December 31 December 31 December 31 December 31

Edgar Filing: HORIZON BANCORP INC /IN/ - Form ARS

| (dollars in thousands) | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|--------------|--------------|--------------|--------------|--------------|
| Loans outstanding at the end of the period ⁽¹⁾ | \$ 3,013,332 | \$ 2,835,180 | \$ 2,135,986 | \$ 1,749,131 | \$ 1,378,554 |
| Average loans outstanding during the period ⁽¹⁾ | 2,910,741 | 2,335,126 | 1,948,580 | 1,593,790 | 1,247,510 |

⁽¹⁾ Net of unearned income and deferred loan fees

| (dollars in thousands) | December 31 2018 | December 31 2017 | December 31 2016 | December 31 2015 | December 31 2014 |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| Balance at beginning of the period | \$ 16,394 | \$ 14,837 | \$ 14,534 | \$ 16,501 | \$ 15,992 |
| Loans charged-off: | | | | | |
| Commercial | 473 | 629 | 758 | 3,437 | 1,802 |
| Real estate | 76 | 89 | 213 | 288 | 328 |
| Consumer | 2,003 | 1,535 | 1,689 | 2,374 | 1,999 |
| Total loans charged-off | 2,552 | 2,253 | 2,660 | 6,099 | 4,129 |
| Recoveries of loans previously charged-off: | | | | | |
| Commercial | 176 | 298 | 210 | 192 | 773 |
| Real estate | 27 | 44 | 97 | 69 | 21 |
| Consumer | 869 | 998 | 814 | 709 | 786 |
| Total loan recoveries | 1,072 | 1,340 | 1,121 | 970 | 1,580 |
| Net loans charged-off | 1,480 | 913 | 1,539 | 5,129 | 2,549 |
| Provision charged to operating expense | 2,906 | 2,470 | 1,842 | 3,162 | 3,058 |
| Balance at end of the period | \$ 17,820 | \$ 16,394 | \$ 14,837 | \$ 14,534 | \$ 16,501 |
| Percent of net charge-offs to average loans outstanding for the period | 0.05% | 0.04% | 0.07% | 0.26% | 0.16% |

Table of Contents

HORIZON BANCORP, INC.

B. The following schedule is a breakdown of the allowance for loan losses allocated by type of loan and the percentage of loans in each category to total loans.

| (dollars in thousands) | December 31, 2018 | | December 31, 2017 | | December 31, 2016 | |
|--|---------------------|------------------------------|---------------------|------------------------------|---------------------|------------------------------|
| | Allowance Amount | % of Loans to Total Loans | Allowance Amount | % of Loans to Total Loans | Allowance Amount | % of Loans to Total Loans |
| Commercial, financial and agricultural | \$ 10,495 | 59% | \$ 9,093 | 56% | \$ 6,579 | 45% |
| Real estate | 1,676 | 9% | 2,188 | 13% | 2,090 | 14% |
| Mortgage warehousing | 1,006 | 6% | 1,030 | 6% | 1,254 | 8% |
| Consumer | 4,643 | 26% | 4,083 | 25% | 4,914 | 33% |
| Unallocated | — | — | — | — | — | — |
| Total | \$ 17,820 | 100% | \$ 16,394 | 100% | \$ 14,837 | 100% |

| (dollars in thousands) | December 31, 2015 | | December 31, 2014 | |
|--|---------------------|------------------------------|---------------------|------------------------------|
| | Allowance Amount | % of Loans to Total Loans | Allowance Amount | % of Loans to Total Loans |
| Commercial, financial and agricultural | \$ 7,195 | 49% | \$ 7,910 | 48% |
| Real estate | 2,476 | 17% | 2,508 | 15% |
| Mortgage warehousing | 1,007 | 7% | 1,132 | 7% |
| Consumer | 3,856 | 27% | 4,951 | 30% |
| Unallocated | — | — | — | — |
| Total | \$ 14,534 | 100% | \$ 16,501 | 100% |

In 1999, Horizon began a mortgage warehousing program. This program is described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 below and in the Notes to the Consolidated Financial Statements in Item 8 below, which are incorporated herein by reference. The greatest risk related to these loans is transaction and fraud risk. During 2018, Horizon processed approximately \$2.359 billion in mortgage warehouse loans.

V. DEPOSITS

Information required by this section is found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 below and in the Consolidated Financial Statements and related Notes in Item 8 below, which are incorporated herein by reference.

VI. RETURN ON EQUITY AND ASSETS

Information required by this section is found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below and in the Consolidated Financial Statements and related Notes in Item 8 below, which are incorporated herein by reference.

VII. SHORT TERM BORROWINGS

The following is a schedule of statistical information relative to securities sold under agreements to repurchase which are secured by Treasury and U.S. Government agency securities and mature within one year. There were no other categories of short-term borrowings for which the average balance outstanding during the period was 30% or more of stockholders’ equity at the end of the period.

| (dollars in thousands) | December 31 2018 | December 31 2017 |
|--|-----------------------------|-----------------------------|
| Outstanding at year-end | \$ 52,116 | \$ 61,097 |
| Approximate weighted-average interest rate at year-end | 0.64% | 0.25% |
| Highest amount outstanding as of any month-end during the year | \$ 61,383 | \$ 63,081 |
| Approximate average outstanding during the year | 51,385 | 55,206 |
| Approximate weighted-average interest during the year | 0.43% | 0.21% |

Table of Contents

HORIZON BANCORP, INC.

ITEM 1A. RISK FACTORS

An investment in Horizon's securities is subject to risks inherent to our business. The material risks and uncertainties that management believes currently affect Horizon are described below. Before making an investment decision, you should carefully consider these risks as well as information we include or incorporate by reference in this report and other filings we make with the SEC. The risks and uncertainties we have described are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may affect our business operations.

If any of these risks or uncertainties materializes or any of these assumptions proves incorrect, our results could differ materially from the forward-looking statements. All forward-looking statements in this report are current only as of the date on which the statements were made. We do not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any statement is made or to reflect the occurrence of unanticipated events.

Risks Related to Our Business

As a financial institution, we are subject to a number of risks relating to our daily business. Although we undertake a variety of efforts to manage and control those risks, many of the risks are outside of our control. Among the risks we face are the following:

• **Credit risk:** the risk that loan customers or other parties will be unable to perform their contractual obligations;

• **Market risk:** the risk that changes in market rates and prices will adversely affect our financial condition or results of operation;

• **Liquidity risk:** the risk that Horizon or the Bank will have insufficient cash or access to cash to meet its operating needs;

• **Operational risk:** the risk of loss resulting from fraud, inadequate or failed internal processes, cyber-security breaches, people and systems, or external events;

• **Economic risk:** the risk that the economy in our markets could decline resulting in increased unemployment, decreased real estate values and increased loan charge-offs; and

• **Compliance risk:** the risk of additional action by our regulators or additional regulation that could hinder our ability to do business profitably.

The current economic environment poses challenges that could adversely affect our financial condition and results of operations.

For many years, we operated in a challenging and uncertain economic environment due to the volatility and disruption caused by the major recession that began in 2008. The housing market was significantly impacted, several major banks collapsed, and the U.S. economy continued to shrink through the third quarter of 2009, representing the longest downturn since the Great Depression. Now, a decade later, the U.S. economy has been recovering slowly and unevenly. The labor market has seen significant recovery and employment levels are returning to pre-2008 recession levels, but many challenges face the economy going forward, such as elevated pension and medical costs, government budget deficits, and looming escalation of trade conflicts with China and others. In addition, economic growth going forward from 2018 into 2019 has been impacted by the partial government shutdown from December 22, 2018 to January 25, 2019, causing business disruptions from understaffed federal agencies, and loss of income and employment for federal contractors, as well as temporary loss of income for over 800,000 federal employees. In addition, even though the Federal Reserve has indicated that after four interest rate hikes in 2018, it will slow down on raising rates, both the current higher interest rates and the fading impact of the 2017 tax cuts could affect the strength of the economy for 2019. Global and national economic changes will ultimately have local economic impact, and can impact us directly and indirectly. Financial institutions, such as the Bank, retain direct exposure to the residential and commercial real estate markets, and local declines in real estate values, home sales volumes, and loss of confidence in the U.S. economy or loss of employment by borrowers, could have an adverse effect on our financial condition and results of operations. In general, any loss confidence in the U.S. or local economy could cause financial stress on borrowers and their customers, driving losses beyond that which is provided in our allowance for loan losses and potentially resulting in the following additional consequences: increases in loan delinquencies, problem assets and foreclosures; declining demand for our products and services; decreased deposits, which would negatively impact our liquidity position; and declining asset and collateral values associated with our existing loans, reducing a customer's borrowing power and our security for the loans.

Table of Contents

HORIZON BANCORP, INC.

We face intense competition in all phases of our business from other banks, financial institutions and non-banks.

The banking and financial services business in most of our markets is highly competitive. Our competitors include large regional banks, local community banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market mutual funds, credit unions and other non-bank financial and digital service providers, many of which have greater financial, marketing and technological resources than us. Many of these competitors are not subject to the same regulatory restrictions that we are and may be able to compete more effectively as a result.

Also, technology and other changes have lowered barriers to entry and made it possible for customers to complete financial transactions using non-banks that historically have involved banks at one or both ends of the transaction. Non-banks now offer products and services traditionally provided by banks. The wide acceptance of Internet-based commerce has resulted in a number of alternative payment processing systems and lending platforms in which banks play only minor roles. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. Use of emerging alternative payment platforms, such as Apple Pay or Bitcoin or other cryptocurrencies, can alter consumer credit card behavior and consequently impact our interchange fee income.

The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The effects of disintermediation can also impact the lending business because of the fast growing body of financial technology companies that use software to deliver mortgage lending and other financial services. A related risk is the migration of bank personnel away from the traditional bank environments into financial technology companies and other non-banks.

Increased competition in our market may result in a decrease in the amounts of our loans and deposits, reduced spreads between loan rates and deposit rates or loan terms that are more favorable to the borrower. Any of these results could have a material adverse effect on our ability to maintain our earnings record, grow our loan portfolios and obtain low-cost funds. If increased competition causes us to significantly discount the interest rates we offer on loans or increase the amount we pay on deposits, our net interest income could be adversely impacted. If increased competition causes us to relax our underwriting standards, we could be exposed to higher losses from lending activities. Additionally, many of our competitors are larger in total assets and capitalization, have greater access to capital markets and offer a broader range of financial services than we can offer.

Annually, the number of banks and the number of bank branches continues to decrease, which decreases the opportunities to expand through acquisitions. Horizon is also experiencing an increase in competition to acquire other banks, due to the overall strength of financial institutions and their high capital levels. In addition, credit unions are now actively pursuing small bank acquisitions within our markets. Increased competition for bank acquisitions may slow Horizon’s ability to grow earning assets at comparable historical growth rates.

Our commercial and consumer loans expose us to increased credit risks.

We have a large percentage of commercial and consumer loans. Commercial loans generally have greater credit risk than residential mortgage loans because repayment of these loans often depends on the successful business operations of the borrowers. These loans also typically have much larger loan balances than residential mortgage loans. Consumer loans generally involve greater risk than residential mortgage loans because they are unsecured or secured by assets that depreciate in value. Although we undertake a variety of underwriting, monitoring and reserving protections with respect to these types of loans, there can be no guarantee that we will not suffer unexpected losses.

Table of Contents

HORIZON BANCORP, INC.

Our holdings of construction, land and home equity loans may pose more credit risk than other types of mortgage loans.

Construction loans, loans secured by commercial real estate and home equity loans generally entail more risk than other types of mortgage loans. When real estate values decrease, the developers to whom we lend are likely to experience a decline in sales of new homes from their projects. Land and construction loans are more likely to become non-performing as developers are unable to build and sell homes in volumes large enough for orderly repayment of loans and as other owners of such real estate (including homeowners) are unable to keep up with their payments. We strive to establish what we believe are adequate reserves on our financial statements to cover the credit risk of these loan portfolios. However, there can be no assurance that losses will not exceed our reserves, and ultimately result in a material level of charge-offs, which could adversely impact our results of operations, liquidity and capital.

The allowance for loan losses may prove inadequate or be negatively affected by credit risk exposures.

Our business depends on the creditworthiness of our customers. We periodically review the allowance for loan and lease losses for adequacy considering economic conditions and trends, collateral values, and credit quality indicators, including past charge-off experience and levels of past due loans and non-performing assets. There is no certainty that the allowance for loan losses will be adequate over time to cover credit losses in the portfolio because of unanticipated adverse changes in the economy, market conditions or events adversely affecting specific customers, industries or markets. If the credit quality of the customer base materially decreases, if the risk profile of a market, industry or group of customers changes materially, or if the allowance for loan losses is not adequate, our business, financial condition, liquidity, capital, and results of operations could be materially adversely affected.

Changes in market interest rates could adversely affect our financial condition and results of operations.

Our financial condition and results of operations are significantly affected by changes in market interest rates. We can neither predict with certainty nor control changes in interest rates. These changes can occur at any time and are affected by many factors, including international, national, regional and local economic conditions, competitive pressures and monetary policies of the Federal Reserve.

Our results of operations depend substantially on our net interest income, which is the difference between the interest income that we earn on our interest-earning assets and the interest expense that we pay on our interest-bearing liabilities. Our profitability depends on our ability to manage our assets and liabilities during periods of changing market interest rates. If rates increase rapidly as a result of an improving economy, we may have to increase the rates paid on our deposits and borrowed funds more quickly than loans and investments re-price, resulting in a negative impact on interest spreads and net interest income. The impact of rising rates could be compounded if deposit customers flow funds away from us into direct investments, such as U.S. Government bonds, corporate securities and other investment vehicles, including mutual funds, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than those offered by financial institutions such as ours. These consequences and consumer reactions may be more likely to occur during a future rise in interest rates as a result of, and in reaction to, the historically low interest rates that persisted for an extended period of time from 2008 until the rates started to rise again slowly in late 2015. In other words, historical consumer behavior may not be a reliable predictor of future consumer behavior in a period of rising interest rates (such as 2018, with four interest rate increases), resulting in a larger outflow of deposits or a higher level of loan prepayments than we would expect. In

either case, our deposit costs may increase and our loan interest income may decline, either or both of which may have an adverse effect on our financial results.

Changes in interest rates also could affect loan volume. For instance, an increase in interest rates could cause a decrease in the demand for mortgage loans (and other loans), which could result in a significant decline in our revenue stream.

Conversely, should market interest rates fall below current levels, our net interest margin could also be negatively affected, as competitive pressures could keep us from further reducing rates on our deposits, and prepayments and curtailments on assets may continue. Such movements may cause a decrease in our interest rate spread and net interest margin, and therefore, decrease our profitability.

Table of Contents

HORIZON BANCORP, INC.

We also are subject to reinvestment risk associated with changes in interest rates. Changes in interest rates may affect the average life of loans and mortgage-related securities. Increases in interest rates may decrease loan demand and/or may make it more difficult for borrowers to repay adjustable rate loans. Decreases in interest rates often result in increased prepayments of loans and mortgage-related securities, as borrowers refinance their loans to reduce borrowing costs. Under these circumstances, we are subject to reinvestment risk to the extent that we are unable to reinvest the cash received from such prepayments in loans or other investments that have interest rates that are comparable to the interest rates on existing loans and securities.

An economic slowdown in our primary market areas could affect our business.

Our primary market area for deposits and loans consists of Northern and Central Indiana and the Southern, Central and Great Lakes Bay regions of Michigan. An economic slowdown could hurt our business and the possible consequences of such a downturn could include the following:

- increases in loan delinquencies and foreclosures;
- declines in the value of real estate and other collateral securing loans;
- an increase in loans charged off;
- an increase in the Company's expense to fund loan loss reserves;
- an increase in collection costs;
- a decline in the demand for our products and services, and;
- an increase in non-accrual loans and other real estate owned.

The loss of key members of our senior management team and our lending teams could affect our ability to operate effectively.

We depend heavily on the services of our existing senior management team, particularly our CEO Craig M. Dwight, to carry out our business and investment strategies. As we continue to grow and expand our business and our locations, products and services, we will increasingly need to rely on Mr. Dwight's experience, judgment and expertise as well as that of the other members of our senior management team. We also depend heavily on our experienced and effective lending teams and their respective special market insights, including, for example, our agricultural lending specialists. In addition to the importance of retaining our lending team, we will also need to continue to attract and

retain qualified banking personnel at all levels. Competition for such personnel is intense in our geographic market areas. If we are unable to attract and retain an effective lending team and other talented people, our business could suffer. The loss of the services of any senior management personnel, particularly Mr. Dwight, or the inability to recruit and retain qualified lending and other personnel in the future, could have a material adverse effect on our consolidated results of operations, financial condition and prospects.

Potential acquisitions may disrupt our business and dilute stockholder value.

We periodically evaluate merger and acquisition opportunities and conduct due diligence activities related to possible transactions with other financial institutions and financial services companies. We generally seek merger or acquisition partners that are culturally similar and possess either significant market presence or have potential for improved profitability through financial management, economies of scale or expanded services. Acquiring other banks, businesses, or branches involves various risks commonly associated with acquisitions, including, among other things:

- potential exposure to unknown or contingent liabilities of the target company;

• exposure to potential asset quality issues of the target company;

• potential disruption to our business;

- potential diversion of our management's time and attention away from day-to-day operations;

• the possible loss of key employees, business and customers of the target company;

• difficulty in estimating the value of the target company, and;

• potential problems in integrating the target company's systems, customers and employees with ours.

Table of Contents

HORIZON BANCORP, INC.

As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving the payment of cash or the issuance of our debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. To the extent we were to issue additional common shares in any such transaction, our current shareholders would be diluted and such an issuance may have the effect of decreasing our stock price, perhaps significantly. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

In addition, merger and acquisition costs incurred by Horizon may temporarily increase operating expenses.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

We may need to raise additional capital in the future to fund acquisitions and to provide us with sufficient capital resources and liquidity to meet our commitments, regulatory capital requirements and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Although we are currently, and have historically been, “well capitalized” for regulatory purposes, in the past we have been required to maintain increased levels of capital in connection with certain acquisitions. Additionally, we periodically explore acquisition opportunities with other financial institutions, some of which are in distressed financial condition. Any future acquisition, particularly the acquisition of a significantly troubled institution or an institution of comparable size to us, may require us to raise additional capital in order to obtain regulatory approval and/or to remain well capitalized.

Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. Economic conditions and the loss of confidence in financial institutions may increase our cost of funding and limit access to certain customary sources of capital, including inter-bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve.

We cannot guarantee that such capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of debt purchasers, our depositors or counterparties participating in the capital markets, may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on our business, financial condition and results of operations and may restrict our ability to grow.

The preparation of our financial statements requires the use of estimates that may vary from actual results.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make significant estimates that affect the financial statements. One of our most critical estimates is the level of the allowance for loan losses. Due to the inherent nature of these estimates, we cannot provide absolute assurance that we will not have to increase the allowance for loan losses and/or sustain loan losses that are significantly higher than the provided allowance.

Our mortgage warehouse and indirect lending operations are subject to a higher fraud risk than our other lending operations.

We buy loans originated by mortgage bankers and automobile dealers. Because we must rely on the mortgage bankers and automobile dealers in making and documenting these loans, there is an increased risk of fraud to us on the part of the third-party originators and the underlying borrowers. In order to guard against this increased risk, we perform investigations on the mortgage companies with whom we do business, and we review the loan files and loan documents we purchase to attempt to detect any irregularities or legal noncompliance. However, there is no guarantee that our procedures will detect all cases of fraud or legal noncompliance.

Table of Contents

HORIZON BANCORP, INC.

Our mortgage lending profitability could be significantly reduced if we are not able to resell mortgages at a reasonable gain on sale or experience other problems with the secondary market process or we are unable to retain our mortgage loan sales force due to regulatory changes.

Currently, we sell a substantial portion of the mortgage loans we originate. The profitability of our mortgage banking operations depends in large part upon our ability to aggregate a high volume of loans and to sell them in the secondary market at a gain. Thus, we are dependent upon the existence of an active secondary market and our ability to profitably sell loans into that market.

Our ability to sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by Fannie Mae, Freddie Mac and Ginnie Mae (the “Agencies”) and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Some of the largest participants in the secondary market, including the Agencies, are government-sponsored enterprises whose activities are governed by federal law. Any future changes in laws that significantly affect the activity of such government-sponsored enterprises could, in turn, adversely affect our operations.

In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship by the U.S. government. Although to date, the conservatorship has not had a significant or adverse effect on our operations, and during 2010 and 2012 the Federal Housing Finance Agency indicated that the Treasury Department is committed to fund Fannie Mae and Freddie Mac to levels needed in order to sufficiently meet their funding needs, it is currently unclear whether further changes would significantly and adversely affect our operations. Members of the present federal administration have expressed an intent to seek an end to the conservatorship and to privatize the Agencies, and it is unclear how that might impact us. In addition, our ability to sell mortgage loans readily is dependent upon our ability to remain eligible for the programs offered by the Agencies and other institutional and non-institutional investors. Our ability to remain eligible may also depend on having an acceptable peer-relative delinquency ratio for the Federal Housing Administration (“FHA”) and maintaining a delinquency rate with respect to Ginnie Mae pools that are below Ginnie Mae guidelines. In the case of Ginnie Mae pools, we have repurchased delinquent loans from them in the past to maintain compliance with the minimum required delinquency ratios. Although these loans are typically insured as to principal by the FHA, such repurchases increase our capital and liquidity needs, and there can be no assurance that we will have sufficient capital or liquidity to continue to purchase such loans out of the Ginnie Mae pools if required to do so.

Any significant impairment of our eligibility with any of the Agencies could materially and adversely affect our operations. Further, the criteria for loans to be accepted under such programs may be changed from time-to-time by the sponsoring entity which could result in a lower volume of corresponding loan originations. The profitability of participating in specific programs may vary depending on a number of factors, including our administrative costs of originating and purchasing qualifying loans and our costs of meeting such criteria.

Our mortgage lending profitability could be significantly reduced as changes in interest rates could affect mortgage origination volume and pricing for selling mortgages on the secondary market.

Currently, we sell a substantial portion of the mortgage loans we originate. The profitability of our mortgage banking operations depends in large part upon our ability to originate and sell mortgages to the secondary market at a gain.

A higher interest rate environment can negatively affect the volume of loan originations and refinanced loans reducing the dollar amount of loans available to be sold to the secondary market. Higher interest rates can also negatively affect the premium received on loans sold to the secondary market as competitive pressures to originate loans can reduce pricing.

We are exposed to intangible asset risk in that our goodwill may become impaired.

As of December 31, 2018, we had \$130.3 million of goodwill and other intangible assets. A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, or slower growth rates could result in impairment of goodwill. If we were to conclude that a future write-down of our goodwill is necessary, then we would record the appropriate charge, which could be materially adverse to our operating results and financial position. For further discussion, see Notes 1 and 11, “Nature of Operations and Summary of Significant Accounting Policies” and “Goodwill and Intangible Assets,” to the Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2018.

Table of Contents

HORIZON BANCORP, INC.

We are subject to extensive regulation and changes in laws and regulatory policies could adversely affect our business.

Our operations are subject to extensive regulation by federal agencies. See “Regulation and Supervision” in the description of our Business in Item 1 of Part I of this report for detailed information on the laws and regulations to which we are subject. Changes in applicable laws, regulations or regulator policies can materially affect our business. The likelihood of any major changes in the future and their effects are impossible to determine. As an example, the Bank could experience higher credit losses because of federal or state legislation or by regulatory or bankruptcy court action that reduces the amount the Bank’s borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Bank could experience higher credit losses because of federal or state legislation or regulatory action that limits its ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

We face other risks from recent actions of the U.S. Treasury and the Internal Revenue Service. In November 2016, these agencies issued a Notice making captive insurance company activities “transactions of interest” due to the potential for tax avoidance or evasion. We have a captive insurance company and it is not certain at this point how the Notice may impact us on our operation of the captive insurance company as a risk management tool.

Legislation enacted in recent years, together with additional actions announced by the U.S. Treasury and other regulatory agencies, continue to develop. It is not clear at this time what impact legislation and liquidity and funding initiatives of the U.S. Treasury and other bank regulatory agencies, and additional programs that may be initiated in the future, will have on the financial markets and the financial services industry.

The full impact of the Tax Cuts and Jobs Act on us and our customers is unknown at present, creating uncertainty and risk related to our customers’ future demand for credit and our future results.

On December 22, 2017, President Trump signed the Tax Cuts and Jobs Act (the “Tax Reform Act”), which introduced broad and complex tax reforms. Among other changes, the Tax Reform Act reduced the corporate tax rate for 2018 and limited the utilization of net operating losses to offset taxable income. As a result, during the fourth quarter of 2017, Horizon recognized an increase in income tax expense because of a \$2.4 million adjustment of Horizon’s net deferred tax assets to the new corporate rate. Many aspects of the Tax Reform Act were clarified during 2018 by the U.S. Treasury and the Internal Revenue Service. As additional clarification and implementation guidance is issued on the Tax Reform Act, we may need to make further adjustments, which could have an impact on our earnings.

Increased economic activity expected to result from the decrease in tax rates on businesses generally could spur additional economic activity that would encourage additional borrowing. At the same time, some customers may elect to use their additional cash flow from lower taxes to fund their existing levels of activity, decreasing borrowing needs. The limitations on the federal income tax deductibility of business interest expense (subject to new proposed regulations announced in November 2018) may affect a significant number of our customers, effectively increasing the cost of borrowings and making equity or hybrid funding relatively more attractive. This could have a long-term negative impact on business customer borrowing. We experienced an increase in our after-tax net income available to stockholders in 2018, and anticipate an increase in future years as a result of the decrease in our effective tax rate. Some or all of this benefit could be lost to the extent that the banks and financial services companies we compete with elect to lower interest rates and fees and we are forced to respond in order to remain competitive. There is no assurance that presently anticipated benefits of the Tax Reform Act for the Company will be realized.

In addition, the Tax Reform Act could have an impact on how we compensate our executives due to amendments affecting the deductibility of certain executive compensation, and it could also prompt tax changes at the state level that could impact us.

Table of Contents

HORIZON BANCORP, INC.

In short, the Tax Reform Act may have wide-ranging, unexpected and material effects on our business practices, financial condition and results of operations, and we are not able to predict all of these effects at this time.

In the long-term, U.S. corporate tax rates may increase and therefore would have an adverse impact on earnings.

Our inability to continue to process large volumes of transactions accurately could adversely impact our business and financial results.

We process large volumes of transactions on a daily basis and are exposed to numerous types of operational risk. Operational risk resulting from inadequate or failed internal processes, people and systems includes the risk of fraud by persons inside or outside Horizon, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal actions that could arise as a result of the operational deficiency or as a result of noncompliance with applicable regulatory standards. Accordingly, if systems of internal control should fail to work as expected, if systems are used in an unauthorized manner, or if employees subvert the system of internal controls, significant losses could result.

We establish and maintain systems of internal operational controls that are designed to provide us with timely and accurate information about our level of operational risk. While not foolproof, these systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures also exist that are designed to ensure that policies relating to conduct, ethics and business practices are followed. If these systems fail, significant losses could result.

While we continually monitor and improve the system of internal controls, data processing systems and corporate-wide processes and procedures, there can be no assurance that future losses will not occur.

Our information systems may experience cyber-attacks or an interruption or breach in security. Our cybersecurity systems could be inadequate or fail.

We rely heavily on internal and outsourced technologies, communications, and information systems to conduct our business. Additionally, in the normal course of business, we collect, process and retain sensitive and confidential information regarding our customers. As our reliance on technology has increased, so have the potential risks of a technology-related operation interruption (such as disruptions in our customer relationship management, general ledger, deposit, loan, or other systems) or the occurrence of cyber-attacks (such as unauthorized access to our systems, computer viruses or other malicious code). These risks have increased for all financial institutions as new technologies, including the use of the Internet and telecommunications technologies (including mobile devices), have become commonly used to conduct financial and other business transactions, during a time of increased technological sophistication of organized crime, perpetrators of fraud, hackers, terrorists and others. In addition to cyber-attacks or other security breaches involving the theft of sensitive and confidential information, hackers recently have engaged in attacks against large financial institutions, particularly denial of service attacks, that are designed to disrupt key business services, such as customer-facing web sites. We are not able to anticipate or implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently and because attacks can originate from a wide variety of sources, both domestic and foreign. However, we have analyzed and will continue to analyze security related to device-specific considerations, user access topics,

transaction-processing and network integrity.

We also face risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding our customers through various third parties, including merchant acquiring banks, payment processors, payment card networks and our processors. Some of these parties have in the past been the target of security breaches and cyber-attacks, and because the transactions involve third parties and environments such as the point of sale that we do not control or secure, future security breaches or cyber-attacks affecting any of these third parties could impact us through no fault of our own, and in some cases we may have exposure and suffer losses for breaches or attacks relating to them. Further cyber-attacks or other breaches in the future, whether affecting us or others, could intensify consumer concern and regulatory focus and result in reduced use of payment cards and increased costs, all of which could have a material adverse effect on our business.

Table of Contents

HORIZON BANCORP, INC.

To the extent we are involved in any future cyber-attacks or other breaches, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance we maintain. We could also suffer significant damage to our reputation. Although we are insured against many of these risks, including privacy breach response costs, notification expenses, breach support and credit monitoring expenses, cyber extortion and cyber terrorism, there can be no assurances that such insurance will be sufficient to cover all costs arising from a data or information technology breach and our exposure may exceed our coverage.

We continually encounter technological changes.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements, and we may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

We rely on other companies to provide key components of our business infrastructure.

Third-party vendors provide key components of our business infrastructure, including Internet connections, mobile and internet banking, statement processing, loan document preparation, network access and transaction and other processing services. Although we have selected these third-party vendors carefully, we do not control their actions. Any problems caused by these third parties, including as a result of inadequate or interrupted service or breach of customer information, could adversely affect our ability to deliver products and services to our customers and otherwise to conduct our business. In addition, any breach in customer information could affect our reputation and cause a loss of business. Replacing these third-party vendors also could result in significant delay and expense.

Damage to our reputation could damage our business.

Our business depends upon earning and maintaining the trust and confidence of our customers, investors and employees. Damage to our reputation could cause significant harm to our business and prospects. Harm to our reputation can arise from numerous sources, including, among others, employee misconduct, compliance failures, litigation or regulatory outcomes or governmental investigations. In addition, a failure to deliver appropriate standards of service and quality, or a failure or perceived failure to treat customers and clients fairly, can result in customer dissatisfaction, litigation, privacy breach and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Adverse publicity about Horizon, whether or not true, may result in harm to our existing business, customer relationships and prospects. Should any events or factors that can undermine our reputation occur, there is no assurance that the additional costs and expenses that we may need to incur to address the issues giving rise to the reputational harm would not adversely affect our earnings and results of operations.

The soundness of other financial institutions could adversely affect us.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. Many of these transactions expose us to credit risk in the event of default by our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations or earnings.

Table of Contents

HORIZON BANCORP, INC.

Loss of income due to payment systems leaving the banking industry.

As technology continues to improve there is an increasing erosion of banks processing payments to Fintech companies, such as Amazon, Walmart and Paypal, to name a few. As banks lose transaction processing volume we may experience a decline in deposits and related fee income. In addition, an increase in the usage of crypto currencies will diminish the need for banks and their related payment systems.

Risks Related to our Common Stock

The price of our common stock may fluctuate significantly, and this may make it difficult for you to resell our common stock at times or at prices you find attractive.

Although our common stock is listed on the NASDAQ Global Select Market, our stock price constantly changes, and we expect our stock price to continue to fluctuate in the future. Our stock price is impacted by a variety of factors, some of which are beyond our control.

These factors include:

- variations in our operating results or the quality of our assets;
 - operating results that vary from the expectations of management, securities analysts and investors;
- increases in loan losses, non-performing loans and other real estate owned;
- changes in the U.S. corporate tax rates;
- changes in expectations as to our future financial performance;
- announcements of new products, strategic developments, new technology, acquisitions and other material events by us or our competitors;
- ability to fund Horizon's assets through core deposits and/or wholesale funding;
- the operating and securities price performance of other companies that investors believe are comparable to us;

our inclusion on the Russell 3000 or other indices;

actual or anticipated sales of our equity or equity-related securities;

our past and future dividend practice;

our creditworthiness;

interest rates;

the credit, mortgage and housing markets, and the markets for securities relating to mortgages or housing;

developments with respect to financial institutions generally; and

economic, financial, geopolitical, regulatory, congressional or judicial events that affect us or the financial markets. In addition the stock market in general has experienced price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies and particularly those in the financial services and banking sector, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, notwithstanding our operating results.

Because our stock is moderately traded, it may be more difficult for you to sell your shares or buy additional shares when you desire to do so and the price may be volatile.

Although our common stock has been listed on the NASDAQ stock market since December 2001, our common stock is moderately traded. The prices of moderately traded stocks, such as ours, can be more volatile than stocks traded in a large, active public market and can be more easily impacted by sales or purchases of large blocks of stock. Moderately traded stocks are also less liquid, and because of the low volume of trades, you may be unable to sell your shares when you desire to do so.

Table of Contents

HORIZON BANCORP, INC.

Provisions in our articles of incorporation, our by-laws, and Indiana law may delay or prevent an acquisition of us by a third party.

Our articles of incorporation and by-laws and Indiana law contain provisions that have certain anti-takeover effects. While the purpose of these provisions is to strengthen the negotiating position of the board of directors in the event of a hostile takeover attempt, the overall effects of these provisions may be to render more difficult or discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a larger block of our shares, and the removal of incumbent directors and key management.

Our articles of incorporation provide for a staggered board, which means that only one-third of our board can be replaced by shareholders at any annual meeting. Our articles also provide that our directors may only be removed without cause by shareholders owning 70% or more of our outstanding common stock.

Our articles also preempt Indiana law with respect to business combinations with a person who acquires 10% or more of our common stock and provide that such transactions are subject to independent and super-majority shareholder approval requirements unless certain pricing and board pre-approval requirements are satisfied.

Our by-laws do not permit cumulative voting of shareholders in the election of directors, allowing the holders of a majority of our outstanding shares to control the election of all our directors, and our directors are elected by plurality (not majority) voting. Our by-laws also establish detailed procedures that shareholders must follow if they desire to nominate directors for election or otherwise present issues for consideration at a shareholders' meeting. We also have a maximum age for new directors and a mandatory retirement age for directors.

These and other provisions of our governing documents and Indiana law are intended to provide the board of directors with the negotiating leverage to achieve a more favorable outcome for our shareholders in the event of an offer for the Company. However, there is no assurance that these same anti-takeover provisions could not have the effect of delaying, deferring or preventing a transaction or a change in control that might be in the best interest of our shareholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Table of Contents

HORIZON BANCORP, INC.

ITEM 2. PROPERTIES

The main office and full service branch of Horizon and the Bank is located at 515 Franklin Street, Michigan City, Indiana. The building located across the street from the main office of Horizon and the Bank, at 502 Franklin Street, houses the credit administration, operations, facilities and purchasing, and information technology departments of the Bank. In addition to these principal facilities, the Bank has 62 sales offices located at:

| | | |
|---------------------------------|---------------|---------|
| 113 West First Street | Wanatah | Indiana |
| 3631 Franklin Street | Michigan City | Indiana |
| 1500 West Lincolnway | La Porte | Indiana |
| 423 South Roosevelt Street | Chesterton | Indiana |
| 4208 North Calumet Avenue | Valparaiso | Indiana |
| 2650 Willowcreek Road | Portage | Indiana |
| 8590 Broadway | Merrillville | Indiana |
| 1909 East Bristol Street | Elkhart | Indiana |
| 902 East Lincolnway | Valparaiso | Indiana |
| 10429 Calumet Avenue | Munster | Indiana |
| 17400 State Road 23 | South Bend | Indiana |
| 455 Morthland Drive | Valparaiso | Indiana |
| 302 North Alabama Street | Indianapolis | Indiana |
| 1216 West Carmel Drive | Carmel | Indiana |
| 1321 119 th Street | Whiting | Indiana |
| 1349 Calumet Avenue | Hammond | Indiana |
| 1300 North Main Street | Crown Point | Indiana |
| 420 North Morton Street | Franklin | Indiana |
| 151 Marlin Drive | Greenwood | Indiana |
| 507 Three Notch Lane | Bargersville | Indiana |
| 942 South US 31 | Greenwood | Indiana |
| 105 North Main Street | Avilla | Indiana |
| 116 West Mitchell Street | Kendallville | Indiana |
| 212 West 7 th Street | Auburn | Indiana |
| 1212 South Randolph Street | Garrett | Indiana |
| 114 South Detroit Street | Lagrange | Indiana |
| 123-129 South Main Street | Columbia City | Indiana |
| 303 Defiance Street | Howe | Indiana |
| 625 South Wayne Street | Waterloo | Indiana |
| 210 West Lake Street | Topeka | Indiana |
| 22730 Main Street | Woodburn | Indiana |
| 102 East Main Street | Mentone | Indiana |
| 433 Anchorage Road | Warsaw | Indiana |
| 2102 East Center Street | Warsaw | Indiana |
| 200 Main Street | Leesburg | Indiana |

Edgar Filing: HORIZON BANCORP INC /IN/ - Form ARS

| | | |
|-----------------------------|----------------|---------|
| 411 South Huntington Street | Syracuse | Indiana |
| 710 Indiana Avenue | La Porte | Indiana |
| 6959 West Johnson Road | La Porte | Indiana |
| 301 Boyd Boulevard | La Porte | Indiana |
| 1 Parkman Drive | Westville | Indiana |
| 2 South Perry Street | Attica | Indiana |
| 307 East Jackson Street | Attica | Indiana |
| 301 South Street | Lafayette | Indiana |
| 1980 Northwestern Avenue | West Lafayette | Indiana |
| 3602 Cougill Lane | Lafayette | Indiana |
| 2134 Greenbush Street | Lafayette | Indiana |

Table of Contents

HORIZON BANCORP, INC.

| | | |
|------------------------------|---------------|----------|
| 44 S 8 th Street | Noblesville | Indiana |
| 811 Ship Street | St. Joseph | Michigan |
| 2608 Niles Road | St. Joseph | Michigan |
| 1041 East Napier Avenue | Benton Harbor | Michigan |
| 3250 West Centre Avenue | Portage | Michigan |
| 250 Pearl Street NW | Grand Rapids | Michigan |
| 500 West Buffalo Street | New Buffalo | Michigan |
| 6801 US Highway 12 | Three Oaks | Michigan |
| 1600 Abbott Road | East Lansing | Michigan |
| 2151 West Grand River Avenue | Okemos | Michigan |
| 15534 US 12 | Union | Michigan |
| 500 North Grand Street | Schoolcraft | Michigan |
| 1213 West Michigan Avenue | Three Rivers | Michigan |
| 5710 Eastman Avenue | Midland | Michigan |
| 118 Ashman Street | Midland | Michigan |
| 464 North Main Street | Frankenmuth | Michigan |

Horizon owns all of these facilities except for the East Lansing, Michigan office located at 1600 Abbot Road and the Grand Rapids, Michigan office located at 250 Pearl Street NW, which are leased. The Bank also has three loan production offices which are located at:

| | | |
|-----------------------------|------------|----------|
| 10020 Auburn Park Drive | Fort Wayne | Indiana |
| 200 East Big Beaver Road | Troy | Michigan |
| 77 E 8 th Street | Holland | Michigan |

Horizon leases the Fort Wayne, Indiana office located at 10020 Auburn Park Drive and the Troy, Michigan office located at 200 East Big Beaver Road.

ITEM 3. 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 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

HORIZON BANCORP, INC.

SPECIAL ITEM: EXECUTIVE OFFICERS OF REGISTRANT

| | | |
|--------------------|----|---|
| Craig M. Dwight | 62 | Chairman of Horizon since July 2014; Chairman and Chief Executive Officer of the Bank since January 2003; Chief Executive Officer of Horizon and the Bank since July 2001; President of the Bank from 1998 to January 2003. |
| James D. Neff | 59 | President of Horizon and the Bank since January 2018; Executive Vice President – Consumer and Mortgage Banking of the Bank from 2016 to January 2018; Executive Vice President – Mortgage Banking of the Bank from January 2004 to 2016; Senior Vice President of the Bank from October 1999 to January 2004; Corporate Secretary of Horizon from 2007 to 2017. |
| Mark E. Secor | 52 | Executive Vice President of Horizon since January 2014; Chief Financial Officer and Executive Vice President of Horizon and the Bank since January 2009; Vice President, Chief Investment and Asset Liability Manager from June 2007 to January 2009; Chief Financial Officer of St. Joseph Capital Corp., Mishawaka, Indiana from 2004 to 2007. |
| Kathie A. DeRuiter | 57 | Executive Vice President of Horizon and Senior Bank Operations Officer since January 2014; Senior Vice President, Senior Bank Operations Officer from January 2003 to January 2014; Vice President, Senior Bank Operations Officer from January 2000 to January 2003. |
| Dennis J. Kuhn | 59 | Executive Vice President and Chief Commercial Banking Officer since October 2017; Regional Market President for Michigan and Northeast Indiana from February 2014 to October 2017; Chair of the Regional Loan Committee; Market President for Kalamazoo, Michigan from May 2010 to October 2017. |

All officers are appointed annually by the Board of Directors of Horizon and the Bank, as applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock and Related Stockholder Matters

Horizon common stock is traded on the NASDAQ Global Select Market under the symbol “HBNC.”

The approximate number of holders of record of Horizon’s outstanding common stock as of February 27, 2019 was 1,567.

The Equity Compensation Plan Information table appears under the caption “Equity Compensation Plan Information” in Item 12 below and is incorporated herein by reference.

Repurchases of Securities

There were no purchases by the Company of its common stock during the fourth quarter of 2018.

Table of Contents

HORIZON BANCORP, INC.

Performance Graph

The SEC requires Horizon to include a line graph comparing Horizon's cumulative five-year total shareholder returns on the common shares with market and industry returns over the past five years. S&P Global Market Intelligence prepared the following graph. The return represented in the graph assumes the investment of \$100 on December 31, 2013, and further assumes reinvestment of all dividends. The Company's common stock began trading on the NASDAQ Global Market on February 1, 2007, and on the NASDAQ Global Select Market on January 2, 2014. Prior to that date, the common stock was traded on the NASDAQ Capital Market.

| Index | December 31 2013 | December 31 2014 | December 31 2015 | December 31 2016 | December 31 2017 | December 31 2018 |
|--------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Horizon Bancorp, Inc. | 100.00 | 105.46 | 114.82 | 176.43 | 178.30 | 154.84 |
| Russell 2000 | 100.00 | 104.89 | 100.26 | 121.63 | 139.44 | 124.09 |
| SNL Bank \$1B-\$5B | 100.00 | 104.56 | 117.04 | 168.38 | 179.51 | 157.27 |
| SNL Micro Cap Bank | 100.00 | 113.41 | 126.11 | 155.04 | 189.67 | 179.97 |

Source: S&P Global Market Intelligence

Table of Contents

HORIZON BANCORP, INC.

The following chart compares the change in market price of Horizon's common stock since December 31, 2013 to that of publicly traded banks in Indiana and Michigan with assets greater than \$500 million, excluding the reinvestment of dividends.

| Index | December 31 2013 | December 31 2014 | December 31 2015 | December 31 2016 | December 31 2017 | December 31 2018 |
|-------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Horizon Bancorp, Inc. | 100.00 | 103.20 | 110.38 | 165.81 | 164.63 | 140.17 |
| Indiana Banks ⁽¹⁾ | 100.00 | 107.28 | 120.35 | 166.55 | 198.53 | 158.44 |
| Michigan Banks ⁽¹⁾ | 100.00 | 106.72 | 119.68 | 142.56 | 159.50 | 84.42 |

¹ excludes merger targets

Source: S&P Global Market Intelligence

Table of Contents

HORIZON BANCORP, INC.

ITEM 6. SELECTED FINANCIAL DATA

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|--------------|--------------|--------------|--------------|--------------|
| Earnings | | | | | |
| Net interest income | \$ 134,569 | \$ 112,100 | \$ 85,992 | \$ 74,734 | \$ 62,983 |
| Provision for loan losses | 2,906 | 2,470 | 1,842 | 3,162 | 3,058 |
| Non-interest income | 34,413 | 33,136 | 35,455 | 30,402 | 26,277 |
| Non-interest expense | 102,516 | 94,813 | 86,892 | 74,193 | 61,946 |
| Income tax expense | 10,443 | 14,836 | 8,801 | 7,232 | 6,155 |
| Net income | 53,117 | 33,117 | 23,912 | 20,549 | 18,101 |
| Preferred stock dividend | — | — | (42) | (125) | (133) |
| Net income available to common shareholders | \$ 53,117 | \$ 33,117 | \$ 23,870 | \$ 20,424 | \$ 17,968 |
| Cash dividends declared | \$ 15,418 | \$ 11,720 | \$ 8,382 | \$ 6,216 | \$ 4,744 |
| Per Share Data | | | | | |
| Basic earnings per share ⁽¹⁾ | \$ 1.39 | \$ 0.96 | \$ 0.79 | \$ 0.87 | \$ 0.88 |
| Diluted earnings per share ⁽¹⁾ | 1.38 | 0.95 | 0.79 | 0.84 | 0.85 |
| Cash dividends declared per common share ⁽¹⁾ | 0.40 | 0.33 | 0.27 | 0.26 | 0.23 |
| Book value per common share ⁽¹⁾ | 12.82 | 11.93 | 10.25 | 9.47 | 8.77 |
| Weighted-average shares outstanding: | | | | | |
| Basic ⁽¹⁾ | 38,347,059 | 34,553,736 | 29,981,592 | 23,648,166 | 19,393,492 |
| Diluted ⁽¹⁾ | 38,495,231 | 34,760,439 | 30,123,615 | 24,295,968 | 20,252,167 |
| Period End Totals | | | | | |
| Loans, net of deferred loan fees and unearned income | \$ 3,013,332 | \$ 2,831,995 | \$ 2,135,986 | \$ 1,749,131 | \$ 1,378,554 |
| Allowance for loan losses | 17,820 | 16,394 | 14,837 | 14,534 | 16,501 |
| Total assets | 4,246,688 | 3,964,303 | 3,141,156 | 2,652,401 | 2,076,922 |
| Total deposits | 3,139,376 | 2,881,003 | 2,471,210 | 1,880,153 | 1,482,319 |
| Total borrowings | 588,221 | 601,810 | 304,945 | 482,144 | 383,840 |
| Ratios | | | | | |
| Loan to deposit | 96.02% | 98.30% | 86.43% | 93.03% | 93.00% |
| Loan to total funding | 80.87% | 81.31% | 76.94% | 74.04% | 73.87% |
| Return on average assets | 1.31% | 0.97% | 0.81% | 0.87% | 0.93% |
| Average stockholders' equity to average total assets | 11.65% | 11.15% | 10.22% | 9.30% | 9.33% |
| | 11.22% | 8.74% | 7.92% | 9.87% | 10.60% |

Return on average stockholders' equity

| | | | | | |
|---|---------|---------|---------|---------|---------|
| Dividend payout ratio (dividends divided by basic earnings per share) | 29.03% | 34.78% | 34.33% | 29.85% | 25.72% |
| Price to book value ratio | 123.09% | 155.28% | 182.13% | 131.26% | 132.39% |
| Price to earnings ratio | 11.35x | 19.45x | 23.56x | 14.78x | 13.75x |

(1) Adjusted for 3:2 stock splits on June 15, 2018 and November 14, 2016.

39

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 Southern, Central and the Great Lakes Bay regions of 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, until its conversion to an Indiana commercial bank effective June 23, 2017, and has operated continuously since 1873. 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. All share data included below has been adjusted to reflect Horizon's three-for-two stock split paid on June 15, 2018.

2018 Highlights

Following are some highlights of Horizon's financial performance during 2018:

- Net income for the year ended December 31, 2018 was \$53.1 million, or \$1.38 diluted earnings per share, compared to \$33.1 million, or \$0.95 diluted earnings per share for year-end 2017. This represents the highest annual net income and diluted earnings per share in the Company's 145-year history.
- Core net income for the year 2018 increased 38.0% to \$48.9 million, or \$1.27 diluted earnings per share, compared to \$35.5 million, or \$1.02 diluted earnings per share, for the year of 2017. (See the "Non-GAAP Reconciliation of Net Income and Diluted Earnings per Share" table for the definition of core net income.)
- Return on average assets was 1.31% for the year ended December 31, 2018 compared to 0.97% for the year ended December 31, 2017.
- Core return on average assets for the year ended December 31, 2018 was 1.21% compared to 1.04% for the year ended December 31, 2017. (See the "Non-GAAP Reconciliation of Return on Average Assets and Return on Average Common Equity" table for the definition of core return on average assets.)

- Horizon surpassed \$4.2 billion in total assets during 2018.
- Total loans increased by a rate of 6.2%, or \$176.1 million, during 2018. Total loans, excluding loans held for sale and mortgage warehouse loans, increased by a rate of 7.2%, or \$198.5 million, during 2018.
- Commercial loans increased by a rate of 3.1%, or \$51.7 million, during 2018.
- Residential mortgage loans increased by a rate of 9.6%, or \$58.4 million, during 2018.
- Consumer loans increased by a rate of 19.2%, or \$88.5 million, during 2018.
- Total deposits increased by a rate of 9.0%, or \$258.4 million, during 2018.
- Net interest income increased \$22.5 million, or 20.0%, to \$134.6 million for the year ended December 31, 2018 compared to \$112.1 million for the year ended December 31, 2017.
- Net interest margin was 3.71% for the year ended December 31, 2018 compared to 3.75% for the year ended December 31, 2017.
- Horizon's tangible book value per share increased to \$9.43 at December 31, 2018, compared to \$8.48 at December 31, 2017.
- On October 29, 2018, Horizon announced the pending acquisition of Salin Bancshares, Inc. ("Salin") and its wholly-owned subsidiary, Salin Bank and Trust Company ("Salin Bank"), headquartered in Indianapolis, Indiana which is anticipated to close during the first quarter of 2019.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Pending Acquisition

Horizon entered into an Agreement and Plan of Merger on October 29, 2018, as amended on December 18, 2018 (the "Merger Agreement") providing for Horizon's acquisition of Salin Bancshares, Inc. ("Salin"). Pursuant to the Merger Agreement, Salin will merge with and into Horizon, with Horizon surviving the merger (the "Merger"), and Salin Bank and Trust Company, a wholly-owned subsidiary of Salin, will merge with and into Horizon Bank, with Horizon Bank as the surviving bank.

The boards of directors of each Horizon and Salin have approved the merger and the Merger Agreement. Subject to the approval of the Merger by Salin shareholders, regulatory approvals and other closing conditions, the parties anticipate completing the Merger during the first quarter of 2019.

In connection with the Merger, shareholders of Salin will receive fixed consideration of 23,907.5 shares of Horizon common stock and \$84,417.17 in cash for each share of Salin common stock. The shares of Horizon common stock will be issued to Salin shareholders in a private placement complying with the federal and state securities laws, and the shares of Horizon common stock will be registered for resale by the Salin shareholders by a Registration Statement on Form S-3. Based on the closing price of Horizon's common stock on October 26, 2018 of \$16.95 per share, the transaction value for the shares of common stock is approximately \$135.3 million.

The Merger Agreement also provides for certain termination rights for both Horizon and Salin, and further provides that upon termination of the Merger Agreement under certain circumstances, Salin will be obligated to pay Horizon a termination fee.

As of December 31, 2018, Salin had total assets of approximately \$929.4 million, total deposits of approximately \$749.5 million and total loans of approximately \$593.7 million.

Critical Accounting Policies

The Notes to the Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for 2018 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 the allowance for loan losses, goodwill and intangible assets, mortgage servicing rights, derivative instruments and valuation measurements as critical accounting policies.

Allowance for Loan Losses

An allowance for loan losses is maintained to absorb probable incurred loan losses inherent in the loan portfolio. The determination of the allowance for loan losses is a critical accounting policy that involves management's ongoing quarterly assessments of the probable incurred losses inherent in the loan portfolio. The identification of loans that have probable incurred losses is subjective; therefore, a general reserve is maintained to cover all probable losses within the entire loan portfolio. Horizon utilizes a loan grading system that helps identify, monitor and address asset quality problems in an adequate and timely manner. Each quarter, various factors affecting the quality of the loan portfolio are reviewed. Large credits are reviewed on an individual basis for loss potential. Other loans are reviewed as a group based upon previous trends of loss experience. Horizon also reviews the current and anticipated economic conditions of its lending market as well as transaction risk to determine the effect they may have on the loss experience of the loan portfolio.

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (FASB ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Accordingly, allowances for credit losses related to these loans are not carried over and recorded at the acquisition dates. Loans acquired through business combinations that do not meet the specific criteria of FASB ASC 310-30, but for which a discount is attributable, at least in part to the credit quality, are also

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

accounted for under this guidance. As a result, related discounts are recognized subsequently through accretion based on the expected cash flows of the acquired loans. For purposes of applying FASB ASC 310-30, loans acquired in business combinations are aggregated into pools of loans with common risk characteristics.

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 December 31, 2018, Horizon had core deposit intangibles of \$10.4 million subject to amortization and \$119.9 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 December 31, 2018 was \$15.78 per share compared to a tangible book value of \$9.43 per common share. Horizon's return on average assets was 131 basis points for the year ending December 31, 2018.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through the sale of financial assets on a servicing-retained basis. Capitalized servicing rights are amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated regularly for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying servicing rights by predominant characteristics, such as interest rates, original loan terms and whether the loans are fixed or adjustable rate mortgages. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. When the book value of an individual stratum exceeds its fair value, an impairment reserve is recognized so that each individual stratum is carried at the lower of its amortized book value or fair value. In periods of falling market interest rates, accelerated loan prepayment can adversely affect the fair value of these mortgage-servicing rights relative to their book value. In the event that the fair value of these assets was to increase in the future, Horizon can recognize the increased fair value to the extent of the impairment allowance but cannot recognize an asset in excess of its amortized book value. Future changes in management's assessment of the impairment of these servicing assets, as a result of changes in observable market data relating to market interest rates, loan prepayment speeds, and other factors, could impact Horizon's financial condition and results of operations either

positively or negatively.

Generally, when market interest rates decline and other factors favorable to prepayments occur, there is a corresponding increase in prepayments as customers refinance existing mortgages under more favorable interest rate terms. When a mortgage loan is prepaid, the anticipated cash flows associated with servicing that loan are terminated, resulting in a reduction of the fair value of the capitalized mortgage servicing rights. To the extent that actual borrower prepayments do not react as anticipated by the prepayment model (i.e., the historical data observed in the model does not correspond to actual market activity), it is possible that the prepayment model could fail to accurately predict mortgage prepayments and could result in significant earnings volatility. To estimate prepayment speeds, Horizon utilizes a third-party prepayment model, which is based upon statistically derived data linked to certain key principal indicators involving historical borrower prepayment activity associated with mortgage loans in the secondary market, current market interest rates and other factors, including Horizon's own historical prepayment experience. For purposes of model valuation, estimates are made for each product type within the mortgage servicing rights portfolio on a monthly basis. In addition, on a quarterly basis Horizon engages a third party to independently test the value of its servicing asset.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

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.

Analysis of Financial Condition

Horizon's total assets were \$4.2 billion as of December 31, 2018, an increase of \$282.4 million from December 31, 2017.

Investment Securities

Investment securities carrying values totaled \$810.5 million at December 31, 2018, and consisted of Treasury and federal agency securities of \$16.6 million (2.0%); state and municipal securities of \$400.6 million (49.4%); federal agency mortgage-backed pools of \$192.4 million and federal agency collateralized mortgage obligations of \$190.1 million (47.3%); and corporate securities of \$10.7 million (1.3%).

As indicated above, 47.3% of the investment portfolio consists of mortgage-backed securities and collateralized mortgage obligations. These instruments are secured by residential mortgages of varying maturities. Principal and interest payments are received monthly as the underlying mortgages are repaid. These payments also include prepayments of mortgage balances as borrowers either sell their homes or refinance their mortgages. Therefore, mortgage-backed securities and collateralized mortgage obligations have maturities that are stated in terms of average life. The average life is the average

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

amount of time that each dollar of principal is expected to be outstanding. As of December 31, 2018, the mortgage-backed securities and collateralized mortgage obligations in the investment portfolio had an average duration of 3.86 years. Securities that have interest rates above current market rates are purchased at a premium. Management monitors these investments periodically for other than temporary impairment by obtaining and reviewing the underlying collateral details and has concluded at December 31, 2018, any unrealized loss is temporary and that the Company has the intent and ability to hold these investments to maturity.

Available-for-sale municipal securities are priced by a third party using a pricing grid which estimates prices based on recent sales of similar securities. All municipal securities are investment grade or local non-rated issues and management does not believe there is other than temporary deterioration in market value. A credit review is performed annually on the municipal securities portfolio.

At December 31, 2018 and 2017, 74.1% and 71.8%, respectively, of investment securities were classified as available for sale. Securities classified as available for sale are carried at their fair value, with both unrealized gains and losses recorded, net of tax, directly to stockholders' equity. Net depreciation on these securities totaled \$8.6 million, which resulted in a balance of \$6.8 million, net of tax, included in stockholders' equity at December 31, 2018. This compared to \$3.1 million, net of tax, included in stockholders' equity at December 31, 2017.

Fair value is defined 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. A fair value hierarchy is also established which requires an entity to maximize the use of observable and minimize the use of unobservable inputs. 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.

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. There are no Level 1 securities. 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 collateralized mortgage obligations, Federal agency mortgage-backed pools and corporate notes. For Level 2 securities, Horizon uses a third party service to determine fair value. In performing the valuations, the pricing service relies on models that consider security-specific details as well as relevant industry and economic factors. The most

significant of these inputs are quoted market prices, interest rate spreads on relevant benchmark securities and certain prepayment assumptions. To verify the reasonableness of the fair value determination by the service, Horizon has a portion of the Level 2 securities priced by an independent securities broker-dealer.

Unrealized gains and losses on available-for-sale securities, deemed temporary, are recorded, net of income tax, in a separate component of other comprehensive income on the balance sheet. No unrealized losses were deemed to be “other-than-temporary.”

As a member of the Federal Home Loan Bank system, Horizon is required to maintain an investment in the common stock of the Federal Home Loan Bank. The investment in common stock is based on a predetermined formula. At December 31, 2018 and 2017, Horizon had investments in the common stock of the Federal Home Loan Bank totaling \$18.1 million.

At December 31, 2018, Horizon did not maintain a trading account.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

For more information about securities, see Note 4 — Securities to the Consolidated Financial Statements at Item 8.

Loans

Total loans, net of deferred fees/costs, the principal earning asset of the Bank, were \$3.013 billion at December 31, 2018. The current level of total loans increased 6.3% from the December 31, 2017, level of \$2.835 billion. The table below provides comparative detail on the loan categories.

| | December 31 2018 | December 31 2017 | Dollar Change | Percent Change |
|------------------------------------|---------------------|---------------------|------------------|-------------------|
| Commercial | | | | |
| Working capital and equipment | \$ 804,083 | \$ 720,477 | \$ 83,606 | 11.6% |
| Real estate, including agriculture | 834,037 | 880,861 | (46,824) | -5.3% |
| Tax exempt | 48,975 | 36,324 | 12,651 | 34.8% |
| Other | 34,495 | 32,272 | 2,223 | 6.9% |
| Total | 1,721,590 | 1,669,934 | 51,656 | 3.1% |
| Real estate 1-4 family | 659,754 | 602,196 | 57,558 | 9.6% |
| Other | 8,387 | 7,543 | 844 | 11.2% |
| Total | 668,141 | 609,739 | 58,402 | 9.6% |
| Consumer | | | | |
| Auto | 327,413 | 244,003 | 83,410 | 34.2% |
| Recreation | 13,975 | 8,728 | 5,247 | 60.1% |
| Real estate/home improvement | 39,587 | 37,052 | 2,535 | 6.8% |
| Home equity | 163,209 | 165,240 | (2,031) | -1.2% |
| Unsecured | 4,043 | 3,479 | 564 | 16.2% |
| Other | 1,254 | 2,497 | (1,243) | -49.8% |
| Total | 549,481 | 460,999 | 88,482 | 19.2% |
| Mortgage warehouse | 74,120 | 94,508 | (20,388) | -21.6% |
| Total loans | 3,013,332 | 2,835,180 | 178,152 | 6.3% |
| Allowance for loan losses | (17,820) | (16,394) | (1,426) | 8.7% |
| Loans, net | \$ 2,995,512 | \$ 2,818,786 | \$ 176,726 | 6.3% |

The acceptance and management of credit risk is an integral part of the Bank's business as a financial intermediary. The Bank has established underwriting standards including a policy that monitors the lending function through strict administrative and reporting requirements as well as an internal loan review of consumer and small business loans. The Bank also uses an independent third-party loan review function that regularly reviews asset quality.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Changes in the mix of the loan portfolio averages are shown in the following table.

| | December 31 2018 | December 31 2017 | December 31 2016 |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Commercial | \$ 1,676,013 | \$ 1,227,698 | \$ 918,844 |
| Real estate | 641,161 | 567,581 | 497,337 |
| Mortgage warehouse | 82,240 | 89,212 | 159,588 |
| Consumer | 511,327 | 450,635 | 372,811 |
| Total average loans | \$ 2,910,741 | \$ 2,335,126 | \$ 1,948,580 |

Commercial Loans

Commercial loans totaled \$1.722 billion, or 57.1% of total loans as of December 31, 2018, compared to \$1.670 billion, or 58.9% as of December 31, 2017. The increase during 2018 was due to organic growth of \$51.7 million net of principal reductions from payments.

Commercial loans consisted of the following types of loans at December 31:

| | December 31, 2018 | | | December 31, 2017 | | |
|---------------------------|--------------------------|---------------------|---------------------------------|--------------------------|---------------------|---------------------------------|
| | Number | Amount | Percent of Portfolio | Number | Amount | Percent of Portfolio |
| SBA guaranteed | 322 | \$ 68,849 | 4.0% | 356 | \$ 69,345 | 4.2% |
| Municipal government | 2 | 11,600 | 0.7% | 3 | 11,838 | 0.7% |
| Lines of credit | 1,239 | 306,935 | 17.8% | 1,294 | 304,855 | 18.3% |
| Real estate and equipment | 4,022 | 1,334,206 | 77.5% | 4,276 | 1,283,896 | 76.9% |
| Total | 5,585 | \$ 1,721,590 | 100.0% | 5,929 | \$ 1,669,934 | 100.0% |

Fixed rate term loans with a book value of \$209.2 million and a fair value of \$209.2 million have been swapped to a variable rate using derivative instruments. The loans are carried at fair value in the financial statements and the related swap is carried at fair value and is included with other liabilities in the balance sheet. The recognition of the loan and swap fair values are recorded in the income statement and for 2018 equally offset each other. Fair values are determined by the counterparty using a proprietary model that uses live market inputs to value interest rate swaps. The

model is subject to daily market tests as current and future positions are priced and valued. These are Level 3 inputs under the fair value hierarchy as described above.

At December 31, 2018, the commercial loan portfolio held \$127.9 million of adjustable rate loans that had interest rate floors in the terms of the note. Of the commercial loans with interest rate floors, loans totaling \$80.6 million were at their floor at December 31, 2018.

Residential Real Estate Loans

Residential real estate loans totaled \$668.1 million, or 22.2% of total loans as of December 31, 2018, compared to \$609.7 million, or 21.5% of total loans as of December 31, 2017. This category consists of home mortgages that generally require a loan to value of no more than 80%. Some special guaranteed or insured real estate loan programs do permit a higher loan to collateral value ratio. The increase during 2018 was due to organic growth of \$58.4 million net of principal reductions from payments.

In addition to the customary real estate loans described above, the Bank also had outstanding on December 31, 2018, \$163.2 million in home equity lines of credit compared to \$165.2 million at December 31, 2017. Credit lines normally limit the loan to collateral value to no more than 89%. Home equity credit lines are primarily not combined with a first mortgage and are therefore evaluated in the allowance for loan losses as a separate pool. These loans are classified as consumer loans in the Loans table above and in Note 5 of the Consolidated Financial Statements at Item 8.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Residential real estate lending is a highly competitive business. As of December 31, 2018, the real estate loan portfolio reflected a wide range of interest rates and repayment patterns, but could generally be categorized as follows:

| | December 31, 2018 | | | December 31, 2017 | | |
|-------------------------|-------------------|----------------------|-------|-------------------|----------------------|-------|
| | Amount | Percent of Portfolio | Yield | Amount | Percent of Portfolio | Yield |
| Fixed rate | | | | | | |
| Monthly payment | \$ 116,102 | 17.4% | 4.38% | \$ 140,115 | 23.0% | 4.35% |
| Biweekly payment | 3 | 0.0% | 7.13% | 6 | 0.0% | 7.13% |
| Adjustable rate | | | | | | |
| Monthly payment | 552,036 | 82.6% | 3.90% | 469,618 | 77.0% | 3.76% |
| Biweekly payment | — | 0.0% | 0.00% | — | 0.0% | 0.00% |
| Subtotal | 668,141 | 100.0% | 3.99% | 609,739 | 100.0% | 3.90% |
| Loans held for sale | 1,038 | | | 3,094 | | |
| Total real estate loans | \$ 669,179 | | | \$ 612,833 | | |

The increase in fixed and adjustable rate residential mortgage loans during 2018 was primarily due to the real estate loans acquired in the Lafayette and Wolverine acquisitions as well as organic growth. In addition to the real estate loan portfolio, the Bank originates and sells real estate loans and retains the servicing rights. During 2018 and 2017, approximately \$188.8 million and \$218.5 million, respectively, of residential mortgages were sold into the secondary market. Loans serviced for others are not included in the consolidated balance sheets. The unpaid principal balances of loans serviced for others totaled approximately \$1.299 billion and \$1.310 billion at December 31, 2018 and 2017.

The aggregate fair value of capitalized mortgage servicing rights at December 31, 2018, totaled approximately \$13.9 million compared to the carrying value of \$12.3 million. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates, were used to stratify the originated mortgage servicing rights.

| | | |
|--------------------|--------------------|--------------------|
| December 31 | December 31 | December 31 |
| 2018 | 2017 | 2016 |

| | | | |
|---------------------------------------|-----------|---------------|----------------------------|
| Mortgage servicing rights | | | |
| Balances, January 1 | \$ | 12,189 | \$ 11,681 \$ 9,271 |
| Servicing rights capitalized | | 1,883 | 2,109 3,426 |
| Amortization of servicing rights | | (1,196) | (1,601) (1,016) |
| Balances, December 31 | | 12,876 | 12,189 11,681 |
| Impairment allowance | | | |
| Balances, January 1 | | (587) | (507) (397) |
| Additions | | (78) | (85) (236) |
| Reductions | | 138 | 5 126 |
| Balances, December 31 | | (527) | (587) (507) |
| Mortgage servicing rights, net | \$ | 12,349 | \$ 11,602 \$ 11,174 |

Mortgage Warehouse Loans

Horizon's mortgage warehousing 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 mortgage loan funded by Horizon undergoes an underwriting review 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

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

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.

At December 31, 2018, the mortgage warehouse loan balance was \$74.1 million compared to \$94.5 million as of December 31, 2017. The decrease in mortgage warehouse loans reflected an increase in long-term interest rates in 2018 and the lower refinance volume.

Consumer Loans

Consumer loans totaled \$549.5 million, or 18.2% of total loans as of December 31, 2018, compared to \$461.0 million, or 16.3% as of December 31, 2017. The increase during 2018 was due to organic growth of \$88.5 million net of principal reductions from payments. This organic growth is a result of hiring an experienced consumer loan manager in late 2016 and placing additional focus on consumer lending. Also, recent merger activity has provided entry into new market areas.

Allowance and Provision for Loan Losses/Critical Accounting Policy

At December 31, 2018, the allowance for loan losses was \$17.8 million, or 0.59% of total loans outstanding, compared to \$16.4 million, or 0.58%, at December 31, 2017. During 2018, the expense for provision for loan losses totaled \$2.9 million compared to \$2.5 million in 2017. Horizon's loan loss reserve ratio, excluding loans with credit-related purchase accounting adjustments, was 0.72% as of December 31, 2018. The ratio of the allowance for loan losses to total loans, excluding loans with credit-related purchase accounting adjustments, was 0.72% as of December 31, 2018 compared to 0.81% as of December 31, 2017. Loan loss reserves and credit-related loan discounts on acquired loans as a percentage of total loans was 0.98% as of December 31, 2018 compared to 1.23% as of December 31, 2017. (See the "Non-GAAP Allowance for Loan and Lease Loss Detail" table.)

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (“ALLL”) by regularly reviewing the performance of all of its loan portfolios. As a result of its quarterly reviews, a provision for loan losses is determined to bring the total ALLL to a level called for by the analysis.

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 adequate to cover losses inherent in the loan portfolio as of December 31, 2018.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Non-performing Loans

Non-performing loans are defined as loans that are greater than 90 days delinquent or have had the accrual of interest discontinued by management. Management continues to work diligently toward returning non-performing loans to an earning asset basis. Non-performing loans for the previous three years ending December 31 are as follows:

| | December 31 2018 | December 31 2017 | December 31 2016 |
|----------------------|-----------------------------|-----------------------------|-----------------------------|
| Non-performing loans | \$ 15,175 | \$ 16,414 | \$ 10,683 |

Non-performing loans total 85.2%, 100.1% and 72.0% of the allowance for loan losses at December 31, 2018, 2017 and 2016, respectively. Non-performing loans at December 31, 2018 totaled \$15.2 million, a decrease from a balance of \$16.4 million as of December 31, 2017 and an increase from the balance of \$10.7 million as of December 31, 2016. Non-performing loans as a percentage of total loans was 0.50% as of December 31, 2018, a decrease from 0.58% as of December 31, 2017 and no change from December 31, 2016.

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, 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. (See Note 8 of the Consolidated Financial Statements at Item 8 for further discussion of impaired loans.)

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 90 days or more past due. These loans are often considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Other Real Estate Owned ("OREO") net of any related allowance for OREO losses for the previous three years ending December 31 were as follows:

| | December 31 2018 | December 31 2017 | December 31 2016 |
|-------------------------|-----------------------------|-----------------------------|-----------------------------|
| Other real estate owned | \$ 2,027 | \$ 778 | \$ 3,190 |

OREO totaled \$2.0 million on December 31, 2018, an increase of \$1.2 million from December 31, 2017 and a decrease of \$1.2 million from December 31, 2016. On December 31, 2018, OREO was comprised of nine properties. Of these properties, seven totaling \$2.0 million were commercial real estate and two totaling \$60,000 were residential real estate. The majority of the increase in OREO during 2018 was because several bank owned properties acquired through acquisitions and listed for sale were re-classified to other real estate owned and recorded at fair value during the second quarter of 2018.

No mortgage warehouse loans were non-performing or OREO as of December 31, 2018, 2017 or 2016.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Deferred Tax

Horizon had a net deferred tax asset totaling \$4.4 million and \$4.7 million as of December 31, 2018 and December 31, 2017, respectively. The following table shows the major components of deferred tax:

| | December 31 2018 | December 31 2017 |
|--|-----------------------------|-----------------------------|
| Assets | | |
| Allowance for loan losses | \$ 3,831 | \$ 3,396 |
| Net operating loss and tax credits (from acquisitions) | 1,038 | 1,658 |
| Director and employee benefits | 2,392 | 2,276 |
| Unrealized loss on AFS securities and fair value hedge | 2,165 | 1,147 |
| Accrued pension | 801 | 852 |
| Fair value adjustment on acquisitions | — | 1,087 |
| Other | 670 | 1,083 |
| Total assets | 10,897 | 11,499 |
| Liabilities | | |
| Depreciation | (1,850) | (1,680) |
| State tax | (137) | (210) |
| Federal Home Loan Bank stock dividends | (330) | (339) |
| Difference in basis of intangible assets | (2,919) | (2,831) |
| Fair value adjustment on acquisitions | (62) | — |
| Other | (119) | (125) |
| Total liabilities | (5,417) | (5,185) |
| Valuation allowance | (1,038) | (1,613) |
| Net deferred tax asset | \$ 4,442 | \$ 4,701 |

Deposits

The primary source of funds for the Bank comes from the acceptance of demand and time deposits. However, at times the Bank will use its ability to borrow funds from the Federal Home Loan Bank and other sources when it can do so at interest rates and terms that are more favorable than those required for deposited funds or loan demand is greater than

the ability to grow deposits. Total deposits were \$3.139 billion at December 31, 2018, compared to \$2.881 billion at December 31, 2017. Average deposits and rates by category for the three years ended December 31 are as follows:

| | Average Balance Outstanding for the Years Ended December 31 | | | Average Rate Paid for the Years Ended December 31 | | |
|--------------------------------------|--|--------------|--------------|--|-------|-------|
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Non-interest bearing demand deposits | \$ 624,576 | \$ 533,852 | \$ 417,900 | | | |
| Interest bearing demand deposits | 827,255 | 831,292 | 732,117 | 0.30% | 0.14% | 0.12% |
| Savings deposits | 416,404 | 388,953 | 303,229 | 0.08% | 0.07% | 0.06% |
| Money market | 403,475 | 310,310 | 254,453 | 0.72% | 0.35% | 0.26% |
| Time deposits | 771,853 | 515,341 | 462,527 | 1.55% | 1.04% | 1.06% |
| Total deposits | \$ 3,043,563 | \$ 2,579,748 | \$ 2,170,226 | | | |

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

The \$463.8 million increase in average deposits during 2018 was the result of an increase in the depositor base due to the Bargersville branch acquisition and the Lafayette and Wolverine acquisitions. The transactional accounts average balances, as the lower cost funding sources, increased \$90.7 million and the average balances for higher cost time deposits increased \$256.5 million. Horizon continually enhances its interest-bearing consumer and commercial demand deposit products based on local market conditions and its need for funding to support various types of assets.

Certificates of deposit of \$250,000 or more, which are considered to be rate sensitive and are not considered a part of core deposits, mature as follows as of December 31, 2018:

| | |
|---|-------------------|
| Due in three months or less | \$ 75,775 |
| Due after three months through six months | 82,088 |
| Due after six months through one year | 114,560 |
| Due after one year | 99,401 |
| | \$ 371,824 |

Interest expense on time certificates of \$100,000 or more was approximately \$6.8 million, \$3.2 million, and \$2.1 million for 2018, 2017 and 2016. Interest expense on time certificates of \$250,000 or more was approximately \$4.6 million, \$1.2 million and \$753,000 for 2018, 2017 and 2016.

Off-Balance Sheet Arrangements

As of December 31, 2018, Horizon did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, change in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement, or other contractual arrangement to which an entity unconsolidated with the Company is a party and under which the Company has (i) any obligation arising under a guarantee contract, derivative instrument or variable interest; or (ii) a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

Contractual Obligations

The following tables summarize Horizon's contractual obligations and other commitments to make payments as of December 31, 2018:

| | Total | Within One Year | One to Three Years | Three to Five Years | After Five Years |
|--|--------------|--------------------------------|-----------------------------------|--|---------------------------------|
| Certificates of deposit | \$ 812,911 | \$ 525,801 | \$ 237,884 | \$ 30,752 | \$ 18,474 |
| Borrowings ⁽¹⁾ | 550,384 | 485,557 | 42,514 | 12,268 | 10,045 |
| Subordinated debentures ⁽²⁾ | 37,837 | — | — | — | 37,837 |

(1) Includes debt obligations to the Federal Home Loan Bank and term repurchase agreements with maturities beyond one year borrowed by Horizon's banking subsidiary. See Note 13 in Horizon's Consolidated Financial Statements at Item 8.

(2) Includes Trust Preferred Capital Securities issued by Horizon Statutory Trusts II and III and those assumed in the acquisitions of Alliance Bank in 2005, American Trust in 2009, Heartland in 2012 and LaPorte/City Savings in 2016. See Note 15 in Horizon's Consolidated Financial Statements at Item 8.

| | Expiration by Period | |
|---------------------------|---------------------------------|--|
| | Within One Year | Greater Than One Year |
| Letters of credit | \$ 2,746 | \$ 2,046 |
| Unfunded loan commitments | 258,071 | 615,721 |

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Capital Resources

Horizon has no material commitments for capital expenditures as of December 31, 2018. Horizon's sources of funds and liquidity are discussed below in the section captioned "Liquidity" in this Item 7.

Results of Operations

Net Income

Consolidated net income was \$53.1 million, or \$1.38 per diluted share, in 2018, \$33.1 million or \$0.95 per diluted share in 2017, and \$23.9 million or \$0.79 per diluted share in 2016. The increase in net income from the previous year reflects an increase in net interest income of \$22.5 million, an increase in non-interest income of \$1.3 million and a decrease in income taxes of \$4.4 million, partially offset by an increase in non-interest expenses of \$7.7 million and provision for loan losses of \$436,000. The increase in diluted earnings per share compared to the previous year reflects an increase in net income, partially offset by an increase in diluted shares due to the Lafayette and Wolverine acquisitions. Core net income for the year ended December 31, 2018 was \$48.9 million, or \$1.27 diluted earnings per share, compared to \$35.5 million, or \$1.02 diluted earnings per share, for the year ended December 31, 2017. (See the "Non-GAAP Reconciliation of Net Income and Diluted Earnings per Share" table for the definition of core net income.)

Net Interest Income

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

Net interest income during 2018 was \$134.6 million, an increase of \$22.5 million, or 20.0%, over the \$112.1 million earned in 2017. Yields on the Company's interest-earning assets increased by 27 basis points to 4.56% during 2018 from 4.29% in 2017. Interest income increased \$37.7 million to \$166.2 million for 2018 from \$128.5 million in 2017. This increase was due to increased volume in interest-earning assets, an increase in the recognition of interest income from the acquisition-related purchase accounting adjustments of approximately \$2.6 million from \$3.5 million in 2017 to \$6.1 million in 2018 and an increase in overall interest rates in 2018.

Interest expense increased \$15.2 million from \$16.4 million in 2017 to \$31.6 million in 2018. This increase was due to increased volume in interest-bearing liabilities and an increase in overall interest rates in 2018. The increase in the yield on the Company's interest-earning assets combined with the increase in rates paid on interest-bearing liabilities resulted in a decrease in the net interest margin of 4 basis points from 3.75% for 2017 to 3.71% in 2018. Excluding interest income recognized from acquisition-related purchase accounting adjustments, the margin would have been 3.54% for 2018 compared to 3.64% for 2017. Management believes that the current level of interest rates is driven by external factors and therefore impacts the results of the Company's net interest margin.

Net interest income during 2017 was \$112.1, an increase of \$26.1 million, or 30.4%, over the \$86.0 million earned in 2016. Yields on the Company's interest-earning assets increased by 24 basis points to 4.29% during 2017 from 4.05% in 2016. Interest income increased \$22.0 million to \$128.5 million for 2017 from \$106.5 million in 2016. This increase was due to increased volume in interest-earning assets, an increase in the recognition of interest income from the acquisition-related purchase accounting adjustments of approximately \$1.2 million from \$2.3 million in 2016 to \$3.5 million in 2017 and an increase in overall interest rates in 2017.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Rates paid on interest-bearing liabilities decreased by 26 basis points during the same period due to the prepayment penalties on borrowings of \$4.8 million in 2016. Interest expense decreased \$4.2 million from \$20.5 million in 2016 to \$16.4 million in 2017. The decrease was due to Horizon executing a strategy to reduce expensive funding costs in the fourth quarter of 2016 and related prepayment penalties on borrowings of \$4.8 million, partially offset by an increase in average interest-bearing liabilities and the rates paid on subordinated debentures. The increase in the yield on the Company's interest-earning assets and the decrease in rates paid on interest-bearing liabilities resulted in an increase in the net interest margin of 46 basis points from 3.29% for 2016 to 3.75% in 2017. Excluding the interest expense recognized from the prepayment penalties on borrowings and the interest income recognized from the acquisition-related purchase accounting adjustments, the margin would have been 3.64% for 2017 compared to 3.38% for 2016.

| | Twelve Months Ended December 31, 2018 | | | Twelve Months Ended December 31, 2017 | | | Twelve Months Ended December 31, 2016 | | |
|--|--|---------------------|-----------------|--|---------------------|-----------------|--|---------------------|-----------------|
| | Average Balance | Average Interest | Average Rate | Average Balance | Average Interest | Average Rate | Average Balance | Average Interest | Average Rate |
| Assets | | | | | | | | | |
| Interest-earning assets | | | | | | | | | |
| Federal funds sold | \$ 4,696 | \$ 115 | 2.45% | \$ 5,450 | \$ 80 | 1.47% | \$ 17,142 | \$ 95 | 0.55% |
| Interest-earning deposits | 24,491 | 393 | 1.60% | 23,865 | 301 | 1.26% | 34,506 | 278 | 0.81% |
| Investment securities—taxable | 431,970 | 10,113 | 2.34% | 417,993 | 8,705 | 2.08% | 490,274 | 9,666 | 1.97% |
| Investment securities—non-taxable | 326,040 | 8,069 | 3.13% | 292,030 | 7,068 | 3.39% | 192,881 | 4,921 | 3.59% |
| Loans receivable ⁽²⁾⁽³⁾⁽⁴⁾ | 2,910,741 | 147,478 | 5.08% | 2,335,126 | 112,329 | 4.83% | 1,948,580 | 91,569 | 4.71% |
| Total interest-earning assets⁽¹⁾ | 3,697,938 | 166,168 | 4.56% | 3,074,464 | 128,483 | 4.29% | 2,683,383 | 106,529 | 4.05% |
| Non-interest-earning assets | | | | | | | | | |
| Cash and due from banks | 44,645 | | | 42,578 | | | 37,549 | | |
| Allowance for loan losses | (16,964) | | | (15,226) | | | (14,439) | | |
| Other assets | 337,016 | | | 295,057 | | | 255,129 | | |
| Total average assets | \$ 4,062,635 | | | \$ 3,396,873 | | | \$ 2,961,622 | | |

Liabilities and
Stockholders' Equity

| | | | | | | | | | |
|--|---------------------|---------------|--------------|---------------------|---------------|--------------|---------------------|---------------|--------------|
| Interest-bearing liabilities | | | | | | | | | |
| Interest-bearing deposits | \$ 2,418,987 | \$ 18,225 | 0.75% | \$ 2,045,896 | \$ 7,901 | 0.39% | \$ 1,752,326 | \$ 6,616 | 0.38% |
| Borrowings | 492,830 | 11,009 | 2.23% | 381,488 | 6,178 | 1.62% | 425,444 | 11,807 | 2.78% |
| Subordinated debentures | 36,547 | 2,365 | 6.47% | 36,362 | 2,304 | 6.34% | 49,834 | 2,114 | 4.24% |
| Total interest-bearing liabilities | 2,948,364 | 31,599 | 1.07% | 2,463,746 | 16,383 | 0.66% | 2,227,604 | 20,537 | 0.92% |
| Non-interest-bearing liabilities | | | | | | | | | |
| Demand deposits | 624,576 | | | 533,852 | | | 417,900 | | |
| Accrued interest payable and other liabilities | 16,275 | | | 20,566 | | | 13,574 | | |
| Stockholders' equity | 473,420 | | | 378,709 | | | 302,544 | | |
| Total average liabilities and stockholders' equity | \$ 4,062,635 | | | \$ 3,396,873 | | | \$ 2,961,622 | | |
| Net interest income/spread | | | | | | | | | |
| | | \$ 134,569 | 3.49% | | \$ 112,100 | 3.63% | | \$ 85,992 | 3.13% |
| Net interest income as a percent of average interest-earning assets ⁽¹⁾ | | | | | | | | | |
| | | | 3.71% | | | 3.75% | | | 3.29% |

(1) Horizon has no foreign office and, accordingly, no assets or liabilities to foreign operations. Horizon's subsidiary bank had no funds invested in Eurodollar Certificates of Deposit at December 31, 2018.

(2) Yields are presented on a tax-equivalent basis.

(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 loan fees.

(4) Loan fees and late fees included in interest on loans aggregated \$7.7 million, \$7.1 million and \$5.5 million in 2018, 2017 and 2016, respectively.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

| | 2018 - 2017 | | | 2017 - 2016 | | |
|-----------------------------------|------------------|----------------------------|--------------------------|------------------|----------------------------|--------------------------|
| | Total Change | Change Due To Volume | Change Due To Rate | Total Change | Change Due To Volume | Change Due To Rate |
| Interest Income | | | | | | |
| Federal funds sold | \$ 35 | \$ (12) | \$ 47 | \$ (15) | \$ (95) | \$ 80 |
| Interest-earning deposits | 92 | 8 | 84 | 23 | (103) | 126 |
| Investment securities—taxable | 1,408 | 298 | 1,110 | (961) | (1,483) | 522 |
| Investment securities—non-taxable | 1,001 | 1,100 | (99) | 2,147 | 3,384 | (1,237) |
| Loans receivable | 35,149 | 28,991 | 6,158 | 20,760 | 18,613 | 2,147 |
| Total interest income | 37,685 | 30,385 | 7,300 | 21,954 | 20,316 | 1,638 |
| Interest Expense | | | | | | |
| Interest-bearing deposits | 10,324 | 1,677 | 8,647 | 1,285 | 1,132 | 153 |
| Borrowings | 4,831 | 2,101 | 2,730 | (5,629) | (1,121) | (4,508) |
| Subordinated debentures | 61 | 12 | 49 | 190 | (671) | 861 |
| Total interest expense | 15,216 | 3,790 | 11,426 | (4,154) | (660) | (3,494) |
| Net interest income | \$ 22,469 | \$ 26,595 | \$ (4,126) | \$ 26,108 | \$ 20,976 | \$ 5,132 |

Provision for Loan Losses

Horizon assesses the adequacy of its ALLL by regularly reviewing the performance of its loan portfolios. The provision for loan losses totaled \$2.9 million in 2018 compared to \$2.5 million in 2017. The higher provision for loan losses in 2017 compared to the previous year was due to an increase in specific allocations for loan growth in new markets, higher than anticipated growth of the indirect loan portfolio and an increase in allocation for other economic factors, offset by improving credit trends and a continued low level of charge-offs. Total loan net charge-offs were \$1.5 million, which included commercial loan net charge-offs of \$297,000, residential mortgage loan net charge-offs of \$49,000 and consumer loan net charge-offs of \$1.1 million for the year ending December 31, 2018.

During 2017, the provision for loan losses totaled \$2.5 million, compared to \$1.8 million in 2016. The higher provision for loan losses in 2017 compared to the previous year was due to additional allocations for loan growth in new markets and an increase in allocation for agricultural economic factors. Total loan net charge-offs were \$913,000, which included commercial loan net charge-offs of \$109,000, residential mortgage loan net charge-offs of \$45,000 and consumer loan net charge-offs of \$759,000 for the year ending December 31, 2017.

Non-interest Income

The following is a summary of changes in non-interest income:

| Non-interest Income | Twelve Months Ended | | 2017 - 2018 | | Twelve Months Ended | | 2016 - 2017 | |
|---|---------------------|-------------------|-----------------|----------------|---------------------|-------------------|------------------|----------------|
| | December 31, 2018 | December 31, 2017 | Amount Change | Percent Change | December 31, 2017 | December 31, 2016 | Amount Change | Percent Change |
| Service charges on deposit accounts | \$ 7,762 | \$ 6,383 | \$ 1,379 | 21.6% | \$ 6,383 | \$ 5,762 | \$ 621 | 10.8% |
| Wire transfer fees | 612 | 658 | (46) | -7.0% | 658 | 806 | (148) | -18.4% |
| Interchange fees | 5,715 | 5,104 | 611 | 12.0% | 5,104 | 4,165 | 939 | 22.5% |
| Fiduciary activities | 7,827 | 7,894 | (67) | -0.8% | 7,894 | 6,621 | 1,273 | 19.2% |
| Gain (loss) on sale of investment securities | (443) | 38 | (481) | -1265.8% | 38 | 1,836 | (1,798) | -97.9% |
| Gain on sale of mortgage loans | 6,613 | 7,906 | (1,293) | -16.4% | 7,906 | 11,675 | (3,769) | -32.3% |
| Mortgage servicing net of impairment | 2,120 | 1,583 | 537 | 33.9% | 1,583 | 1,908 | (325) | -17.0% |
| Increase in cash surrender value of bank owned life insurance | 1,912 | 1,797 | 115 | 6.4% | 1,797 | 1,643 | 154 | 9.4% |
| Death benefit on officer life insurance | 154 | — | 154 | 100.0% | — | — | — | 0.0% |
| Other income | 2,141 | 1,773 | 368 | 20.8% | 1,773 | 1,039 | 734 | 70.6% |
| Total non-interest income | \$ 34,413 | \$ 33,136 | \$ 1,277 | 3.9% | \$ 33,136 | \$ 35,455 | \$(2,319) | -6.5% |

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

During 2018, the Company originated approximately \$188.8 million of mortgage loans to be sold on the secondary market, compared to \$218.5 million in 2017. This decrease in volume and a decrease in the percentage earned on the sale of mortgage loans, resulted in a decrease in the overall gain on sale of mortgage loans of \$1.3 million compared to the prior year. Gain on the sale of investment securities decreased \$481,000 in 2018. Mortgage servicing net of impairment increased by \$537,000 during 2018 compared to 2017. The increase in service charges on deposit accounts and interchange fee income in 2018 compared to 2017 was the result of growth in transactional deposit accounts and volume during 2018.

During 2017, the Company originated approximately \$218.5 million of mortgage loans to be sold on the secondary market, compared to \$316.9 million in 2016. This decrease in volume, offset by an increase in the percentage earned on the sale of mortgage loans, resulted in a decrease in the overall gain on sale of mortgage loans of \$3.8 million compared to the prior year. Gain on the sale of investment securities decreased \$1.8 million in 2017 as analysis in 2016 determined market conditions provided the opportunity to add gains to capital without negatively impacting long-term earnings, in addition to helping offset the penalties incurred on the repayment of debt as part of a balance sheet restructuring. Mortgage servicing net of impairment decreased by \$325,000 during 2017 compared to 2016. The increase in service charges on deposit accounts and interchange fee income in 2017 compared to 2016 was the result of growth in transactional deposit accounts and volume during 2017. Fiduciary activities income increased \$1.3 million during 2017 as a result of an increase in assets under management. Other income increased \$734,000 in 2017 compared to 2016 reflecting the finalized entries of the Lafayette acquisition which resulted in a gain on accounting for Horizon's previous equity interest of Lafayette totaling \$530,000.

Non-interest Expense

The following is a summary of changes in non-interest expense:

| | Twelve Months Ended | | 2017 - 2018 | | Twelve Months Ended | | 2016 - 2017 | |
|-----------------------------|---------------------|-------------------|---------------|----------------|---------------------|-------------------|---------------|----------------|
| | December 31, 2018 | December 31, 2017 | Amount Change | Percent Change | December 31, 2017 | December 31, 2016 | Amount Change | Percent Change |
| Non-interest Expense | | | | | | | | |
| Salaries | \$ 40,857 | \$ 36,503 | \$ 4,354 | 11.9% | \$ 36,503 | \$ 30,445 | \$ 6,058 | 19.9% |
| Commission and bonuses | 5,547 | 6,225 | (678) | -10.9% | 6,225 | 6,484 | (259) | -4.0% |
| Employee benefits | 10,219 | 8,647 | 1,572 | 18.2% | 8,647 | 7,084 | 1,563 | 22.1% |
| Net occupancy expenses | 10,482 | 9,535 | 947 | 9.9% | 9,535 | 8,322 | 1,213 | 14.6% |
| Data processing | 6,816 | 5,914 | 902 | 15.3% | 5,914 | 5,367 | 547 | 10.2% |

Edgar Filing: HORIZON BANCORP INC /IN/ - Form ARS

| | | | | | | | | |
|----------------------------------|------------|-----------|----------|--------|-----------|-----------|----------|--------|
| Professional fees | 1,926 | 2,490 | (564) | -22.7% | 2,490 | 2,752 | (262) | -9.5% |
| Outside services and consultants | 5,271 | 7,018 | (1,747) | -24.9% | 7,018 | 7,863 | (845) | -10.7% |
| Loan expense | 6,341 | 4,970 | 1,371 | 27.6% | 4,970 | 5,582 | (612) | -11.0% |
| FDIC deposit insurance | 1,444 | 1,046 | 398 | 38.0% | 1,046 | 1,559 | (513) | -32.9% |
| Other losses | 665 | 368 | 297 | 80.7% | 368 | 684 | (316) | -46.2% |
| Other expenses | 12,948 | 12,097 | 851 | 7.0% | 12,097 | 10,750 | 1,347 | 12.5% |
| Total non-interest expense | \$ 102,516 | \$ 94,813 | \$ 7,703 | 8.1% | \$ 94,813 | \$ 86,892 | \$ 7,921 | 9.1% |

For the twelve months ended December 31, 2018, salaries and employee benefits expense increased by \$4.4 million and \$1.6 million, respectively, reflecting overall company growth and an increase in health insurance expenses. Loan expense increased \$1.4 million primarily due to the increased volume in indirect lending and the timing of related origination and amortization costs. The increase in net occupancy expenses of \$947,000, data processing of \$902,000, other expense of \$851,000, FDIC insurance expense of \$398,000 and other losses of \$297,000 reflect overall company growth and the acquisitions of Lafayette and Wolverine during the third and fourth quarters of 2017. Offsetting these increases was a decrease of \$1.7 million and \$564,000 in outside services and consultants expense and professional fees, respectively, primarily due to lower acquisition-related expenses in 2018.

For the twelve months ended December 31, 2017, salaries and employee benefits expense increased by \$6.1 million and \$1.6 million, respectively, reflecting additional compensation expense related to performance-based incentive plans, overall company growth and the Lafayette and Wolverine acquisitions. Net occupancy, data processing and other expense increased during 2017 primarily due to overall company growth, market expansions and recent acquisitions. Outside services and consultants expense and professional fees decreased primarily due to a lower amount of acquisition-related expenses in 2017 compared to 2016. The decrease in loan expense reflects a decrease in loan collection expenses when comparing 2017 to 2016. The reduced assessment rate schedule implemented by the FDIC in the fourth quarter of 2016 resulted in the decrease of FDIC insurance expense in 2017. Other losses decreased primarily due to lower debit card fraud-related expenses in 2017.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Income Taxes

Income tax expense totaled \$10.4 million for the year ended December 31, 2018, a decrease of \$4.4 million when compared to the year ended December 31, 2017. The decrease was primarily due to the impact of the new corporate tax rate established by the Tax Cuts and Jobs Act which was signed into law at the end of 2017 and the benefits from the exercising of stock options. In addition to a lower corporate tax rate being applied to 2018 income, a revaluation to Horizon's net deferred tax asset of \$2.4 million was recorded to income tax expense during the fourth quarter of 2017. Partially offsetting these decreases to income tax expense was an increase in income before income tax expense of \$15.6 million when comparing 2018 to the prior year.

Income tax expense increased \$6.0 million in 2017 totaling \$14.8 million, compared to \$8.8 million in 2016. The majority of the increase was due to an increase in income before taxes of \$15.2 million in 2017. Also included in this increase is an adjustment to Horizon's net deferred tax asset of \$2.4 million (\$1.7 million of net deferred tax assets and \$766,000 of net deferred tax assets related to accumulated other comprehensive income) to reflect the changes made by provisions of the Tax Cuts and Jobs Act signed into law at the end of 2017.

Use of Non-GAAP Financial Measures

Certain information set forth in this report on Form 10-K refers to financial measures determined by methods other than in accordance with GAAP. Specifically, we have included non-GAAP financial measures relating to net income, diluted earnings per share, net interest margin, total loans and loan growth, the allowance for loan and lease losses, tangible stockholders' equity, tangible book value per share and the return on average assets and average common equity. In each case, we have identified special circumstances that we consider to be non-recurring and have excluded them, in order to show the impact of such matters as acquisition-related purchase accounting adjustments, prepayment penalties on borrowings and the Tax Cuts and Jobs Act, among other matters we have identified in our reconciliations. Horizon believes these non-GAAP financial measures are helpful to investors and provide a greater understanding of our business without giving effect to the purchase accounting impacts and one-time costs of acquisitions and non-core items. 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. See the following tables for reconciliations of the non-GAAP measures identified in this Form 10-K to their most comparable GAAP measures.

Non-GAAP Reconciliation of Net Interest Margin

(Dollars in Thousands, Unaudited)

Years Ended December 31

| | 2018 | 2017 | 2016 |
|---|------------|------------|-----------|
| <u>Non-GAAP Reconciliation of Net Interest Margin</u> | | | |
| Net interest income as reported | \$ 134,569 | \$ 112,100 | \$ 85,992 |
| Average interest-earning assets | 3,697,938 | 3,074,464 | 2,683,383 |
| Net interest income as a percentage of average interest-earning assets ("Net Interest Margin") | 3.71% | 3.75% | 3.29% |
| Prepayment penalties on borrowings | — | — | 4,839 |
| Acquisition-related purchase accounting adjustments ("PAUs") | (6,089) | (3,484) | (2,304) |
| Core net interest income | 128,480 | 108,616 | 88,527 |
| Core net interest margin | 3.54% | 3.64% | 3.38% |

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Non-GAAP Reconciliation of Tangible Stockholders' Equity and Tangible Book Value per Share

(Dollars in Thousands Except per Share Data, Unaudited)

| | December 31 2018 | September 30 2018 | June 30 2018 | March 31 2018 | December 31 2017 |
|---|-----------------------------|------------------------------|-------------------------|--------------------------|-----------------------------|
| Total stockholders' equity | \$ 491,992 | \$ 477,594 | \$ 470,535 | \$ 460,416 | \$ 457,078 |
| Less: Intangible assets | 130,270 | 130,755 | 131,239 | 131,724 | 132,282 |
| Total tangible stockholders' equity | \$ 361,722 | \$ 346,839 | \$ 339,296 | \$ 328,692 | \$ 324,796 |
| Common shares outstanding | 38,375,407 | 38,367,890 | 38,362,640 | 38,332,853 | 38,294,729 |
| Tangible book value per common share | \$ 9.43 | \$ 9.04 | \$ 8.84 | \$ 8.57 | \$ 8.48 |

57

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

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

(Dollars in Thousands, Except per Share Data, Unaudited)

| | Years Ended December 31 | | |
|--|--------------------------------|-------------|-------------|
| | 2018 | 2017 | 2016 |
| <u>Non-GAAP Reconciliation of Net Income</u> | | | |
| Net income as reported | \$ 53,117 | \$ 33,117 | \$ 23,912 |
| Merger expenses | 487 | 3,656 | 6,827 |
| Tax effect | (102) | (1,003) | (1,998) |
| Net income excluding merger expenses | 53,502 | 35,770 | 28,741 |
| Loss (gain) on sale of investment securities | 443 | (38) | (1,836) |
| Tax effect | (93) | 13 | 643 |
| Net income excluding gain on sale of investment securities | 53,852 | 35,745 | 27,548 |
| Death benefit on bank owned life insurance ("BOLI") | (154) | — | — |
| Tax effect | 32 | — | — |
| Net income excluding death benefit on BOLI | 53,730 | 35,745 | 27,548 |
| Prepayment penalty on borrowings | — | — | 4,839 |
| Tax effect | — | — | (1,694) |
| Net income excluding prepayment penalties on borrowings | 53,730 | 35,745 | 30,693 |
| Gain on remeasurement of equity interest in Lafayette | — | (530) | — |
| Tax effect | — | 78 | — |
| Net income excluding gain on remeasurement of equity interest in Lafayette | 53,730 | 35,293 | 30,693 |
| Tax reform bill impact | — | 2,426 | — |
| Net income excluding tax reform bill impact | 53,730 | 37,719 | 30,693 |
| Acquisition-related purchase accounting adjustments ("PAUs") | (6,089) | (3,484) | (2,304) |
| Tax effect | 1,279 | 1,219 | 807 |
| Core Net Income | \$ 48,920 | \$ 35,454 | \$ 29,196 |

| <u>Non-GAAP Reconciliation of Diluted Earnings per Share</u> | | | |
|---|---------|---------|---------|
| Diluted earnings per share ("EPS") as reported | \$ 1.38 | \$ 0.95 | \$ 0.79 |
| Merger expenses | 0.01 | 0.11 | 0.23 |
| Tax effect | — | (0.03) | (0.07) |
| Diluted EPS excluding merger expenses | 1.39 | 1.03 | 0.95 |
| Loss (gain) on sale of investment securities | 0.01 | — | (0.06) |
| Tax effect | — | — | 0.02 |
| Diluted EPS excluding gain on sale of investment securities | 1.40 | 1.03 | 0.91 |
| Death benefit on BOLI | — | — | — |
| Tax effect | — | — | — |
| Diluted EPS excluding death benefit on BOLI | 1.40 | 1.03 | 0.91 |
| Prepayment penalty on borrowings | — | — | 0.16 |
| Tax effect | — | — | (0.05) |
| Diluted EPS excluding prepayment penalties on borrowings | 1.40 | 1.03 | 1.02 |
| Gain on remeasurement of equity interest in Lafayette | — | (0.01) | — |
| Tax effect | — | — | — |
| Diluted EPS excluding gain on remeasurement of equity interest in Lafayette | 1.40 | 1.02 | 1.02 |
| Tax reform bill impact | — | 0.07 | — |
| Diluted EPS excluding tax reform bill impact | 1.40 | 1.09 | 1.02 |
| Acquisition-related PAUs | (0.16) | (0.10) | (0.07) |
| Tax effect | 0.03 | 0.03 | 0.02 |
| Core Diluted EPS | \$ 1.27 | \$ 1.02 | \$ 0.97 |

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Non-GAAP Reconciliation of Return on Average Assets and Return on Average Common Equity

(Dollars in Thousands, Unaudited)

| | Years Ended December 31 | | |
|--|--------------------------------|--------------|--------------|
| | 2018 | 2017 | 2016 |
| <u>Non-GAAP Reconciliation of Return on Average Assets</u> | | | |
| Average assets | \$ 4,062,635 | \$ 3,396,873 | \$ 2,961,622 |
| Return on average assets ("ROAA") as reported | 1.31% | 0.97% | 0.81% |
| Merger expenses | 0.01% | 0.11% | 0.23% |
| Tax effect | 0.00% | -0.03% | -0.07% |
| ROAA excluding merger expenses | 1.32% | 1.05% | 0.97% |
| Gain on sale of investment securities | 0.01% | 0.00% | -0.06% |
| Tax effect | 0.00% | 0.00% | 0.02% |
| ROAA excluding gain on sale of investment securities | 1.33% | 1.05% | 0.93% |
| Death benefit on bank owned life insurance ("BOLI") | 0.00% | 0.00% | 0.00% |
| Tax effect | 0.00% | 0.00% | 0.00% |
| ROAA excluding death benefit on BOLI | 1.33% | 1.05% | 0.93% |
| Prepayment penalties on borrowings | 0.00% | 0.00% | 0.17% |
| Tax effect | 0.00% | 0.00% | -0.06% |
| ROAA excluding prepayment penalties on borrowings | 1.33% | 1.05% | 1.04% |
| Gain on remeasurement of equity interest in Lafayette | 0.00% | -0.02% | 0.00% |
| Tax effect | 0.00% | 0.00% | 0.00% |
| ROAA excluding gain on remeasurement of equity interest in Lafayette | 1.33% | 1.03% | 1.04% |
| Tax reform bill impact | 0.00% | 0.07% | 0.00% |
| ROAA excluding tax reform bill impact | 1.33% | 1.10% | 1.04% |
| Acquisition-related purchase accounting adjustments ("PAUs") | -0.15% | -0.10% | -0.08% |
| Tax effect | 0.03% | 0.04% | 0.03% |

Edgar Filing: HORIZON BANCORP INC /IN/ - Form ARS

| | | | |
|---|------------|------------|------------|
| Core ROAA | 1.21% | 1.04% | 0.99% |
| <u>Non-GAAP Reconciliation of Return on Average Common Equity</u> | | | |
| Average Common Equity | \$ 473,420 | \$ 378,709 | \$ 301,485 |
| Return on average common equity (“ROACE”) as reported | 11.22% | 8.74% | 7.93% |
| Merger expenses | 0.10% | 0.97% | 2.26% |
| Tax effect | -0.02% | -0.26% | -0.66% |
| ROACE excluding merger expenses | 11.30% | 9.45% | 9.53% |
| Gain on sale of investment securities | 0.09% | -0.01% | -0.61% |
| Tax effect | -0.02% | 0.00% | 0.21% |
| ROACE excluding gain on sale of investment securities | 11.37% | 9.44% | 9.13% |
| Death benefit on bank owned life insurance (“BOLI”) | -0.03% | 0.00% | 0.00% |
| Tax effect | 0.01% | 0.00% | 0.00% |
| ROACE excluding death benefit on BOLI | 11.35% | 9.44% | 9.13% |
| Prepayment penalties on borrowings | 0.00% | 0.00% | 1.61% |
| Tax effect | 0.00% | 0.00% | -0.56% |
| ROACE excluding prepayment penalties on borrowings | 11.35% | 9.44% | 10.18% |
| Gain on remeasurement of equity interest in Lafayette | 0.00% | -0.14% | 0.00% |
| Tax effect | 0.00% | 0.02% | 0.00% |
| ROACE excluding gain on remeasurement of equity interest in Lafayette | 11.35% | 9.32% | 10.18% |
| Tax reform bill impact | 0.00% | 0.64% | 0.00% |
| ROACE excluding tax reform bill impact | 11.35% | 9.96% | 10.18% |
| Acquisition-related purchase accounting adjustments (“PAUs”) | -1.29% | -0.92% | -0.76% |
| Tax effect | 0.27% | 0.32% | 0.27% |
| Core ROACE | 10.33% | 9.36% | 9.69% |

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

Non-GAAP Allowance for Loan and Lease Loss Detail

As of December 31, 2018

(Dollars in Thousands, Unaudited)

| | Pre-discount Loan Balance | Allowance for Loan Losses (ALLL) | Loan Discount | ALLL + Loan Discount | ALLL/ Pre-discount Loans, net Loan Balance | Loan Discount/ Pre-discount Loan Balance | ALLL+Loan Discount/ Pre-discount Loan Balance | |
|--------------|--|---|--------------------------|---|---|---|--|--------------|
| Horizon | | | | | | | | |
| Legacy | \$ 2,482,496 | \$ 17,760 | N/A | \$ 17,760 | \$ 2,464,736 | 0.72% | 0.00% | 0.72% |
| Heartland | 9,085 | — | 685 | 685 | 8,400 | 0.00% | 7.54% | 7.54% |
| Summit | 21,691 | — | 1,186 | 1,186 | 20,505 | 0.00% | 5.47% | 5.47% |
| Peoples | 86,634 | — | 1,958 | 1,958 | 84,676 | 0.00% | 2.26% | 2.26% |
| Kosciusko | 38,578 | — | 615 | 615 | 37,963 | 0.00% | 1.59% | 1.59% |
| LaPorte | 88,134 | 60 | 2,985 | 3,045 | 85,089 | 0.07% | 3.39% | 3.46% |
| CNB | 4,499 | — | 118 | 118 | 4,381 | 0.00% | 2.62% | 2.62% |
| Lafayette | 89,446 | — | 1,427 | 1,427 | 88,019 | 0.00% | 1.60% | 1.60% |
| Wolverine | 193,807 | — | 2,723 | 2,723 | 191,084 | 0.00% | 1.41% | 1.41% |
| Total | \$ 3,014,370 | \$ 17,820 | \$ 11,697 | \$ 29,517 | \$ 2,984,853 | 0.59% | 0.39% | 0.98% |

Liquidity and Rate Sensitivity Management

Management and the Board of Directors meet regularly to review both the liquidity and rate sensitivity position of Horizon. Effective asset and liability management ensures Horizon's ability to monitor the cash flow requirements of depositors along with the demands of borrowers and to measure and manage interest rate risk. Horizon utilizes an interest rate risk assessment model designed to highlight sources of existing interest rate risk and consider the effect of these risks on strategic planning. Management maintains (within certain parameters) an essentially balanced ratio of interest sensitive assets to liabilities in order to protect against the effects of wide interest rate fluctuations.

Liquidity

The Bank maintains a stable base of core deposits provided by long standing relationships with consumers and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon

include earnings, loan repayments, investment security sales and maturities, sale of real estate loans and borrowing relationships with correspondent banks, including the FHLB and the Federal Reserve Bank (“FRB”). At December 31, 2018, Horizon had available approximately \$340.3 million in available credit from various money center banks, including the FHLB and the FRB Discount Window. Factors which could impact Horizon’s funding needs in the future include:

• Horizon had outstanding borrowings of over \$356.6 million with the FHLB and total borrowing capacity with the FHLB of \$558.6 million. Generally, the loan terms from the FHLB are better than the terms Horizon can receive from other sources, making it less expensive to borrow money from the FHLB. Financial difficulties at the FHLB could reduce or eliminate Horizon’s additional borrowing capacity with the FHLB or the FHLB could change collateral requirements, which could lower the Company’s borrowing availability.

• If residential mortgage loan rates remain low, Horizon’s mortgage warehouse loans could create an additional need for funding.

• Horizon had a total of \$47.0 million of unused Federal Fund lines from various money center banks. These are uncommitted lines and could be withdrawn at any time by the correspondent banks.

• Horizon had a total of \$93.2 million of available collateral at the FRB secured by municipal securities. These securities may mature, call, or be sold, which would reduce the available collateral.

• Horizon had approximately \$648.6 million of unpledged investment securities at December 31, 2018.

• A downgrade in Horizon’s ability to obtain credit due to factors such as deterioration in asset quality, a large charge to earnings, a decline in profitability or other financial measures, or a significant merger or acquisition.

• An act of terrorism or war, natural disasters, political events, or the default or bankruptcy of a major corporation, mutual fund, hedge fund or a government agency.

• Market speculation or rumors about Horizon or the banking industry in general may adversely affect the cost and availability of normal funding sources.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

If any of these events occur, they could force Horizon to borrow money from other sources including negotiable certificates of deposit. Such other monies may only be available at higher interest rates and on less advantageous terms, which will impact our net income and could impact our ability to grow. Management believes Horizon has adequate funding sources to meet short and long term needs.

Horizon maintains a liquidity contingency plan that outlines the process for addressing a liquidity crisis. The plan provides for an evaluation of funding sources under various market conditions. It also assigns specific roles and responsibilities for effectively managing liquidity through a problem period.

During 2018, cash flows were generated primarily from the sales, maturities, and prepayments of investment securities of \$131.7 million and an increase in deposits of \$258.4 million. Cash flows were used to purchase investments totaling \$243.1 million, to fund an increase in loans of \$182.6 million, to purchase \$10.4 million in bank owned life insurance and a decrease in borrowings of \$13.6 million. The net cash and cash equivalent position decreased by \$2.2 million during 2018.

The following table sets forth contractual obligations and other commitments representing required and potential cash outflows as of December 31, 2018. Interest on subordinated debentures and long-term borrowed funds is calculated based on current contractual interest rates.

| | Total | Within One Year | After one but within three years | After three but within five years | After five years |
|---|---------------------|----------------------------|---|--|---------------------------------|
| Remaining contractual maturities of time deposits | \$ 812,911 | \$ 525,801 | \$ 237,884 | \$ 30,752 | \$ 18,474 |
| Borrowings | 550,384 | 485,557 | 42,514 | 12,268 | 10,045 |
| Subordinated debentures | 37,837 | — | — | — | 37,837 |
| Loan commitments | 873,792 | 258,071 | 615,721 | — | — |
| Letters of credit | 4,792 | 2,746 | 2,046 | — | — |
| Total | \$ 2,279,716 | \$ 1,272,175 | \$ 898,165 | \$ 43,020 | \$ 66,356 |

Interest Rate Sensitivity

The degree by which net interest income may fluctuate due to changes in interest rates is monitored by Horizon using computer simulation models, incorporating not only the current GAP position but the effect of expected repricing of specific financial assets and liabilities. When repricing opportunities are not properly aligned, net interest income may

be affected when interest rates change. Forecasting results of the possible outcomes determines the exposure to interest rate risk inherent in Horizon's balance sheet. The goal is to manage imbalanced positions that arise when the total amount of assets that reprice or mature in a given time period differs significantly from liabilities that reprice or mature in the same time period. The theory behind managing the difference between repricing assets and liabilities is to have more assets repricing in a rising rate environment and more liabilities repricing in a declining rate environment. Based on a model that assumes a lag in repricing, at December 31, 2018, the amount of assets that reprice within one year was 148% of liabilities that reprice within one year. At December 31, 2017, this same model reported that the amount of assets that reprice within one year was approximately 191% of the amount of liabilities that reprice within the same time period. The year 2018 was a rising rate environment and the yields on assets repriced at higher rates due to increasing interest rates and a competitive environment. However, the impact of higher funding costs negatively impacted the net interest margin.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

| | 3 Months or Less | > 3 Months & <= 6 Months | > 6 Months & <= 1 Year | Greater Than 1 Year | Total |
|---|-----------------------------|---|---|------------------------------------|---------------------|
| Loans | \$ 1,031,685 | \$ 217,347 | \$ 335,763 | \$ 1,429,575 | \$ 3,014,370 |
| Federal funds sold | 2,713 | — | — | — | 2,713 |
| Interest-earning balances with banks | 16,407 | — | — | — | 16,407 |
| Investment securities and FHLB stock | 42,362 | 22,037 | 51,850 | 712,284 | 828,533 |
| Other assets | — | — | — | 384,665 | 384,665 |
| Total assets | \$ 1,093,167 | \$ 239,384 | \$ 387,613 | \$ 2,526,524 | \$ 4,246,688 |
| Noninterest-bearing deposits | \$ 15,941 | \$ 15,941 | \$ 31,882 | \$ 578,365 | \$ 642,129 |
| Interest-bearing deposits | 186,868 | 194,957 | 344,061 | 1,771,361 | 2,497,247 |
| Borrowed funds | 298,309 | 57,209 | 18,311 | 214,392 | 588,221 |
| Other liabilities | — | — | — | 27,099 | 27,099 |
| Stockholders' equity | — | — | — | 491,992 | 491,992 |
| Total liabilities and stockholders' equity | \$ 501,118 | \$ 268,107 | \$ 394,254 | \$ 3,083,209 | \$ 4,246,688 |
| GAP | \$ 592,049 | \$ (28,723) | \$ (6,641) | \$ (556,685) | |
| Cumulative GAP | \$ 592,049 | \$ 563,326 | \$ 556,685 | | |

Quantitative and Qualitative Disclosures about Market Risk

Horizon's primary market risk exposure is interest rate risk. Interest rate risk ("IRR") is the risk that Horizon's earnings and capital will be adversely affected by changes in interest rates. The primary approach to IRR management is one that focuses on adjustments to the asset/liability mix in order to limit the magnitude of IRR.

Horizon's exposure to interest rate risk arises from repricing or mismatch risk, embedded options risk, and yield curve risk. Repricing risk is the risk of adverse consequence from a change in interest rates that arises because of differences in the timing of when those interest rate changes affect Horizon's assets and liabilities. Basis risk is the risk that the spread, or rate difference, between instruments of similar maturities will change. Options risk arises whenever products give the customer the right, but not the obligation, to alter the quantity or timing of cash flows. Yield curve risk is the risk that changes in prevailing interest rates will affect instruments of different maturities by different amounts. Horizon's objective is to remain reasonably neutral with respect to IRR. Horizon utilizes a variety of strategies to maintain this position, including the sale of mortgage loans on the secondary market, hedging certain balance sheet items using derivatives, varying maturities of FHLB advances, certificates of deposit funding and investment securities.

The table which follows provides information about Horizon's financial instruments that were sensitive to changes in interest rates as of December 31, 2018. The table incorporates Horizon's internal system generated data related to the maturity and repayment/withdrawal of interest-earning assets and interest-bearing liabilities. For loans, securities and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities as well as the historical experience of Horizon related to the impact of interest rate fluctuations on the prepayment of residential loans and mortgage-backed securities. From a risk management perspective, Horizon believes that repricing dates are more relevant than contractual maturity dates when analyzing the value of financial instruments. For deposits with no contractual maturity dates, the table presents principal cash flows and weighted average rate, as applicable, based upon Horizon's experience and management's judgment concerning the most likely withdrawal behaviors.

Table of Contents

HORIZON BANCORP, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of

Financial Condition and Results of Operations

(Table dollars in thousands except per share data)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 & Beyond | Total | Fair Value December 31 2018 |
|----------------------------------|------------|------------|------------|------------|-----------|---------------------|--------------|-----------------------------------|
| Rate-sensitive assets | | | | | | | | |
| Fixed interest rate loans | \$ 620,469 | \$ 318,595 | \$ 203,792 | \$ 119,334 | \$ 63,774 | \$ 86,431 | \$ 1,412,395 | \$ 1,286,548 |
| Average interest rate | 4.70% | 4.68% | 4.71% | 4.83% | 4.90% | 4.82% | 4.72% | |
| Variable interest rate loans | 977,379 | 127,307 | 108,337 | 93,139 | 79,358 | 216,455 | 1,601,975 | 1,605,392 |
| Average interest rate | 4.88% | 4.42% | 4.32% | 4.49% | 4.44% | 3.78% | 4.61% | |
| Total loans | 1,597,848 | 445,902 | 312,129 | 212,473 | 143,132 | 302,886 | 3,014,370 | 2,891,940 |
| Average interest rate | 4.81% | 4.60% | 4.58% | 4.68% | 4.65% | 4.08% | 4.66% | |
| Securities, including FHLB stock | 116,249 | 79,052 | 75,399 | 74,416 | 58,304 | 425,113 | 828,533 | 828,534 |
| Average interest rate | 2.35% | 2.96% | 2.99% | 3.12% | 3.06% | 3.65% | 3.25% | |
| Other interest-earning assets | 19,120 | — | — | — | — | — | 19,120 | 19,120 |
| Average interest rate | 2.96% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | |