HORIZON BANCORP /IN/
Form 10-Q
August 09, 2016
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HORIZON BANCORP

FORM 10-Q

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

Commission file number 0-10792

HORIZON BANCORP

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large Accelerated Filer ¨		Accelerated Filer	x
Non-accelerated Filer	¨ Do not check if smaller reporting company	Smaller Reporting Company	¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 14,776,952 shares of Common Stock, no par value, at August 9, 2016.

HORIZON BANCORP

FORM 10-Q

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PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollar Amounts in Thousands)

	June 30 2016 (Unaudited)	December 31 2015
Assets		
Cash and due from banks	**$ 109,224**	$ 48,650
Investment securities, available for sale	**455,239**	444,982
Investment securities, held to maturity (fair value of $180,059 and $193,703)	**173,696**	187,629
Loans held for sale	**7,812**	7,917
Loans, net of allowance for loan losses of $14,226 and $14,534	**1,923,599**	1,734,597
Premises and equipment, net	**61,186**	60,798
Federal Reserve and Federal Home Loan Bank stock	**16,636**	13,823
Goodwill	**56,458**	49,600
Other intangible assets	**8,686**	7,371
Interest receivable	**11,526**	10,535
Cash value of life insurance	**57,944**	54,504
Other assets	**36,074**	31,995
Total assets	**$ 2,918,080**	$ 2,652,401
Liabilities		
Deposits		
Non-interest bearing	**$ 397,412**	$ 335,955
Interest bearing	**1,684,849**	1,544,198
Total deposits	**2,082,261**	1,880,153
Borrowings	**492,883**	449,347
Subordinated debentures	**32,874**	32,797
Interest payable	**961**	507
Other liabilities	**28,099**	22,765
Total liabilities	**2,637,078**	2,385,569
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, Authorized, 1,000,000 shares Series B shares $.01 par value, $1,000 liquidation value Issued 0 and 12,500 shares		12,500

Common stock, no par value Authorized, 44,000,000 shares Issued, 12,590,784 and 11,995,324 shares Outstanding, 12,571,534 and 11,939,887 shares		
Additional paid-in capital	**120,758**	106,370
Retained earnings	**156,651**	148,685
Accumulated other comprehensive income (loss)	**3,593**	(723)
Total stockholders equity	**281,002**	266,832
Total liabilities and stockholders equity	**$ 2,918,080**	$ 2,652,401

See notes to condensed consolidated financial statements

HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended June 30		Six Months Ended June 30	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Interest Income				
Loans receivable	**$ 20,794**	$ 17,981	**$ 40,541**	$ 34,843
Investment securities				
Taxable	**2,661**	2,067	**5,205**	4,221
Tax exempt	**1,195**	1,079	**2,432**	2,156
Total interest income	**24,650**	21,127	**48,178**	41,220
Interest Expense				
Deposits	**1,557**	1,237	**3,048**	2,469
Borrowed funds	**1,721**	1,539	**3,480**	3,018
Subordinated debentures	**503**	501	**1,007**	997
Total interest expense	**3,781**	3,277	**7,535**	6,484
Net Interest Income	**20,869**	17,850	**40,643**	34,736
Provision for loan losses	**232**	1,906	**764**	2,520
Net Interest Income after Provision for Loan Losses	**20,637**	15,944	**39,879**	32,216
Non-interest Income				
Service charges on deposit accounts	**1,335**	1,085	**2,573**	2,084
Wire transfer fees	**175**	182	**296**	333
Interchange fees	**1,663**	1,366	**3,121**	2,468
Fiduciary activities	**1,465**	1,216	**3,100**	2,513
Gain on sale of investment securities (includes $767 for the three months ended and $875 for the six months ended June 30, 2016 and $0 for the three months ended and $124 for the six months ended June 30, 2015, related to accumulated other comprehensive earnings reclassifications)	**767**		**875**	124
Gain on sale of mortgage loans	**3,529**	2,642	**5,643**	5,021
Mortgage servicing income net of impairment	**500**	300	**947**	479
Increase in cash value of bank owned life insurance	**351**	257	**696**	515
Death benefit on bank owned life insurance				145
Other income	**84**	138	**482**	570

Total non-interest income	**9,869**	7,186	17,733	14,252
Non-interest Expense				
Salaries and employee benefits	**10,317**	8,385	**20,382**	16,889
Net occupancy expenses	**1,901**	1,375	**3,837**	2,926
Data processing	**1,134**	966	**2,239**	1,889
Professional fees	**747**	660	**1,578**	1,187
Outside services and consultants	**2,198**	918	**3,297**	1,544
Loan expense	**1,409**	1,367	**2,604**	2,624
FDIC insurance expense	**409**	339	**814**	676
Other losses	**136**	150	**403**	105
Other expense	**3,304**	2,490	**6,148**	4,878
Total non-interest expense	**21,555**	16,650	41,302	32,718
Income Before Income Tax	**8,951**	6,480	**16,310**	13,750
Income tax expense (includes $268 for the three months ended and $306 for the six months ended June 30, 2016 and $0 for the three months ended and $43 for the six months ended June 30, 2015, related to income tax expense from reclassification items)	**2,625**	1,752	**4,603**	3,664
Net Income	**6,326**	4,728	**11,707**	10,086
Preferred stock dividend		(31)	**(42)**	(63)
Net Income Available to Common Shareholders	**$ 6,326**	$ 4,697	**$ 11,665**	$ 10,023
Basic Earnings Per Share	**$ 0.52**	$ 0.51	**$ 0.97**	$ 1.09
Diluted Earnings Per Share	**0.52**	0.49	**0.96**	1.04

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Dollar Amounts in Thousands)

	Three Months Ended June 30		Six Months Ended June 30	
	2016 (Unaudited)	**2015 (Unaudited)**	**2016 (Unaudited)**	**2015 (Unaudited)**
Net Income	**$ 6,326**	$ 4,728	**$ 11,707**	$ 10,086
Other Comprehensive Income (Loss)				
Change in fair value of derivative instruments:				
Change in fair value of derivative instruments for the period	**(83)**	511	**(645)**	182
Income tax effect	**29**	(179)	**226**	(64)
Changes from derivative instruments	**(54)**	332	**(419)**	118
Change in securities:				
Unrealized appreciation (depreciation) for the period on AFS securities	**2,691**	(2,364)	**8,637**	(402)
Amortization from transfer of securities from available-for-sale to held-to-maturity securities	**(248)**	(158)	**(477)**	(272)
Reclassification adjustment for securities gains realized in income	**(767)**		**(875)**	(124)
Income tax effect	**(511)**	882	**(2,550)**	279
Unrealized gains (losses) on securities	**949**	(1,640)	**4,735**	(519)
Other Comprehensive Income (Loss), Net of Tax	**895**	(1,308)	**4,316**	(401)
Comprehensive Income	**$ 7,221**	$ 3,420	**$ 16,023**	$ 9,685

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders Equity

(Unaudited)

(Dollar Amounts in Thousands, Except Per Share Data)

	Preferred Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, January 1, 2016	**$ 12,500**	**$ 106,370**	**$ 148,685**	**$ (723)**	**$ 266,832**
Net income			11,707		11,707
Other comprehensive loss, net of tax				4,316	4,316
Redemption of preferred stock	(12,500)				(12,500)
Amortization of unearned compensation		150			150
Stock option expense		170			170
Stock issued in acquisition		14,068			14,068
Cash dividends on preferred stock (1.00%)			(42)		(42)
Cash dividends on common stock ($.30 per share)			(3,699)		(3,699)
Balances, June 30, 2016	**$**	**$ 120,758**	**$ 156,651**	**$ 3,593**	**$ 281,002**

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Dollar Amounts in Thousands)

	Six Months Ended June 30	
	2016 (Unaudited)	**2015 (Unaudited)**
Operating Activities		
Net income	**$ 11,707**	$ 10,086
Items not requiring (providing) cash		
Provision for loan losses	**764**	2,520
Depreciation and amortization	**2,463**	1,883
Share based compensation	**170**	138
Mortgage servicing rights net impairment	**840**	356
Premium amortization on securities available for sale, net	**2,673**	1,289
Gain on sale of investment securities	**(875)**	(124)
Gain on sale of mortgage loans	**(5,643)**	(5,021)
Proceeds from sales of loans	**144,197**	155,746
Loans originated for sale	**(138,452)**	(152,259)
Change in cash value of life insurance	**(695)**	(515)
Gain (Loss) on sale of other real estate owned	**118**	(206)
Net change in		
Interest receivable	**(355)**	(577)
Interest payable	**399**	(36)
Other assets	**(5,624)**	4,099
Other liabilities	**316**	(1,511)
Net cash provided by operating activities	**12,003**	15,868
Investing Activities		
Purchases of securities available for sale	**(50,143)**	(47,958)
Proceeds from sales, maturities, calls, and principal repayments of securities available for sale	**65,523**	40,359
Purchases of securities held to maturity	**(17,960)**	
Proceeds from maturities of securities held to maturity	**12,934**	1,535
Proceeds from the sale of FHLB stock	**(2,231)**	268
Net change in loans	**(88,250)**	(142,131)
Proceeds on the sale of OREO and repossessed assets	**1,253**	1,793
Change in premises and equipment, net	**(683)**	(3,587)
Acquisition of Kosciusko, net of cash received	**30,437**	
Net cash used in investing activities	**(49,120)**	(149,721)

Financing Activities		
Net change in		
Deposits	**78,622**	102,404
Borrowings	**35,310**	34,115
Redemption of preferred stock	**(12,500)**	
Proceeds from issuance of stock		389
Dividends paid on common shares	**(3,699)**	(2,611)
Dividends paid on preferred shares	**(42)**	(63)
Net cash provided by financing activities	**97,691**	134,234
Net Change in Cash and Cash Equivalents	**60,574**	381
Cash and Cash Equivalents, Beginning of Period	**48,650**	43,476
Cash and Cash Equivalents, End of Period	**$ 109,224**	$ 43,857
Additional Supplemental Information		
Interest paid	**$ 7,081**	$ 6,519
Income taxes paid	**4,750**	3,700
Transfer of loans to other real estate owned	**1,971**	(1,384)
The Company purchased all of the capital stock of Kosciusko for $22,581 on June 1, 2016. In conjunction with the acquisition, liabilities were assumed as follows:		
Fair value of assets acquired	**155,413**	
Less: common stock issued	**14,068**	
Cash paid for the capital stock	**8,513**	
Liabilities assumed	**132,832**	

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Note 1 - Accounting Policies

The accompanying unaudited condensed consolidated financial statements include the accounts of Horizon Bancorp (Horizon or the Company) and its wholly-owned subsidiaries, including Horizon Bank, N.A. (Bank). All inter-company balances and transactions have been eliminated. The results of operations for the periods ended June 30, 2016 and June 30, 2015 are not necessarily indicative of the operating results for the full year of 2016 or 2015. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of Horizon s management, necessary to fairly present the financial position, results of operations and cash flows of Horizon for the periods presented. Those adjustments consist only of normal recurring adjustments.

Certain information and note disclosures normally included in Horizon s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon s Annual Report on Form 10-K for 2015 filed with the Securities and Exchange Commission on February 29, 2016. The condensed consolidated balance sheet of Horizon as of December 31, 2015 has been derived from the audited balance sheet as of that date.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Basic earnings per share				
Net income	**$ 6,326**	$ 4,728	**$ 11,707**	$ 10,086
Less: Preferred stock dividends		31	**42**	63
Net income available to common shareholders	**$ 6,326**	$ 4,697	**$ 11,665**	$ 10,023
Weighted average common shares outstanding	**12,179,253**	9,240,005	**12,064,335**	9,228,075
Basic earnings per share	**$ 0.52**	$ 0.51	**$ 0.97**	$ 1.09
Diluted earnings per share				
Net income available to common shareholders	**$ 6,326**	$ 4,697	**$ 11,665**	$ 10,023

Weighted average common shares outstanding	**12,179,253**	9,240,005	**12,064,335**	9,228,075
Effect of dilutive securities:				
Warrants		324,698		323,198
Restricted stock	**20,721**	34,892	**21,050**	30,816
Stock options	**42,804**	37,991	**41,643**	33,462
Weighted average shares outstanding	**12,242,778**	9,637,586	**12,127,028**	9,615,551
Diluted earnings per share	**$ 0.52**	$ 0.49	**$ 0.96**	$ 1.04

There were zero shares for both the three and six months ended June 30, 2016, respectively, and 2,500 and 41,444 for the three and six months ended June 30, 2015 which were not included in the computation of diluted earnings per share because they were non-dilutive.

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2015 Annual Report on Form 10-K.

Note 2 Acquisitions

On July 1, 2015, Horizon completed the acquisition of Peoples Bancorp, an Indiana corporation (Peoples) and Horizon Bank N.A. s acquisition of Peoples Federal Savings Bank of DeKalb County (Peoples FSB), through mergers effective July 1, 2015. Under the terms of the acquisition, the exchange ratio was 0.95 shares of Horizon common stock (the Exchange Ratio) and $9.75 in cash for each outstanding share of Peoples common stock. Peoples shareholders owning fewer than 100 shares of common stock received $33.14 in cash for each common share. Peoples shares outstanding at the closing were 2,311,858, and the shares of Horizon common stock issued to Peoples shareholders totaled 2,192,202. Horizon s stock price was $25.32 per share at the close of business on July 1, 2015. Based upon these numbers, the total value of the consideration for the acquisition was $78.1 million. The Company had approximately $4.9 million in costs related to the acquisition as of December 31, 2015. These expenses were classified in the other expense section of the income statement and primarily located in the salaries and employee benefits, professional services and other expense line items. As a result of the acquisition, the Company increased its deposit base and reduced transaction costs. The Company also expects to reduce cost through economies of scale.

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

ASSETS	
Cash and due from banks	$ 205,054
Investment securities, held to maturity	2,038
Commercial	67,435
Residential mortgage	137,331
Consumer	19,593
Total loans	224,359
Premises and equipment, net	5,524
FRB and FHLB stock	2,743
Goodwill	21,424
Core deposit intangible	4,394
Interest receivable	1,279
Cash value of life insurance	13,898

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

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

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

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

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

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

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

	Three Months Ended		Six Months Ended	
	June 30 2016	**June 30 2015**	**June 30 2016**	**June 30 2015**
Summary of Operations:				
Net Interest Income	$ 20,869	$ 20,829	$ 40,643	$ 40,690
Provision for Loan Losses	232	1,936	764	2,580
Net Interest Income after Provision for Loan Losses	20,637	18,893	39,879	38,110
Non-interest Income	9,869	8,086	17,733	16,145
Non-Interest Expense	21,555	19,852	41,302	39,014
Income before Income Taxes	8,951	7,127	16,310	15,241
Income Tax Expense	2,625	1,779	4,603	3,791
Net Income	6,326	5,348	11,707	11,450
Net Income Available to Common Shareholders	$ 6,326	$ 5,317	$ 11,665	$ 11,387
Basic Earnings Per Share	$ 0.52	$ 0.46	$ 0.97	$ 0.99
Diluted Earnings Per Share	$ 0.52	$ 0.45	$ 0.96	$ 0.96

The pro forma information includes adjustments for interest income on loans, amortization of intangibles arising from the transaction, interest expense on deposits acquired, premises expense for the banking centers acquired and the related income tax effects. The pro forma information for the three and six months ended June 30, 2015 includes $657,000, net of tax, of operating revenue from Peoples and approximately $95,000, net of tax, of non-recurring expenses directly attributable to the Peoples acquisition.

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

On June 1, 2016, Horizon completed the acquisition of Kosciusko Financial, Inc., an Indiana corporation (Kosciusko) and Horizon Bank s acquisition of Farmers State Bank, a state-chartered bank and wholly owned subsidiary of Kosciusko, through mergers effective June 1, 2016. Under the terms of the Merger Agreement, shareholders of Kosciusko had the option to receive $81.75 per share in cash or 3.0122 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 consists 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 582,287 shares of its common stock in the merger. Based upon the June 1, 2016 closing price of $24.85 per share of Horizon common stock, the transaction has an implied valuation of approximately $23.0 million. The Company has had approximately $1.6 million in costs related to the acquisition. These expenses are classified in the other expense section of the income statement and primarily located in the salaries and employee benefits, professional services and other expense line items. As a result of the acquisition, the Company will have an opportunity to increase its deposit base and reduce transaction costs. The Company also expects to reduce cost through economies of scale.

Under the acquisition method of accounting, the total purchase price is allocated to net tangible and intangible assets based on their current estimated fair values on the date of the acquisition. Based on preliminary valuations of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on assumptions that are subject to change, the purchase price for the Kosciusko acquisition is detailed in the following table. Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation prospectively. If any adjustments are made to the preliminary assumptions (provisional amounts), disclosures will be made in the notes to the financial statements of the amounts recorded in the current period earnings by line item that have been recorded in previous reporting periods if the adjustments to the provisional amounts had been recognized as of the acquisition date.

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

ASSETS	
Cash and due from banks	$ 38,950
Investment securities, held to maturity	1,191
Commercial	67,310
Residential mortgage	26,244
Consumer	6,319
Total loans	99,873
Premises and equipment, net	1,466
FRB and FHLB stock	582
Goodwill	6,858
Core deposit intangible	1,867
Interest receivable	636
Cash value of life insurance	2,745
Other assets	1,245
Total assets purchased	$ 155,413
Common shares issued	$ 14,068
Cash paid	8,513
Total estimated purchase price	$ 22,581
LIABILITIES	
Deposits	
Non-interest bearing	$ 28,549
NOW accounts	35,213
Savings and money market	26,953
Certificates of deposits	32,771
Total deposits	123,486
Borrowings	8,303
Interest payable	55
Other liabilities	988
Total liabilities assumed	$ 132,832

Of the total estimated purchase price of $22.6 million, $1.9 million has been allocated to core deposit intangible. Additionally, $6.9 million has been allocated to goodwill and none of the purchase price is deductible. The core deposit intangible will be amortized over seven years on a straight line basis.

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

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

The Company acquired the $130.5 million loan portfolio at a fair value discount of $6.4 million. The performing portion of the portfolio, $106.2 million, had an estimated fair value of $104.6 million. The excess of expected cash flows above the fair value of the performing portion of loans will be accreted to interest income over the remaining lives of the loans in accordance with ASC 310-20.

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

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

On July 18, 2016, Horizon completed the acquisition of LaPorte Bancorp, Inc., a Maryland corporation (LaPorte Bancorp) and Horizon Bank s acquisition of The LaPorte Savings Bank, a state-chartered savings bank and wholly owned subsidiary of LaPorte Bancorp, through mergers effective July 18, 2016. Under the terms of the Merger Agreement, shareholders of LaPorte Bancorp had the option to receive $17.50 per share in cash or 0.629 shares of Horizon common stock for each share of LaPorte Bancorp s common stock, subject to allocation provisions to assure that in aggregate, LaPorte Bancorp shareholders received total consideration that consists of 65% stock and 35% cash. LaPorte Bancorp shareholders owning fewer than 100 shares of common stock received $17.50 in cash for each common share. As a result of LaPorte stockholder stock and cash elections and the related proration provisions of the Merger Agreement, Horizon issued 2,280,992 shares of its common stock in the merger. Based upon the July 18, 2016 closing price of $27.54 per share of Horizon common stock, the transaction has an implied valuation of approximately $101.7 million.

As of July 18, 2016, LaPorte Bancorp had total assets of approximately $536.0 million, total deposits of approximately $370.9 million and total net loans of approximately $316.8 million.

Utilizing July 15, 2016 financials for both Horizon and LaPorte Bancorp and an estimate of the fair market value adjustments associated with the merger, Horizon would have total assets of approximately $3.5 billion, total deposits of approximately $2.5 billion and total net loans of approximately $2.2 billion on a pro forma basis. The accounting for the business combination is not yet complete and therefore all required disclosures for a business combination have not been provided.

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HORIZON BANCORP AND SUBSIDIARIES

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

Note 3 Securities

The fair value of securities is as follows:

June 30, 2016	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U.S. Treasury and federal agencies	$ 18,384	$ 86	$	$ 18,470
State and municipal	60,961	1,654	(4)	62,611
Federal agency collateralized mortgage obligations	151,736	2,596	(69)	154,263
Federal agency mortgage-backed pools	215,445	4,654	(276)	219,823
Corporate notes	32	40		72
Total available for sale investment securities	$ 446,558	$ 9,030	$ (349)	$ 455,239
Held to maturity				
State and municipal	$ 143,093	$ 7,586	$ (2,606)	$ 148,073
Federal agency collateralized mortgage obligations	8,424	199		8,623
Federal agency mortgage-backed pools	22,179	1,184		23,363
Total held to maturity investment securities	$ 173,696	$ 8,969	$ (2,606)	$ 180,059

December 31, 2015	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available for sale				
U.S. Treasury and federal agencies	$ 5,940	$ 3	$ (17)	$ 5,926
State and municipal	73,829	1,299	(33)	75,095
Federal agency collateralized mortgage obligations	157,291	567	(1,655)	156,203
Federal agency mortgage-backed pools	206,970	2,080	(1,346)	207,704
Corporate notes	32	22		54
Total available for sale investment securities	$ 444,062	$ 3,971	$ (3,051)	$ 444,982

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

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

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At June 30, 2016, no individual investment security had an unrealized loss that was determined to be other-than-temporary.

The unrealized losses on the Company s investments in securities of state and municipal governmental agencies, U.S. Treasury and federal agencies, federal agency collateralized mortgage obligations, and federal agency mortgage-backed pools were caused by interest rate volatility and not a decline in credit quality. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The Company expects to recover the amortized cost basis over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company did not consider those investments to be other-than-temporarily impaired at June 30, 2016.

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

	June 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Within one year	$ 7,123	$ 7,153	$ 7,192	$ 7,232
One to five years	46,104	46,664	38,197	38,894
Five to ten years	11,351	11,804	16,807	17,152
After ten years	14,799	15,532	17,605	17,797
	79,377	81,153	79,801	81,075
Federal agency collateralized mortgage obligations	151,736	154,263	157,291	156,203
Federal agency mortgage-backed pools	215,445	219,823	206,970	207,704
Total available for sale investment securities	$ 446,558	$ 455,239	$ 444,062	$ 444,982
Held to maturity				
Within one year	$	$	$	$
One to five years	20,415	20,436	17,815	18,403
Five to ten years	88,183	92,551	106,167	110,026
After ten years	34,495	35,086	28,208	28,976
	143,093	148,073	152,190	157,405
Federal agency collateralized mortgage obligations	8,424	8,623	9,051	8,954
Federal agency mortgage-backed pools	22,179	23,363	26,388	27,344
Total held to maturity investment securities	$ 173,696	$ 180,059	$ 187,629	$ 193,703

The following table shows the gross unrealized losses and the fair value of the Company s investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

Less than 12 Months	Total

			12 Months or More			
June 30, 2016	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
State and municipal	$ 1,763	$ (2,609)	$ 132	$ (1)	$ 1,895	$ (2,610)
Federal agency collateralized mortgage obligations	4,059	(23)	9,079	(46)	13,138	(69)
Federal agency mortgage-backed pools	23,361	(276)			23,361	(276)
Total temporarily impaired securities	$ 29,183	$ (2,908)	$ 9,211	$ (47)	$ 38,394	$ (2,955)

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

	Three Months Ended June 30		Six Months Ended June 30	
	2016	**2015**	**2016**	**2015**
Sales of securities available for sale (Unaudited)				
Proceeds	**$ 17,536**	$	**$ 25,077**	$ 13,332
Gross gains	**952**		**1,060**	147
Gross losses	**(185)**		**(185)**	(23)

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HORIZON BANCORP AND SUBSIDIARIES

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

Note 4 Loans

	June 30 2016	December 31 2015
Commercial		
Working capital and equipment	**$ 416,205**	$ 381,245
Real estate, including agriculture	**424,300**	391,668
Tax exempt	**11,458**	8,674
Other	**22,617**	23,408
Total	**874,580**	804,995
Real estate		
1 4 family	**489,133**	433,015
Other	**4,493**	4,129
Total	**493,626**	437,144
Consumer		
Auto	**162,172**	168,397
Recreation	**5,005**	5,365
Real estate/home improvement	**50,121**	47,015
Home equity	**130,017**	127,113
Unsecured	**4,175**	4,120
Other	**12,430**	10,290
Total	**363,920**	362,300
Mortgage warehouse	**205,699**	144,692
Total loans	**1,937,825**	1,749,131
Allowance for loan losses	**(14,226)**	(14,534)
Loans, net	**$ 1,923,599**	$ 1,734,597

Commercial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected, and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves larger loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets, the general economy or fluctuations in interest rates. The properties securing the Company s commercial real estate portfolio are diverse in terms of property type, and are monitored for concentrations of credit. Management monitors and evaluates commercial real estate loans based on collateral, cash flow and risk grade criteria. As a general rule, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus non-owner occupied loans.

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Real Estate and Consumer

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Mortgage Warehousing

Horizon s mortgage warehouse lending has specific mortgage companies as customers of Horizon Bank. Individual mortgage loans originated by these mortgage companies are funded as a secured borrowing with a pledge of collateral under Horizon s agreement with the mortgage company. Each individual mortgage and the related mortgagee are underwritten by Horizon to the end investor guidelines and is assigned to Horizon until the loan is sold to the secondary market by the mortgage company. In addition, Horizon takes possession of each original note and forwards such note to the end investor once the mortgage company has sold the loan. At the time a loan is transferred to the secondary market, the mortgage company reacquires the loan under its option within the agreement. Due to the reacquire feature contained in the agreement, the transaction does not qualify as a sale and therefore is accounted for as a secured borrowing with a pledge of collateral pursuant to the agreement with the mortgage company. When the individual loan is sold to the end investor by the mortgage company, the proceeds from the sale of the loan are received by Horizon and used to pay off the loan balance with Horizon along with any accrued interest and any related fees. The remaining balance from the sale is forwarded to the mortgage company. These individual loans typically are sold by the mortgage company within 30 days and are seldom held more than 90 days. Interest income is accrued during this period and collected at the time each loan is sold. Fee income for each loan sold is collected when the loan is sold, and no costs are deferred due to the term between each loan funding and related payoff, which is typically less than 30 days.

Based on the agreements with each mortgage company, at any time a mortgage company can reacquire from Horizon its outstanding loan balance on an individual mortgage and regain possession of the original note. Horizon also has the option to request that the mortgage company reacquire an individual mortgage. Should this occur, Horizon would return the original note and reassign the assignment of the mortgage to the mortgage company. Also, in the event that the end investor would not be able to honor the purchase commitment and the mortgage company would not be able to reacquire its loan on an individual mortgage, Horizon would be able to exercise its rights under the agreement.

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

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

June 30, 2016	**Loan Balance**	**Interest Due**	**Deferred Fees / (Costs)**	**Recorded Investment**
Owner occupied real estate	$ 298,481	$ 1,068	$ 1,134	$ 300,683
Non owner occupied real estate	343,360	346	566	344,272
Residential spec homes	7,660	13	13	7,686
Development & spec land loans	23,171	58	16	23,245
Commercial and industrial	199,933	1,419	246	201,598
Total commercial	872,605	2,904	1,975	877,484
Residential mortgage	473,563	1,434	2,277	477,274
Residential construction	17,786	36		17,822
Mortgage warehouse	205,699	480		206,179
Total real estate	697,048	1,950	2,277	701,275
Direct installment	59,105	164	(383)	58,886
Direct installment purchased	131			131
Indirect installment	144,935	300		145,235
Home equity	160,955	621	(823)	160,753
Total consumer	365,126	1,085	(1,206)	365,005
Total loans	1,934,779	5,939	3,046	1,943,764
Allowance for loan losses	(14,226)			(14,226)
Net loans	$ 1,920,553	$ 5,939	$ 3,046	$ 1,929,538

December 31, 2015	**Loan Balance**	**Interest Due**	**Deferred Fees / (Costs)**	**Recorded Investment**
Owner occupied real estate	$ 268,281	$ 613	$ 1,328	$ 270,222
Non owner occupied real estate	326,399	306	497	327,202
Residential spec homes	5,018	9	17	5,044
Development & spec land loans	18,183	33	26	18,242
Commercial and industrial	184,911	1,246	335	186,492
Total commercial	802,792	2,207	2,203	807,202

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

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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Note 5 Accounting for Certain Loans Acquired in a Transfer

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

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and non-accrual status, borrower credit scores and recent loan-to-value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which incorporate the estimate of current key assumptions, such as default rates, severity and prepayment speeds. Amounts for Kosciusko were estimated as of June 30, 2016 as the final analysis of loans with deterioration was not completed.

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

	June 30 2016 Heartland	June 30 2016 Summit	June 30 2016 Peoples	June 30 2016 Kosciusko	June 30 2016 Total
Commercial	$ 1,243	$ 5,409	$ 750	$ 7,576	$ 14,978
Real estate	641	1,181	281	316	2,419
Consumer	1	9		22	32
Outstanding balance	$ 1,885	$ 6,599	$ 1,031	$ 7,914	$ 17,429
Carrying amount, net of allowance of $0					$ 17,429

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

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

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

	Six Months Ended June 30, 2016				
	Heartland	**Summit**	**Peoples**	**Kosciusko**	**Total**
Balance at January 1	$ 795	$ 708	$ 555	$	$ 2,058
Additions				950	950
Accretion	(89)	(103)	(69)		(261)
Reclassification from nonaccretable difference					
Disposals	(24)	(4)	(58)		(86)
Balance at June 30	$ 682	$ 601	$ 428	$ 950	$ 2,661

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

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During the six months ended June 30, 2016 and 2015, the Company decreased the allowance for loan losses on purchased loans by a recovery to the income statement of $0 and $76,000, respectively.

Note 6 Allowance for Loan Losses

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

	Three Months Ended June 30		**Six Months Ended June 30**	
	2016 (Unaudited)	**2015 (Unaudited)**	**2016 (Unaudited)**	**2015 (Unaudited)**
Balance at beginning of the period	$ 14,236	$ 16,634	$ 14,534	$ 16,501
Loans charged-off:				
Commercial				
Owner occupied real estate	31	1,422	178	1,422
Non owner occupied real estate	173		472	16
Residential development				
Development & Spec Land Loans				
Commercial and industrial		253	39	253
Total commercial	204	1,675	689	1,691
Real estate				
Residential mortgage		164	115	186
Residential construction				
Mortgage warehouse				
Total real estate		164	115	186
Consumer				
Direct Installment	46	96	104	155
Direct Installment Purchased				
Indirect Installment	279	196	555	565
Home Equity	64	304	239	504
Total consumer	389	596	898	1,224

Total loans charged-off	593	2,435	1,702	3,101
Recoveries of loans previously charged-off:				
Commercial				
Owner occupied real estate	4	78	29	86
Non owner occupied real estate	31		54	
Residential development	2		4	
Development & Spec Land Loans				
Commercial and industrial	63	14	95	33
Total commercial	100	92	182	119
Real estate				
Residential mortgage	31	3	63	5
Residential construction				
Mortgage warehouse				
Total real estate	31	3	63	5
Consumer				
Direct Installment	28	47	44	76
Direct Installment Purchased				
Indirect Installment	146	134	240	235
Home Equity	46	40	101	66
Total consumer	220	221	385	377
Total loan recoveries	351	316	630	501
Net loans charged-off (recovered)	242	2,119	1,072	2,600
Provision charged to operating expense				
Commercial	(305)	2,093	(639)	2,048
Real estate	343	(29)	(249)	904
Consumer	194	(158)	1,652	(432)
Total provision charged to operating expense	232	1,906	764	2,520
Balance at the end of the period	$ 14,226	$ 16,421	$ 14,226	$ 16,421

HORIZON BANCORP AND SUBSIDIARIES

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

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

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

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

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

June 30, 2016	**Commercial**	**Real Estate**	**Mortgage Warehousing**	**Consumer**	**Total**
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 500	$	$	$	$ 500
Collectively evaluated for impairment	5,551	2,102	1,080	4,993	13,726
Loans acquired with deteriorated credit quality					

	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Total ending allowance balance	$ 6,051	$ 2,102	$ 1,080	$ 4,993	$ 14,226
Loans:					
Individually evaluated for impairment	$ 4,344	$	$	$	$ 4,344
Collectively evaluated for impairment	873,140	495,096	206,179	365,005	1,939,420
Loans acquired with deteriorated credit quality					
Total ending loans balance	$ 877,484	$ 495,096	$ 206,179	$ 365,005	$ 1,943,764

December 31, 2015	**Commercial**	**Real Estate**	**Mortgage Warehousing**	**Consumer**	**Total**
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 202	$	$	$	$ 202
Collectively evaluated for impairment	6,739	2,476	1,007	3,856	14,078
Loans acquired with deteriorated credit quality	254				254
Total ending allowance balance	$ 7,195	$ 2,476	$ 1,007	$ 3,856	$ 14,534
Loans:					
Individually evaluated for impairment	$ 7,019	$	$	$	$ 7,019
Collectively evaluated for impairment	798,454	438,454	145,172	363,419	1,745,499
Loans acquired with deteriorated credit quality	1,729				1,729
Total ending loans balance	$ 807,202	$ 438,454	$ 145,172	$ 363,419	$ 1,754,247

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

Note 7 Non-performing Loans and Impaired Loans

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

June 30, 2016	Non-accrual	Loans Past Due Over 90 Days Still Accruing	Non-Performing TDRs	Performing TDRs	Total Non-Performing Loans
Commercial					
Owner occupied real estate	$ 1,054	$	$	$	$ 1,054
Non owner occupied real estate	2,901		243	60	3,204
Residential development					
Development & Spec Land Loans					
Commercial and industrial	71				71
Total commercial	4,026		243	60	4,329
Real estate					
Residential mortgage	3,664	1	803	950	5,418
Residential construction			242		242
Mortgage warehouse					
Total real estate	3,664	1	1,045	950	5,660
Consumer					
Direct Installment	345				345
Direct Installment Purchased					
Indirect Installment	837	23			860
Home Equity	1,554		178	246	1,978
Total Consumer	2,736	23	178	246	3,183
Total	$ 10,426	$ 24	$ 1,466	$ 1,256	$ 13,172

December 31, 2015	Non-accrual	Loans Past	Non-Performing	Performing TDRs	Total Non-

		Due Over 90 Days Still Accruing	TDRs		Performing Loans
Commercial					
Owner occupied real estate	$ 1,749	$	$	$	$ 1,749
Non owner occupied real estate	3,034		1,915	60	5,009
Residential development					
Development & Spec Land Loans	71				71
Commercial and industrial	176				176
Total commercial	5,030		1,915	60	7,005
Real estate					
Residential mortgage	4,354	1	824	808	5,987
Residential construction			250		250
Mortgage warehouse					
Total real estate	4,354	1	1,074	808	6,237
Consumer					
Direct Installment	541				541
Direct Installment Purchased					
Indirect Installment	601	27			628
Home Equity	1,736		183	350	2,269
Total Consumer	2,878	27	183	350	3,438
Total	$ 12,262	$ 28	$ 3,172	$ 1,218	$ 16,680

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Included in the $10.4 million of non-accrual loans and the $1.5 million of non-performing TDRs at June 30, 2016 were $2.1 million and $94,000, respectively, of loans acquired for which accretable yield was recognized.

From time to time, the Bank obtains information that may lead management to believe that the collection of payments may be doubtful on a particular loan. In recognition of this, it is management s policy to convert the loan from an earning asset to a non-accruing loan. The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date. Further, it is management s policy to generally place a loan on a non-accrual status when the payment is delinquent in excess of 90 days or the loan has had the accrual of interest discontinued by management. The officer responsible for the loan and the Chief Operations Officer or the senior collection officer must review all loans placed on non-accrual status. Subsequent payments on non-accrual loans are recorded as a reduction of principal, and interest income is recorded only after principal recovery is reasonably assured. Non-accrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal in accordance with the loan terms. The Company requires a period of satisfactory performance of not less than six months before returning a non-accrual loan to accrual status.

A loan becomes impaired when, based on current information, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is classified as impaired, the degree of impairment must be recognized by estimating future cash flows from the debtor. The present value of these cash flows is computed at a discount rate based on the interest rate contained in the loan agreement. However, if a particular loan has a determinable market value for its collateral, the creditor may use that value. Also, if the loan is secured and considered collateral dependent, the creditor may use the fair value of the collateral. Interest income on loans individually classified as impaired is recognized on a cash basis after all past due and current principal payments have been made.

Smaller-balance, homogeneous loans are evaluated for impairment in total. Such loans include residential first mortgage loans secured by 1 4 family residences, residential construction loans, automobile, home equity, second mortgage loans and mortgage warehouse loans. Commercial loans and mortgage loans secured by other properties are evaluated individually for impairment. When analysis of borrower operating results and financial condition indicate that underlying cash flows of a borrower s business are not adequate to meet its debt service requirements, the loan is evaluated for impairment. Often this is associated with a delay or shortfall in payments of 30 days or more. Loans are generally moved to non-accrual status when they are 90 days or more past due. These loans are often considered impaired. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

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

The Company s TDRs are considered impaired loans and included in the allowance methodology using the guidance for impaired loans. At June 30, 2016, the type of concessions the Company has made on restructured loans has been temporary rate reductions and/or reductions in monthly payments and there have been no restructured loans with modified recorded balances. Any modification to a loan that is a concession and is not in the normal course of lending is considered a restructured loan. A restructured loan is returned to accruing status after six consecutive payments but is still reported as TDR unless the loan bears interest at a market rate. As of June 30, 2016, the Company had $2.7 million in TDRs and $1.3 million were performing according to the restructured terms and zero TDRs were returned to accrual status during the first six months of 2016. There was $107,000 of specific reserves allocated to TDRs at June 30, 2016 based on the discounted cash flows or when appropriate the fair value of the collateral.

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

June 30, 2016	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Loss Allocated	Three Months Ending Average Balance in Impaired Loans	Three Months Ending Cash/Accrual Interest Income Recognized	Six Months Ending Average Balance in Impaired Loans	Six Months Ending Cash/Accrual Interest Income Recognized
With no recorded allowance							
Commercial							
Owner occupied real estate	$ 1,054	$ 1,054	$	$ 1,062	$	$ 1,079	$
Non owner occupied real estate	476	480		600	1	1,331	2
Residential development							
Development & Spec Land Loans							
Commercial and industrial	71	71		320		325	
Total commercial	1,601	1,605		1,982	1	2,735	2
With an allowance recorded							
Commercial							
Owner occupied real estate							
Non owner occupied real estate	2,729	2,739	500	2,747		2,757	
Residential development							
Development & Spec Land Loans							
Commercial and industrial							
Total commercial	2,729	2,739	500	2,747		2,757	
Total	$ 4,330	$ 4,344	$ 500	$ 4,729	$ 1	$ 5,492	$ 2

June 30, 2015	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Loss	Three Months Ending Average Balance in Impaired Loans	Three Months Ending Cash/Accrual Interest Income Recognized	Six Months Ending Average Balance in Impaired Loans	Six Months Ending Cash/Accrual Interest Income Recognized

			Allocated				
With no recorded allowance							
Commercial							
Owner occupied real estate	$ 1,605	$ 1,606	$	$ 1,350	$ 17	$ 1,118	$ 17
Non owner occupied real estate	2,820	2,824		3,168	7	3,270	14
Residential development							
Development & Spec Land Loans							
Commercial and industrial	379	379		639		599	
Total commercial	4,804	4,809		5,157	24	4,987	31
With an allowance recorded							
Commercial							
Owner occupied real estate	2,991	2,991	593	4,366	54	1,992	54
Non owner occupied real estate	1,590	1,590	200	1,590		1,590	
Residential development							
Development & Spec Land Loans							
Commercial and industrial	884	884	498	1,008		974	
Total commercial	5,465	5,465	1,291	6,964	54	4,556	54
Total	$ 10,269	$ 10,274	$ 1,291	$ 12,121	$ 78	$ 9,543	$ 85

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

June 30, 2016	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial						
Owner occupied real estate	$ 98	$ 437	$	$ 535	$ 297,946	$ 298,481
Non owner occupied real estate	20			20	343,340	343,360
Residential development					7,660	7,660
Development & Spec Land Loans	2			2	23,169	23,171
Commercial and industrial		91		91	199,842	199,933
Total commercial	120	528		648	871,957	872,605
Real estate						
Residential mortgage	1,023	300	1	1,324	472,239	473,563
Residential construction		271		271	17,515	17,786
Mortgage warehouse					205,699	205,699
Total real estate	1,023	571	1	1,595	695,453	697,048
Consumer						
Direct Installment	155	16		171	58,934	59,105
Direct Installment Purchased					131	131
Indirect Installment	493	75	23	591	144,344	144,935
Home Equity	310	134		444	160,511	160,955
Total consumer	958	225	23	1,206	363,920	365,126
Total	$ 2,101	$ 1,324	$ 24	$ 3,449	$ 1,931,330	$ 1,934,779
Percentage of total loans	0.11%	0.07%	0.00%	0.18%	99.82%	

December 31, 2015	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past	Total Past Due	Loans Not Past Due	Total

			Due			
Commercial						
Owner occupied real estate	$ 481	$ 18	$	$ 499	$ 267,782	$ 268,281
Non owner occupied real estate	49			49	326,350	326,399
Residential development					5,018	5,018
Development & Spec Land Loans					18,183	18,183
Commercial and industrial	32			32	184,879	184,911
Total commercial	562	18		580	802,212	802,792
Real estate						
Residential mortgage	1,121	344	1	1,466	413,458	414,924
Residential construction					19,751	19,751
Mortgage warehouse					144,692	144,692
Total real estate	1,121	344	1	1,466	577,901	579,367
Consumer						
Direct Installment	106	10		116	54,225	54,341
Direct Installment Purchased					153	153
Indirect Installment	1,186	268	27	1,481	150,042	151,523
Home Equity	1,193	203		1,396	155,768	157,164
Total consumer	2,485	481	27	2,993	360,188	363,181
Total	$ 4,168	$ 843	$ 28	$ 5,039	$ 1,740,301	$ 1,745,340
Percentage of total loans	0.24%	0.05%	0.00%	0.29%	99.71%	

The entire balance of a loan is considered delinquent if the minimum payment contractually required to be made is not received by the specified due date.

Horizon Bank s processes for determining credit quality differ slightly depending on whether a new loan or a renewed loan is being underwritten, or whether an existing loan is being re-evaluated for credit quality. The latter usually occurs upon receipt of current financial information or other pertinent data that would trigger a change in the loan grade.

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

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

The CCO, or his designee, meets weekly with loan officers to discuss the status of past-due loans and classified loans. These meetings are also designed to give the loan officers an opportunity to identify an existing loan that should be downgraded to a classified grade.

Monthly, senior management meets with the Watch Committee, which reviews all of the past due, classified, and impaired loans and the relative trends of these assets. This committee also reviews the actions taken by management regarding foreclosure mitigation, loan extensions, troubled debt restructures, other real estate owned and personal property repossessions. The information reviewed in this meeting acts as a precursor for developing management s analysis of the adequacy of the Allowance for Loan and Lease Losses.

For residential real estate and consumer loans, Horizon uses a grading system based on delinquency. Loans that are 90 days or more past due, on non-accrual, or are classified as a TDR are graded Substandard. After being 90 to 120 days delinquent a loan is charged off unless it is well secured and in the process of collection. If the latter case exists, the loan is placed on non-accrual. Occasionally a mortgage loan may be graded as Special Mention. When this situation arises, it is because the characteristics of the loan and the borrower fit the definition of a Risk Grade 5 described below, which is normally used for grading commercial loans. Loans not graded Substandard are considered Pass.

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

Risk Grade 1: Excellent (Pass)

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

Risk Grade 2: Good (Pass)

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

Risk Grade 3: Satisfactory (Pass)

Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with some weakness but offsetting features of other support are readily available; loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered.

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

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

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

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

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

Risk Grade 4 Satisfactory/Monitored:

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

Risk Grade 4W Management Watch:

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

Risk Grade 5: Special Mention

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

Risk Grade 6: Substandard

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

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

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

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

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

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

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

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

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

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

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

Risk Grade 7: Doubtful

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

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

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

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

Risk Grade 8: Loss

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

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The following table presents loans by credit grades.

June 30, 2016	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial					
Owner occupied real estate	$ 282,204	$ 8,716	$ 7,561	$	$ 298,481
Non owner occupied real estate	336,897	3,033	3,430		343,360
Residential development	7,660				7,660
Development & Spec Land Loans	23,171				23,171
Commercial and industrial	188,713	2,342	8,878		199,933
Total commercial	838,645	14,091	19,869		872,605
Real estate					
Residential mortgage	468,145		5,418		473,563
Residential construction	17,544		242		17,786
Mortgage warehouse	205,699				205,699
Total real estate	691,388		5,660		697,048
Consumer					
Direct Installment	58,760		345		59,105
Direct Installment Purchased	131				131
Indirect Installment	144,075		860		144,935
Home Equity	158,977		1,978		160,955
Total Consumer	361,943		3,183		365,126
Total	$ 1,891,976	$ 14,091	$ 28,712	$	$ 1,934,779
Percentage of total loans	97.79%	0.73%	1.48%	0.00%	

December 31, 2015	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial					
Owner occupied real estate	$ 257,181	$ 4,954	$ 6,146	$	$ 268,281
Non owner occupied real estate	320,216	585	5,598		326,399
Residential development	5,018				5,018
Development & Spec Land Loans	18,112		71		18,183
Commercial and industrial	180,581	693	3,637		184,911

Total commercial	781,108	6,232	15,452		802,792
Real estate					
Residential mortgage	408,937		5,987		414,924
Residential construction	19,501		250		19,751
Mortgage warehouse	144,692				144,692
Total real estate	573,130		6,237		579,367
Consumer					
Direct Installment	53,800		541		54,341
Direct Installment Purchased	153				153
Indirect Installment	150,895		628		151,523
Home Equity	154,895		2,269		157,164
Total Consumer	359,743		3,438		363,181
Total	$ 1,713,981	$ 6,232	$ 25,127	$	$ 1,745,340
Percentage of total loans	98.20%	0.36%	1.44%	0.00%	

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Note 8 Repurchase Agreements

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

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

	Remaining Contractual Maturity of the Agreements						
	Overnight and Continuous	Up to one year	One to three years	Three to five years	Five to ten years	Beyond ten years	Total
Repurchase Agreements and repurchase-to-maturity transactions							
Repurchase Agreements	$ 50,348	$ 25,000	$ 60,000	$ 10,000	$	$	$ 145,348
Securities lending transactions							
U.S. Treasury and federal agencies	$ 4,038	$	$	$	$	$	$ 4,038
Federal agency collateralized mortgage obligations	44,521		388	173	21,541	30,301	96,924
Federal agency mortgage-backed pools	15,003		110	2,404	21,304	28,396	67,217
Total	63,562		498	2,577	42,845	58,697	168,179
Total borrowings	$ (13,214)	$ 25,000	$ 59,502	$ 7,423	$ (42,845)	$ (58,697)	$ (22,831)

Note 9 Derivative Financial Instruments

Cash Flow Hedges

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flow due to interest rate fluctuations, the Company entered into interest rate swap agreements for a portion of its floating rate debt. The agreements provide for the Company to receive interest from the counterparty at three month LIBOR and to pay interest to the counterparty at a weighted average fixed rate of 6.14% on a notional amount of $30.5 million at June 30, 2016 and December 31, 2015. Under the agreements, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At June 30, 2016, the Company s cash flow hedge was effective and is not expected to have a significant impact on the Company s net income over the next 12 months.

Fair Value Hedges

Fair value hedges are intended to reduce the interest rate risk associated with the underlying hedged item. The Company enters into fixed rate loan agreements as part of its lending policy. To mitigate the risk of changes in fair value based on fluctuations in interest rates, the Company has entered into interest rate swap agreements on individual loans, converting the fixed rate loans to a variable rate. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. At June 30, 2016, the Company s fair value hedges were effective and are not expected to have a significant impact on the Company s net income over the next 12 months.

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The change in fair value of both the hedge instruments and the underlying loan agreements are recorded as gains or losses in interest income. The fair value hedges are considered to be highly effective and any hedge ineffectiveness was deemed not material. The notional amounts of the loan agreements being hedged were $121.7 million at June 30, 2016 and $117.3 million at December 31, 2015.

Other Derivative Instruments

The Company enters into non-hedging derivatives in the form of mortgage loan forward sale commitments with investors and commitments to originate mortgage loans as part of its mortgage banking business. At June 30, 2016, the Company s fair value of these derivatives were recorded and over the next 12 months are not expected to have a significant impact on the Company s net income.

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

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

	Asset Derivatives June 30, 2016		Liability Derivatives June 30, 2016	
Derivatives designated as hedging instruments (Unaudited)	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Interest rate contracts	Loans	$	Other liabilities	$ 5,393
Interest rate contracts	Other Assets	5,393	Other liabilities	3,786
Total derivatives designated as hedging instruments		5,393		9,179
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	1,111	Other liabilities	
Total derivatives not designated as hedging instruments		1,111		
Total derivatives		$ 6,504		$ 9,179

	Asset Derivatives December 31, 2015	Liability Derivatives December 31, 2015
Derivatives designated as hedging instruments (Unaudited)		**Fair Value**

	Balance Sheet Location	Fair Value	Balance Sheet Location	
Interest rate contracts	Loans	$	Other liabilities	$ 1,782
Interest rate contracts	Other Assets	1,782	Other liabilities	3,141
Total derivatives designated as hedging instruments		1,782		4,923
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	642	Other liabilities	
Total derivatives not designated as hedging instruments		642		
Total derivatives		$ 2,424		$ 4,923

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

Derivative in cash flow hedging relationship	Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion) Three Months Ended June 30		Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion) Six Months Ended June 30	
	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Interest rate contracts	$ (54)	$ 332	$ (419)	$ 118

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

Derivative in fair value hedging relationship	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended June 30		Amount of Gain (Loss) Recognized on Derivative Six Months Ended June 30	
		2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Interest rate contracts	Interest income - loans	$ 1,110	$ (1,186)	$ 3,611	$ (186)
Interest rate contracts	Interest income - loans	(1,110)	1,186	(3,611)	186
Total		$	$	$	$

Derivative not designated as hedging relationship	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended June 30		Amount of Gain (Loss) Recognized on Derivative Six Months Ended June 30	
		2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)

Mortgage contracts	Other income - gain on sale of loans	$	468	$	83	$	471	$	272

Note 10 Disclosures about Fair Value of Assets and Liabilities

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

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

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

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

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying condensed consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended June 30, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

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

Available for sale securities

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Treasury and federal agency securities, state and municipal securities, federal agency collateralized mortgage obligations and mortgage-backed pools and corporate notes. Level 2 securities are valued by a third party pricing service commonly used in the banking industry utilizing observable inputs. Observable inputs include dealer quotes, market spreads, cash flow analysis, the U.S. Treasury yield curve, trade execution data, market consensus prepayment spreads and available credit information and the bond s terms and conditions. The pricing provider utilizes evaluated pricing models that vary based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed-income securities do not trade on a daily basis, apply available information through processes such as benchmark curves, benchmarking of like securities, sector grouping, and matrix pricing. In addition, model processes, such as an option adjusted spread model, is used to develop prepayment and interest rate scenarios for securities with prepayment features.

Hedged loans

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

Interest rate swap agreements

The fair value of the Company s interest rate swap agreements is estimated by a third party using inputs that are primarily unobservable including a yield curve, adjusted for liquidity and credit risk, contracted terms and discounted cash flow analysis, and therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying condensed consolidated financial statements measured at fair value on a recurring basis and the level within the FASB ASC fair value hierarchy in which the fair value measurements fall at the following:

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	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Available-for-sale securities				
U.S. Treasury and federal agencies	$ 18,470	$	$ 18,470	$
State and municipal	62,611		62,611	
Federal agency collateralized mortgage obligations	154,263		154,263	
Federal agency mortgage-backed pools	219,823		219,823	
Corporate notes	72		72	
Total available-for-sale securities	455,239		455,239	
Hedged loans	116,338		116,338	
Forward sale commitments	1,111		1,111	
Interest rate swap agreements	(9,179)		(9,179)	
Commitments to originate loans				
December 31, 2015				
Available-for-sale securities				
U.S. Treasury and federal agencies	$ 5,926	$	$ 5,926	$
State and municipal	75,095		75,095	
Federal agency collateralized mortgage obligations	156,203		156,203	
Federal agency mortgage-backed pools	207,704		207,704	
Corporate notes	54		54	
Total available-for-sale securities	444,982		444,982	
Hedged loans	115,472		115,472	
Forward sale commitments	642		642	
Interest rate swap agreements	(4,923)		(4,923)	

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

Three Months Ended June 30

Non Interest Income			Six Months Ended June 30	
Total gains and losses from:	2016 (Unaudited)	2015 (Unaudited)	2016 (Unaudited)	2015 (Unaudited)
Hedged loans	$ 1,110	$ (1,186)	$ 3,611	$ (186)
Fair value interest rate swap agreements	(1,110)	1,186	(3,611)	186
Derivative loan commitments	468	83	471	272
	$ 468	$ 83	$ 471	$ 272

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2016				
Impaired loans	$ 3,830	$	$	$ 3,830
Mortgage servicing rights	9,714			9,714
December 31, 2015				
Impaired loans	$ 6,803	$	$	$ 6,803
Mortgage servicing rights	8,874			8,874

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

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

Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

Mortgage Servicing Rights (MSRs): MSRs do not trade in an active market with readily observable prices. Accordingly, the fair value of these assets is classified as Level 3. The Company determines the fair value of MSRs using an income approach model based upon the Company s month-end interest rate curve and prepayment assumptions. The model utilizes assumptions to estimate future net servicing income cash flows, including estimates of time decay, payoffs and changes in valuation inputs and assumptions. The Company reviews the valuation assumptions against this market data for reasonableness and adjusts the assumptions if deemed appropriate. The carrying amount of the MSRs fair value due to impairment decreased by $46,000 during the first six months of 2016 and decreased by $18,000 during the first six months of 2015.

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

	Fair Value at June 30, 2016	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 3,830	Collateral based measurement	Discount to reflect current market conditions and ultimate collectability	10% - 15% (12%)
Mortgage servicing rights	$ 9,714	Discounted cashflows	Discount rate, Constant prepayment rate, Probability of default	10% - 15% (12%), 4% - 7% (4.6%), 1% - 10% (4.5%)

	Fair Value at December 31, 2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$ 6,803	Collateral based measurement	Discount to reflect current market conditions and ultimate collectability	10% - 15% (12%)

Mortgage servicing rights	$ 8,874	Discounted cashflows	Discount rate, Constant prepayment rate, Probability of default	10% - 15% (12%), 4% - 7% (4.6%), 1% - 10% (4.5%)

Note 11 Fair Value of Financial Instruments

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

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The estimated fair values of financial instruments, as shown below, are not intended to reflect the estimated liquidation or market value of Horizon taken as a whole. The disclosed fair value estimates are limited to Horizon s significant financial instruments at June 30, 2016 and December 31, 2015. These include financial instruments recognized as assets and liabilities on the condensed consolidated balance sheet as well as certain off-balance sheet financial instruments. The estimated fair values shown below do not include any valuation of assets and liabilities, which are not financial instruments as defined by the FASB ASC fair value hierarchy.

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

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

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

Loans Held for Sale The carrying amounts approximate fair value.

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

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

Interest Receivable/Payable The carrying amounts approximate fair value.

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

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

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

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

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

	June 30, 2016			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and due from banks	$ 109,224	$ 109,224	$	$
Investment securities, held to maturity	173,696		180,059	
Loans held for sale	7,812			7,812
Loans excluding loan level hedges, net	1,807,261			1,798,943
Stock in FHLB and FRB	16,636		16,636	
Interest receivable	11,526		11,526	
Liabilities				
Non-interest bearing deposits	$ 397,412	$ 397,412	$	$
Interest-bearing deposits	1,684,849		1,656,009	
Borrowings	492,883		491,538	
Subordinated debentures	32,874		33,000	
Interest payable	961		961	

	December 31, 2015			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and due from banks	$ 48,650	$ 48,650	$	$
	187,629		193,703	

Investment securities, held to maturity				
Loans held for sale	7,917			7,917
Loans excluding loan level hedges, net	1,619,125			1,703,506
Stock in FHLB and FRB	13,823		13,823	
Interest receivable	10,535		10,535	
Liabilities				
Non-interest bearing deposits	$ 335,955	$ 335,955	$	$
Interest-bearing deposits	1,544,198		1,461,314	
Borrowings	449,347		441,547	
Subordinated debentures	32,797		32,996	
Interest payable	507		507	

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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Note 12 Accumulated Other Comprehensive Income

	June 30 2016	December 31 2015
Unrealized gain on securities available for sale	$ 8,681	$ 920
Unamortized gain on securities held to maturity, previously transferred from AFS	632	1,109
Unrealized loss on derivative instruments	(3,786)	(3,141)
Tax effect	(1,934)	389
Total accumulated other comprehensive income (loss)	$ 3,593	$ (723)

Note 13 Regulatory Capital

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined), or leverage ratio. For June 30, 2016, Basel III rules require the Bank to maintain minimum amounts and ratios of common equity Tier I capital (as defined in the regulation) to risk-weighted assets (as defined). Additionally, under Basel III rules, the decision was made to opt-out of including accumulated other comprehensive income in regulatory capital.

To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier I risk-based, common equity Tier I risk-based (June 30, 2016) and Tier I leverage ratios as set forth in the table below. As of June 30, 2016 and December 31, 2015, the Bank met all capital adequacy requirements to be considered well capitalized. There have been no conditions or events since the end of the second quarter of 2016 that management believes have changed the Bank s classification as well capitalized. There is no threshold for well-capitalized status for bank holding companies.

Horizon and the Bank s actual and required capital ratios as of June 30, 2016 and December 31, 2015 were as follows:

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HORIZON BANCORP AND SUBSIDIARIES

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	Actual		Required For Capital[1] Adequacy Purposes		Well Capitalized Under Prompt[1] Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of June 30, 2016						
Total capital[1] (to risk-weighted assets)						
Consolidated	$ 267,414	12.56%	$ 183,703	8.63%	N/A	N/A
Bank	257,203	12.45%	178,286	8.63%	$ 206,589	10.00%
Tier 1 capital[1] (to risk-weighted assets)						
Consolidated	253,188	11.89%	141,130	6.63%	N/A	N/A
Bank	242,977	11.77%	136,868	6.63%	165,150	8.00%
Common equity tier 1 capital[1] (to risk-weighted assets) Consolidated	220,120	10.34%	109,200	5.13%	N/A	N/A
Bank	242,977	11.77%	105,902	5.13%	134,184	6.50%
Tier 1 capital[1] (to average assets)						
Consolidated	253,188	9.55%	106,069	4.00%	N/A	N/A
Bank	242,977	9.18%	105,872	4.00%	132,340	5.00%
As of December 31, 2015						
Total capital[1] (to risk-weighted assets)						
Consolidated	$ 264,452	13.99%	$ 151,223	8.00%	N/A	N/A
Bank	237,348	12.57%	151,057	8.00%	$ 188,821	10.00%
Tier 1 capital[1] (to risk-weighted assets)						
Consolidated	249,918	13.22%	113,427	6.00%	N/A	N/A
Bank	222,814	11.80%	113,295	6.00%	151,060	8.00%
Common equity tier 1 capital[1] (to risk-weighted assets) Consolidated	204,350	10.81%	85,067	4.50%	N/A	N/A
Bank	222,814	11.80%	84,971	4.50%	122,737	6.50%
Tier 1 capital[1] (to average assets)						
Consolidated	249,918	9.82%	101,800	4.00%	N/A	N/A
Bank	222,814	8.77%	101,626	4.00%	127,032	5.00%

1 As defined by regulatory agencies

Note 14 Preferred Stock Redemption

On February 1, 2016, Horizon completed the redemption (the Redemption) of all 12,500 outstanding shares of Senior Non-Cumulative Perpetual Preferred Stock, Series B (the SBLF Preferred Stock) which were held by the U.S.

Department of Treasury and issued pursuant to its Small Business Lending Fund (SBLF). The SBLF Preferred Stock was redeemed at its liquidation value of $1,000 per share, plus accrued dividends, for a total Redemption price of $12,510,416.67. Horizon funded the Redemption using cash on hand without borrowing and without a special dividend from the Bank. Following the Redemption, Horizon does not have any shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series B outstanding. The Redemption terminates Horizon s participation in the SBLF.

Note 15 Business Combinations

On July 12, 2016, Horizon announced the acquisition of CNB Bancorp, parent company of The Central National Bank and Trust Company (Central National Bank & Trust). Under the terms of the Merger Agreement, stockholders of CNB Bancorp will receive cash consideration consisting of a special dividend calculated as capital in excess of 8% of CNB Bancorp s total assets, less certain after tax transaction costs and an amount to be paid by Horizon equal to 120% of remaining capital. These amounts will be determined as of the end of the month prior to the closing of the merger. These amounts are dependent on CNB Bancorp s earnings and other factors, but if the cash consideration for the stockholders were calculated as of March 31, 2016, the stockholders would receive, in the aggregate, a $6.7 million special dividend and a $5.3 million payment from Horizon. As of June 30, 2016, CNB Bancorp had total assets of approximately $56.4 million.

HORIZON BANCORP AND SUBSIDIARIES

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Note 16 Future Accounting Matters

In March 2016, the FASB issued **ASU 2016-07, Investments - Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting**. The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required.

The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method.

The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted.

In June 2016, the Financial Accounting Standards Board (FASB) issued **ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements**. Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates.

Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

The ASU is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

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Note 17 General Litigation

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

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Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Six Months ended June 30, 2016

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

Forward Looking Statements

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

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

- economic conditions and their impact on Horizon and its customers;
- changes in the level and volatility of interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity;
- rising interest rates and their impact on mortgage loan volumes 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;

estimates of fair value of certain of Horizon s assets and liabilities;

volatility and disruption in financial markets;

prepayment speeds, loan originations, credit losses and market values, collateral securing loans and other assets;

sources of liquidity;

potential risk of environmental liability related to lending activities;

changes in the competitive environment in Horizon s market areas and among other financial service providers;

legislation and/or regulation affecting the financial services industry as a whole, and Horizon and its subsidiaries in particular, including the effects resulting from the reforms enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) and the adoption of regulations by regulatory bodies under the Dodd-Frank Act;

the impact of the new 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;

rapid technological developments and changes;

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HORIZON BANCORP AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Six Months ended June 30, 2016

- the risks presented by cyber terrorism and data security breaches;
- containing costs and expenses;
- the slowing or failure of economic recovery;
- the ability of the U.S. federal government to manage federal debt limits; and
- the risks of expansion through mergers and acquisitions, including unexpected credit quality problems with acquired loans, difficulty integrating acquired operations and material differences in the actual financial results of such transactions compared with Horizon s initial expectations, including the full realization of anticipated cost savings.

The foregoing list of important factors is not exclusive, and you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document or, in the case of documents incorporated by reference, the dates of those documents. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of us. For a detailed discussion of the risks and uncertainties that may cause our actual results or performance to differ materially from the results or performance expressed or implied by forward-looking statements, see Risk Factors in Item 1A of Part I of our 2015 Annual Report on Form 10-K and in the subsequent reports we file with the SEC.

Overview

Horizon is a registered bank holding company incorporated in Indiana and headquartered in Michigan City, Indiana. Horizon provides a broad range of banking services in Northern and Central Indiana and Southwestern and Central Michigan through its bank subsidiary. Horizon operates as a single segment, which is commercial banking. Horizon s common stock is traded on the NASDAQ Global Select Market under the symbol HBNC. The Bank was chartered as a national banking association in 1873 and has operated continuously since that time. The Bank is a full-service commercial bank offering commercial and retail banking services, corporate and individual trust and agency services, and other services incident to banking.

On July 18, 2016, Horizon completed the acquisition of LaPorte Bancorp, Inc., a Maryland corporation (LaPorte Bancorp) and Horizon Bank s acquisition of The LaPorte Savings Bank, a state-chartered savings bank and wholly owned subsidiary of LaPorte Bancorp, through mergers effective July 18, 2016. Under the terms of the Merger Agreement, shareholders of LaPorte Bancorp had the option to receive $17.50 per share in cash or 0.629 shares of

Horizon common stock for each share of LaPorte Bancorp s common stock, subject to allocation provisions to assure that in aggregate, LaPorte Bancorp shareholders received total consideration that consists of 65% stock and 35% cash. LaPorte Bancorp shareholders owning fewer than 100 shares of common stock received $17.50 in cash for each common share. As a result of LaPorte stockholder stock and cash elections and the related proration provisions of the Merger Agreement, Horizon issued 2,280,992 shares of its common stock in the merger. Based upon the July 18, 2016 closing price of $27.54 per share of Horizon common stock, the transaction has an implied valuation of approximately $101.7 million.

On June 1, 2016, Horizon completed the acquisition of Kosciusko Financial, Inc., an Indiana corporation (Kosciusko) and Horizon Bank s acquisition of Farmers State Bank, a state-chartered bank and wholly owned subsidiary of Kosciusko, through mergers effective June 1, 2016. Under the terms of the Merger Agreement, shareholders of Kosciusko had the option to receive $81.75 per share in cash or 3.0122 shares of Horizon common stock, or a combination of both, for each share of Kosciusko s common stock, subject to allocation provisions to assure that in aggregate, Kosciusko shareholders received total consideration that consists 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 582,287 shares of its common stock in the merger. Based upon the June 1, 2016 closing price of $24.85 per share of Horizon common stock, the transaction has an implied valuation of approximately $23.0 million.

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

Following are some highlights of Horizon s financial performance through the second quarter of 2016:

- Net income for the second quarter of 2016 was $6.3 million or $.52 diluted earnings per share.

- Excluding acquisition-related expenses and gain on sale of investment securities, net income for the second quarter of 2016 increased 38.9% compared to the same period of 2015 to $7.2 million or $.59 diluted earnings per share.

- Net income for the first six months of 2016 was $11.7 million or $.96 diluted earnings per share.

- Excluding acquisition-related expenses, gain on sale of investment securities and the death benefit on bank owned life insurance, net income for the first six months of 2016 increased 24.1% compared to the same period of 2015 to $13.0 million or $1.07 diluted earnings per share.

- Total loans, excluding mortgage warehouse loans, increased 8.1% on an annualized basis during the second quarter of 2016.

- Net interest income for the first six months of 2016 increased 17.0% or $5.9 million compared to the same period in 2015.

Net interest margin, excluding the impact of acquisitions (core net interest margin), was 3.42% for the second quarter of 2016 compared to 3.36% for the prior quarter and 3.51% for the same period in 2015.

Non-interest income for the first six months of 2016 increased 24.4% or $3.5 million compared to the same period in 2015.

Horizon s tangible book value per share rose to $17.17 at June 30, 2016, compared to $16.53 at December 31, 2015 and $17.06 at June 30, 2015.

Horizon entered Fort Wayne, Indiana in the second quarter of 2016 by establishing a loan production team that will focus on commercial lending in Indiana s second largest city.

On June 1, 2016, Horizon closed the acquisition of Kosciusko Financial, Inc. (Kosciusko) and its wholly-owned subsidiary, Farmers State Bank, headquartered in Mentone, Indiana.

On July 18, 2016, Horizon closed the acquisition of LaPorte Bancorp, Inc. (LaPorte Bancorp) and its wholly-owned subsidiary, The LaPorte Savings Bank, headquartered in La Porte, Indiana. LaPorte Bancorp s results are not included in Horizon s June 30, 2016 financial results.

On July 12, 2016, Horizon announced the pending acquisition of CNB Bancorp and its wholly-owned subsidiary, The Central National Bank and Trust Company, headquartered in Attica, Indiana.

Critical Accounting Policies

The notes to the consolidated financial statements included in Item 8 of the Company s Annual Report on Form 10-K for 2015 contain a summary of the Company s significant accounting policies. Certain of these policies are important to the portrayal of the Company s financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management has identified as critical accounting policies the allowance for loan losses, intangible assets, mortgage servicing rights, hedge accounting and valuation measurements.

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Allowance for Loan Losses

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

Goodwill and Intangible Assets

Management believes that the accounting for goodwill and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. FASB ASC 350-10 establishes standards for the amortization of acquired intangible assets and impairment assessment of goodwill. At June 30, 2016, Horizon had core deposit intangibles of $8.7 million subject to amortization and $56.5 million of goodwill, which is not subject to amortization. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Horizon s goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of Horizon to provide quality, cost effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill that could adversely affect earnings in future periods. FASB ASC 350-10 requires an annual evaluation of goodwill for impairment. The evaluation of goodwill for impairment requires the use of estimates and assumptions. Market price at the close of business on June 30, 2016 was $25.14 per share compared to a book value of $22.35 per common share.

Horizon has concluded that, based on its own internal evaluation, the recorded value of goodwill is not impaired.

Mortgage Servicing Rights

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

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

Derivative Instruments

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

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

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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.

Financial Condition

On June 30, 2016, Horizon s total assets were $2.9 billion, an increase of approximately $265.7 million compared to December 31, 2015. The increase was primarily in net loans of $189.0 million and cash of $60.6 million offset partially by a decrease in investment securities of $3.7 million.

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

	June 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 18,384	$ 18,470	$ 5,940	$ 5,926
State and municipal	60,961	62,611	73,829	75,095
Federal agency collateralized mortgage obligations	151,736	154,263	157,291	156,203
Federal agency mortgage-backed pools	215,445	219,823	206,970	207,704
Corporate notes	32	72	32	54
Total available for sale investment securities	$ 446,558	$ 455,239	$ 444,062	$ 444,982
Held to maturity				
U.S. Treasury and federal agencies	$	$	$ 5,859	$ 5,952
State and municipal	143,093	148,073	146,331	151,453
Federal agency collateralized mortgage obligations	8,424	8,623	9,051	8,954
Federal agency mortgage-backed pools	22,179	23,363	26,388	27,344
Total held to maturity investment securities	$ 173,696	$ 180,059	$ 187,629	$ 193,703

Total investment securities decreased by approximately $3.7 million at June 30, 2016 compared to December 31, 2015, primarily due to the cash in-flows from investment securities used to fund loan growth.

Total loans increased $188.7 million since December 31, 2015 to $1.9 billion as of June 30, 2016. This increase was the result of an increase in commercial loans of $69.6 million, mortgage warehouse loans of $61.0 million, residential mortgage loans of $56.5 million and consumer loans of $1.6 million. The growth in total loans during the six months ended June 30, 2015 is the direct result of increased calling efforts to increase Horizon s market share within the Company s footprint and market expansion as well as the loans added through the Kosciusko acquisition.

Total deposits increased $202.1 million since December 31, 2015 to $2.1 billion as of June 30, 2016. Non-interest bearing deposit accounts increased by $61.5 million, interest-bearing transaction accounts decreased by $36.0 million and time deposits increased by $104.6 million during the six months ended June 30, 2016.

The Company s borrowings increased $43.5 million from December 31, 2015 to $492.9 million as of June 30, 2016. At June 30, 2016, the Company had $192.0 million in short-term funds borrowed compared to $206.0 million at December 31, 2015. The Company s current balance sheet strategy is to utilize a reasonable level of short-term borrowings during extended low rate environments along with seasonal increases in municipal deposits to fund an increase in mortgage warehouse loans.

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Stockholders equity totaled $281.0 million at June 30, 2016 compared to $266.8 million at December 31, 2015. The increase in stockholders equity during the period was the result of the generation of net income, net of dividends declared, as well as the stock issued in the Kosciusko acquisition. At June 30, 2016, the ratio of average stockholders equity to average assets was 9.94% compared to 10.32% at December 31, 2015 due to the growth in earning assets. Book value per common share at June 30, 2016 increased to $22.35 compared to $21.30 at December 31, 2015.

Results of Operations

Overview

Consolidated net income for the three-month period ended June 30, 2016 was $6.3 million compared to $4.7 million for the same period in 2015. Earnings per common share for the three months ended June 30, 2016 were $0.52 basic and $0.52 diluted, compared to $0.51 basic and $0.49 diluted for the same three-month period in the previous year. The increase in net income and earnings per share from the previous year reflects an increase in net interest income and non-interest income of $3.0 million and $2.7 million, respectively, and a decrease in the provision for loan losses of $1.7 million, partially offset by increases in non-interest expense of $4.9 million, income tax expense of $873,000 and the diluted shares outstanding primarily due to the stock issued in the Peoples and Kosciusko acquisitions. Non-interest expenses increased primarily due to an increase in salaries and employee benefits and expenses related to outside services and consultants. Excluding acquisition-related expenses and purchase accounting adjustments, gain on sale of investment securities, net income for the second quarter of 2016 was $6.9 million or $.57 diluted earnings per share compared to $4.6 million or $.49 diluted earnings per share in the same period of 2015.

Consolidated net income for the six-month period ended June 30, 2016 was $11.7 million compared to $10.1 million for the same period in 2015. Earnings per common share for the six months ended June 30, 2016 were $.97 basic and $.96 diluted, compared to $1.09 basic and $1.04 diluted for the same period of 2015. The increase in net income from the previous year reflects an increase in net interest income and non-interest income of $5.9 million and $3.5 million, respectively, and a decrease in the provision for loan losses of $1.8 million, partially offset by increases in non-interest expense of $8.6 million and income tax expense of $939,000. The decrease in diluted earnings per share compared to the same period of 2015 was due to an increase in the diluted shares outstanding primarily due to the stock issued in the Peoples and Kosciusko acquisitions. Non-interest expenses increased primarily due to an increase in salaries and employee benefits and expenses related to outside services and consultants. Excluding acquisition-related expenses and purchase accounting adjustments, and gain on sale of investment securities and the death benefit on bank owned life insurance, net income for the six months ended June 30, 2016 was $12.3 million or $1.01 diluted earnings per share compared to $9.2 million or $.95 diluted earnings per share in the same period of 2015.

Net Interest Income

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

Net interest income during the three months ended June 30, 2016 was $20.9 million, an increase of $3.0 million from the $17.9 million earned during the same period in 2015. Yields on the Company s interest-earning assets decreased by 23 basis points to 4.10% for the three months ending June 30, 2016 from 4.33% for the three months ended June 30, 2015. Interest income increased $3.5 million from $21.1 million for the

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three months ended June 30, 2015 to $24.7 million for the same period in 2016. This increase was due to an increase in interest-earning assets, a $415,000 prepayment penalty received on an investment security during the second quarter, partially offset by lower yields on loans and investment securities and a decrease in interest income from acquisition-related purchase accounting adjustments from $797,000 for the three months ending June 30, 2015 to $397,000 for the same period of 2016.

Rates paid on interest-bearing liabilities decreased by 5 basis points for the three-month period ended June 30, 2016 compared to the same period in 2015 due to the continued low interest rate environment and shift in mix on interest-bearing liabilities. Interest expense increased $504,000 compared to the three-month period ended June 30, 2015 to $3.8 million for the same period in 2016. This increase was due to higher average balances of interest-bearing deposits and borrowings and higher rates on borrowings, partially offset by lower rates paid on interest-bearing deposits. The net interest margin decreased 19 basis points from 3.67% for the three-month period ended June 30, 2015 to 3.48% for the same period in 2016. The decrease in the margin for the three-month period ended June 30, 2016 compared to the same period in 2015 was due to a reduction in the yield on interest-earning assets and a decrease of approximately $400,000 of interest income from acquisition-related purchase accounting adjustments. Excluding the interest income recognized from the acquisition-related purchase accounting adjustments, the margin would have been 3.42% for the three-month period ending June 30, 2016 compared to 3.51% for the same period in 2015.

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

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
ASSETS						
Interest-earning assets						
Federal funds sold	$ 3,309	$ 4	0.49%	$ 3,597	$ 2	0.22%
Interest-earning deposits	28,045	59	0.85%	8,608	5	0.23%
Investment securities - taxable	469,925	2,598	2.22%	363,919	2,060	2.27%
Investment securities - non-taxable (1)	182,886	1,195	3.70%	141,784	1,079	4.24%
Loans receivable (2)(3)	1,787,189	20,794	4.69%	1,490,283	17,981	4.87%
Total interest-earning assets (1)	2,471,354	24,650	4.10%	2,008,191	21,127	4.33%
Non-interest-earning assets						
Cash and due from banks	35,435			31,783		
Allowance for loan losses	(14,350)			(16,756)		
Other assets	223,258			157,795		
	$ 2,715,697			$ 2,181,013		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing liabilities						
Interest-bearing deposits	$ 1,625,024	$ 1,557	0.39%	$ 1,255,123	$ 1,237	0.40%
Borrowings	400,585	1,721	1.73%	381,782	1,539	1.62%
Subordinated debentures	32,854	503	6.16%	32,699	501	6.15%
Total interest-bearing liabilities	2,058,463	3,781	0.74%	1,669,604	3,277	0.79%
Non-interest-bearing liabilities						
Demand deposits	364,822			294,425		
Accrued interest payable and other liabilities	22,574			13,770		
Stockholders equity	269,838			203,214		

	$ 2,715,697		$ 2,181,013	
Net interest income/spread	$ 20,869	3.36%	$ 17,850	3.54%
Net interest income as a percent of average interest earning assets (1)		3.48%		3.67%

(1) Securities balances represent daily average balances for the fair value of securities. The average rate is calculated based on the daily average balance for the amortized cost of securities. Interest rate is presented on a tax equivalent basis.

(2) Includes loan fees and late fees. The inclusion of these fees does not have a material effect on the average interest rate.

(3) Non-accruing loans for the purpose of the computations above are included in the daily average loan amounts outstanding. Loan totals are shown net of unearned income and deferred loans fees.

Net interest income during the six months ended June 30, 2016 was $40.6 million, an increase of $5.9 million from the $34.7 million earned during the same period in 2015. Yields on the Company s interest-earning assets decreased by 25 basis points to 4.10% for the six months ending June 30, 2016 from 4.35% for the six months ended June 30, 2015. Interest income increased $7.0 million from $41.2 million for the six months ended June 30, 2015 to $48.2 million for the same period in 2016. This increase was due to an increase in interest-earning assets, a $415,000 prepayment penalty received on an investment security during the second quarter, partially offset by lower yields on loans and investment securities and a decrease in interest income from acquisition-related purchase accounting adjustments from $1.9 million for the six months ending June 30, 2015 to $944,000 for the same period of 2016.

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Rates paid on interest-bearing liabilities decreased by 4 basis points for the six-month period ended June 30, 2016 compared to the same period in 2015 due to the continued low interest rate environment and shift in mix on interest-bearing liabilities. Interest expense increased $1.1 million compared to the six-month period ended June 30, 2015 to $7.5 million for the same period in 2016. This increase was due to higher average balances of interest-bearing deposits and borrowings and higher rates on borrowings, partially offset by lower rates paid on interest-bearing deposits. The net interest margin decreased 21 basis points from 3.68% for the six-month period ended June 30, 2015 to 3.47% for the same period in 2016. The decrease in the margin for the six-month period ended June 30, 2016 compared to the same period in 2015 was due to a reduction in the yield on interest-earning assets and a decrease of approximately $936,000 of interest income from acquisition-related purchase accounting adjustments. Excluding the interest income recognized from the acquisition-related purchase accounting adjustments, the margin would have been 3.40% for the six-month period ending June 30, 2016 compared to 3.49% for the same period in 2015.

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

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Average Balance	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
ASSETS						
Interest-earning assets						
Federal funds sold	$ 2,853	$ 4	0.28%	$ 4,198	$ 11	0.53%
Interest-earning deposits	24,300	109	0.90%	9,684	10	0.21%
Investment securities - taxable	464,209	5,092	2.21%	362,250	4,200	2.34%
Investment securities - non-taxable (1)	181,660	2,432	3.64%	141,269	2,156	4.27%
Loans receivable (2)(3)	1,733,446	40,541	4.71%	1,436,886	34,843	4.90%
Total interest-earning assets (1)	2,406,468	48,178	4.10%	1,954,287	41,220	4.35%
Non-interest-earning assets						
Cash and due from banks	34,246			30,396		
Allowance for loan losses	(14,350)			(16,623)		
Other assets	217,797			157,669		
	$ 2,644,161			$ 2,125,729		

LIABILITIES AND SHAREHOLDERS EQUITY

Interest-bearing liabilities						
Interest-bearing deposits	$ 1,571,579	$ 3,048	0.39%	$ 1,235,601	$ 2,469	0.40%
Borrowings	401,594	3,480	1.74%	359,436	3,018	1.69%
Subordinated debentures	32,653	1,007	6.20%	32,678	997	6.15%
Total interest-bearing liabilities	2,005,826	7,535	0.76%	1,627,715	6,484	0.80%
Non-interest-bearing liabilities						
Demand deposits	350,157			282,796		
Accrued interest payable and other liabilities	22,465			14,374		
Stockholders equity	265,713			200,844		
	$ 2,644,161			$ 2,125,729		
Net interest income/spread		$ 40,643	3.34%		$ 34,736	3.55%
Net interest income as a percent of average interest earning assets (1)			3.47%			3.68%

(1) Securities balances represent daily average balances for the fair value of securities. The average rate is calculated based on the daily average balance for the amortized cost of securities. Interest rate is presented on a tax equivalent basis.

(2) Includes loan fees and late fees. The inclusion of these fees does not have a material effect on the average interest rate.

(3) Non-accruing loans for the purpose of the computations above are included in the daily average loan amounts outstanding. Loan totals are shown net of unearned income and deferred loans fees.

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Provision for Loan Losses

Horizon assesses the adequacy of its Allowance for Loan and Lease Losses (ALLL) by regularly reviewing the performance of its loan portfolio. During the three-month period ended June 30, 2016, a provision of $232,000 was required to adequately fund the ALLL compared to $1.9 million for the same period of 2015. Commercial loan net charge-offs during the three-month period ended June 30, 2016 were $104,000, residential mortgage loan net charge-offs were negative $31,000 and consumer loan net charge-offs were $169,000. The lower provision for loan losses in the second quarter of 2016 compared to the same period of 2015 was due to the improvement of non-performing loans. The ALLL balance at June 30, 2016 was $14.2 million or 0.73% of total loans. This compares to an ALLL balance of $14.5 million at December 31, 2015 or 0.83% of total loans. The decrease in the ratio at June 30, 2016 compared to December 31, 2015 was due to an increase in total loans of $188.7 million, the increase in loans from the Kosciusko merger and improving credit trends.

For the six-month period ended June 30, 2016, the provision for loan losses totaled $764,000 compared to $2.5 million in the same period of 2015. The lower provision for loan losses in the second quarter of 2016 compared to the same period of 2015 was due to the improvement of non-performing loans and the charge-off of one commercial credit of $1.3 million in the first six months of 2015.

Horizon s loan loss reserve ratio, excluding loans with credit-related purchase accounting adjustments, stood at 0.89% as of June 30, 2016. Loan loss reserves and credit-related loan discounts on acquired loans as a percentage of total loans was 1.32% as of June 30, 2016. The table below illustrates Horizon s loan loss reserve ratio composition as of June 30, 2016.

Non- GAAP Allowance for Loan and Lease Loss Detail

As of June 30, 2016

(Dollars in Thousands, Unaudited)

	Horizon Legacy	**Heartland**	**Summit**	**Peoples**	**Kosciusko**	**Total**
Pre-discount loan balance	**$ 1,591,788**	$ 19,346	$ 69,137	$ 169,224	$ 99,873	**$ 1,949,368**
Allowance for loan losses (ALLL)	**14,226**					**14,226**
Loan discount	**N/A**	1,222	2,801	3,694	3,826	**11,543**

ALLL+loan discount	**14,226**	1,222	2,801	3,694	3,826	**25,769**
Loans, net	**$ 1,577,562**	$ 18,124	$ 66,336	$ 165,530	$ 96,047	**$ 1,923,599**
ALLL/ pre-discount loan balance	**0.89%**	0.00%	0.00%	0.00%	0.00%	**0.73%**
Loan discount/ pre-discount loan balance	**N/A**	6.32%	4.05%	2.18%	3.83%	**0.59%**
ALLL+loan discount/ pre-discount loan balance	**0.89%**	6.32%	4.05%	2.18%	3.83%	**1.32%**

No assurance can be given that Horizon will not, in any particular period, sustain loan losses that are significant in relation to the amount reserved, or that subsequent evaluations of the loan portfolio, in light of factors then prevailing, including economic conditions and management s ongoing quarterly assessments of the portfolio, will not require increases in the allowance for loan losses. Horizon considers the allowance for loan losses to be appropriate to cover probable incurred losses in the loan portfolio as of June 30, 2016.

Non-performing loans totaled $13.2 million as of June 30, 2016, down from $16.7 million on December 31, 2015. Compared to December 31, 2015, non-performing commercial, real estate and consumer loans decreased by $2.7 million, $577,000 and $255,000, respectively.

Other Real Estate Owned (OREO) totaled $3.5 million at June 30, 2016 compared to $3.2 million on December 31, 2015 and $471,000 on June 30, 2015.

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Non-interest Income

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

	Three Months Ended			
	June 30 2016	June 30 2015	Amount Change	Percent Change
Non-interest Income				
Service charges on deposit accounts	**$ 1,335**	$ 1,085	$ 250	23.0%
Wire transfer fees	**175**	182	(7)	-3.8%
Interchange fees	**1,663**	1,366	297	21.7%
Fiduciary activities	**1,465**	1,216	249	20.5%
Gain on sale of securities	**767**		767	NM
Gain on sale of mortgage loans	**3,529**	2,642	887	33.6%
Mortgage servicing net of impairment	**500**	300	200	66.7%
Increase in cash surrender value of bank owned life insurance	**351**	257	94	36.6%
Other income	**84**	138	(54)	-39.1%
Total non-interest income	**$ 9,869**	$ 7,186	$ 2,683	37.3%

Total non-interest income was $2.7 million higher in the second quarter of 2016 compared to the same period of 2015. Service charges on deposit accounts increased $250,000, interchange fees increased by $297,000 and fiduciary activities increased $249,000, primarily due to overall company growth and increased volume. Gain on sale of securities increased $767,000 due to gains realized in the second quarter of 2016 as the result of an analysis that determined market conditions provided the opportunity to add gains to capital without negatively impacting long-term earnings. Residential mortgage loan activity during the second quarter of 2016 generated $3.5 million of income from the gain on sale of mortgage loans, up $887,000 from the same period in 2015. The increase in the gain on sale of mortgage loans was due to an increase in the percentage earned on the sale of these loans from 3.07% in the second quarter of 2015 to 3.68% in the same period of 2016. Mortgage servicing net of impairment increased by $200,000 during the second quarter of 2016 compared to the same period of 2015 primarily due to a larger portfolio of mortgage loans serviced.

	Six Months Ended June 30 2016	June 30 2015	Amount Change	Percent Change
Non-interest Income				
Service charges on deposit accounts	**$ 2,573**	$ 2,084	$ 489	23.5%
Wire transfer fees	**296**	333	(37)	-11.1%
Interchange fees	**3,121**	2,468	653	26.5%
Fiduciary activities	**3,100**	2,513	587	23.4%
Gain on sale of investment securities	**875**	124	751	605.6%
Gain on sale of mortgage loans	**5,643**	5,021	622	12.4%
Mortgage servicing net of impairment	**947**	479	468	97.7%
Increase in cash surrender value of bank owned life insurance	**696**	515	181	35.1%
Death benefit on officer life insurance		145	(145)	100.0%
Other income	**482**	570	(88)	-15.4%
Total non-interest income	**$ 17,733**	$ 14,252	$ 3,481	24.4%

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Total non-interest income was $3.5 million higher in the first six months of 2016 compared to the same period of 2015. Service charges on deposit accounts increased $489,000, interchange fees increased by $653,000 and fiduciary activities increased $587,000, primarily due to overall company growth and increased volume. Gain on sale of securities increased $751,000 due to gains realized in the first six months of 2016 as the result of an analysis that determined market conditions provided the opportunity to add gains to capital without negatively impacting long-term earnings. Residential mortgage loan activity during the first six months of 2016 generated $5.6 million of income from the gain on sale of mortgage loans, up $622,000 from the same period in 2015. The increase in the gain on sale of mortgage loans was due to an increase in the percentage earned on the sale of these loans from 3.12% in the first half of 2015 to 3.74% in the same period of 2016, partially offset by a decrease in total loans sold of $13.8 million from $152.3 million in the first half of 2015 to $138.5 million in the same period of 2016. Mortgage servicing net of impairment increased by $468,000 during the first six months of 2016 compared to the same period of 2015 primarily due to a larger portfolio of mortgage loans serviced. The cash surrender value of bank owned life insurance increased by $181,000 in the first six months of 2016 compared to the same period in 2015 due to the addition of bank owned life insurance policies as a result of the Peoples acquisition. The death benefit on bank owned life insurance decreased by $145,000 compared to the previous year due to a $145,000 death benefit on officer life insurance realized during the first six months of 2015.

Non-interest Expense

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

	Three Months Ended			
	June 30 2016	**June 30 2015**	**Amount Change**	**Percent Change**
Non-interest expense				
Salaries	**$ 7,250**	$ 5,993	$ 1,257	21.0%
Commission and bonuses	**1,190**	1,200	(10)	-0.8%
Employee benefits	**1,877**	1,192	685	57.5%
Net occupancy expenses	**1,901**	1,375	526	38.3%
Data processing	**1,134**	966	168	17.4%
Professional fees	**747**	660	87	13.2%
Outside services and consultants	**2,198**	918	1,280	139.4%
Loan expense	**1,409**	1,367	42	3.1%
FDIC deposit insurance	**409**	339	70	20.6%

Other losses	**136**	150	(14)	-9.3%
Other expense	**3,304**	2,490	814	32.7%
Total non-interest expense	**$ 21,555**	$ 16,650	$ 4,905	29.5%

Total non-interest expenses were $4.9 million higher in the first three months of 2016 compared to the same period of 2015. Salaries increased by $1.3 million and employee benefits increased by $685,000 due to a larger employee base. Net occupancy expense increased $526,000 due to Horizon s investment in growth markets and the Peoples and Kosciusko acquisitions. Data processing expenses increased $168,000 primarily due to company growth. Other expenses increased by $814,000 primarily due to company growth and one-time merger-related expenses. Outside services and consultants expense increased by $1.3 million due to the one-time fees associated with Kosciusko and LaPorte Bancorp acquisitions. One-time non-interest expense related to the Kosciusko and LaPorte Bancorp acquisitions totaled $1.9 million in the second quarter of 2016 compared to $570,000 in one-time fees associated with the Peoples acquisition in the same period of 2015.

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	Six Months Ended June 30 2016	June 30 2015	Amount Change	Percent Change
Non-interest expense				
Salaries	**$ 14,136**	$ 11,626	$ 2,510	21.6%
Commission and bonuses	**2,265**	2,367	(102)	-4.3%
Employee benefits	**3,981**	2,896	1,085	37.5%
Net occupancy expenses	**3,837**	2,926	911	31.1%
Data processing	**2,239**	1,889	350	18.5%
Professional fees	**1,578**	1,187	391	32.9%
Outside services and consultants	**3,297**	1,544	1,753	113.5%
Loan expense	**2,604**	2,624	(20)	-0.8%
FDIC deposit insurance	**814**	676	138	20.4%
Other losses	**403**	105	298	283.8%
Other expense	**6,148**	4,878	1,270	26.0%
Total non-interest expense	**$ 41,302**	$ 32,718	$ 8,584	26.2%

Total non-interest expenses were $8.6 million higher in the first six months of 2016 compared to the same period of 2015. Salaries increased by $2.5 million and employee benefits increased by $1.1 million due to a larger employee base. Net occupancy expense increased $911,000 due to Horizon s investment in growth markets and the Peoples and Koscisuko acquisitions. Data processing expenses increased $350,000 and FDIC deposit insurance increase by $138,000 primarily due to company growth. Other losses increased by $298,000 primarily due to higher debit card losses and a trust settlement. Other expenses increased by $1.3 million primarily due to company growth and one-time merger-related expenses. Commission and bonuses decreased by $102,000 due to a decrease in loan volume and incentive pay. Outside services and consultants expense increased by $1.8 million due to the one-time fees associated with Kosciusko and LaPorte Bancorp acquisitions. One-time non-interest expense related to the Kosciusko and LaPorte Bancorp acquisitions totaled $2.5 million in the first six months of 2016 compared to $716,000 in one-time fees associated with the Peoples acquisition in the same period of 2015.

Liquidity

The Bank maintains a stable base of core deposits provided by long-standing relationships with individuals and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon include earnings, loan repayment, investment security sales and maturities, proceeds from the sale of residential mortgage loans, and borrowing relationships with correspondent banks, including the FHLB. During the six months ended June 30, 2016, cash and cash equivalents increased by approximately $60.6 million. At June 30, 2016, in addition to liquidity available from the normal operating, funding, and investing activities of Horizon, the Bank had approximately $300.6 million in unused credit lines with various money center banks, including the FHLB and the FRB Discount Window compared to $253.2 million at December 31, 2015 and $361.7 million at June 30, 2015.

Capital Resources

The capital resources of Horizon and the Bank exceeded regulatory capital ratios for well capitalized banks at June 30, 2016. Stockholders equity totaled $281.0 million as of June 30, 2016, compared to $266.8 million as of December 31, 2015. For the six months ended June 30, 2016, the ratio of average stockholders equity to average assets was 9.94% compared to 10.32% for the twelve months ended December 31, 2015. The increase in stockholders equity during the period was the result of the generation of net income, net of dividends declared, as well as the stock issued in the Kosciusko acquisition.

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On February 1, 2016, the Company paid off the $12.5 million in funds received through the Small Business Lending Fund with cash from the holding company, thereby ending its participation in the program, pursuant to which it issued preferred stock to the US Treasury. The funds were paid off due to an increase in the dividend cost that would have gone in effect at the end of February 2016. For the six months ending June 30, 2016, the dividend cost was $42,000 or 1.0% annualized and included the acceleration of interest due to the payoff.

Horizon declared common stock dividends in the amount of $0.30 per share during the first six months of 2016 compared to $0.28 per share for the same period of 2015. The dividend payout ratio (dividends as a percent of basic earnings per share) was 31.0% and 25.8% for the first six months of 2016 and 2015, respectively. For additional information regarding dividends, see Horizon s Annual Report on Form 10-K for 2015.

Use of Non-GAAP Financial Measures

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

Non-GAAP Reconciliation of Net Interest Margin

(dollar in thousands)

	Three Months Ended			**Six Months Ended**	
	June 30 2016	**March 31 2016**	**June 30 2015**	**June 30 2016**	**2015**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net Interest Margin As Reported					
Net interest income	**$ 20,869**	$ 19,774	$ 17,850	**$ 40,643**	$ 34,736
Average interest-earning assets	**2,471,354**	2,367,250	2,008,191	**2,406,468**	1,954,287

Net interest income as a percent of average interest-earning assets (Net Interest Margin)	**3.48%**	3.45%	3.67%	**3.47%**	3.68%
Impact of Acquisitions					
Interest income from acquisition-related purchase accounting adjustments	**$ (397)**	$ (547)	$ (797)	**$ (944)**	$ (1,880)
Excluding Impact of Acquisitions					
Net interest income	**$ 20,472**	$ 19,227	$ 17,053	**$ 39,699**	$ 32,856
Average interest-earning assets	**2,471,354**	2,367,250	2,008,191	**2,406,468**	1,954,287
Core Net Interest Margin	**3.42%**	3.36%	3.51%	**3.40%**	3.49%

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

(Dollars in Thousands Except per Share Data, Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2016	**2015**	**2016**	**2015**
Non-GAAP Reconciliation of Net Income				
Net income as reported	**$ 6,326**	$ 4,728	**$ 11,707**	$ 10,086
Merger expenses	**1,881**	570	**2,520**	716
Tax effect	**(531)**	(132)	**(696)**	(183)
Net income excluding merger expenses	**7,676**	5,166	**13,531**	10,619
Gain on sale of investment securities	**(767)**		**(875)**	(124)
Tax effect	**268**		**306**	43
Net income excluding gain on sale of investment securities	**7,177**	5,166	**12,962**	10,538
Death benefit on bank owned life insurance (BOLI)				(145)
Tax effect				51
Net income excluding death benefit on BOLI	**7,177**	5,166	**12,962**	10,444
Acquisition-related purchase accounting adjustments (PAUs)	**(397)**	(797)	**(944)**	(1,880)
Tax effect	**139**	279	**330**	658
Net income excluding PAUs	**$ 6,919**	$ 4,648	**$ 12,348**	$ 9,222
Non-GAAP Reconciliation of Diluted Earnings per Share				
Diluted earnings per share as reported	**$ 0.52**	$ 0.49	**$ 0.96**	$ 1.04
Merger expenses	**0.15**	0.06	**0.21**	0.07
Tax effect	**(0.04)**	(0.01)	**(0.06)**	(0.02)
Diluted earnings per share excluding merger expenses	**0.63**	0.54	**1.11**	1.09

Gain on sale of investment securities		**(0.06)**				**(0.07)**		(0.01)
Tax effect		**0.02**				**0.03**		0.00
Net income excluding gain on sale of investment securities		**0.59**		0.54		**1.07**		1.09
Death benefit on BOLI								(0.02)
Tax effect								0.01
Net income excluding death benefit on BOLI		**0.59**		0.54		**1.07**		1.08
Acquisition-related PAUs		**(0.03)**		(0.08)		**(0.09)**		(0.20)
Tax effect		**0.01**		0.03		**0.03**		0.07
Diluted earnings per share excluding PAUs	**$**	**0.57**	$	0.49	**$**	**1.01**	$	0.95

HORIZON BANCORP AND SUBSIDIARIES

Quantitative and Qualitative Disclosures About Market Risk

For the Three and Six Months ended June 30, 2016

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We refer you to Horizon s 2015 Annual Report on Form 10-K for analysis of its interest rate sensitivity. Horizon believes there have been no significant changes in its interest rate sensitivity since it was reported in its 2015 Annual Report on Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation Of Disclosure Controls And Procedures

Based on an evaluation of disclosure controls and procedures as of June 30, 2016, Horizon s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Horizon s disclosure controls (as defined in Exchange Act Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)). Based on such evaluation, such officers have concluded that, as of the evaluation date, Horizon s disclosure controls and procedures are effective to ensure that the information required to be disclosed by Horizon in the reports it files under the Exchange Act is recorded, processed, summarized and reported within the time specified in Securities and Exchange Commission rules and forms and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure.

Changes In Internal Control Over Financial Reporting

Horizon s management, including its Chief Executive Officer and Chief Financial Officer, also have concluded that during the fiscal quarter ended June 30, 2016, there have been no changes in Horizon s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Horizon s internal control over financial reporting.

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HORIZON BANCORP AND SUBSIDIARIES

Part II Other Information

For the Three and Six Months ended June 30, 2016

ITEM 1. LEGAL PROCEEDINGS
Horizon and its subsidiaries are involved in various legal proceedings incidental to the conduct of their business. Management does not expect that the outcome of any such proceedings will have a material adverse effect on our consolidated financial position or results of operations.

ITEM 1A. RISK FACTORS
There have been no material changes from the factors previously disclosed under Item 1A of Horizon s Annual Report on Form 10-K for 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES
Not Applicable

ITEM 5. OTHER INFORMATION
Not Applicable

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HORIZON BANCORP AND SUBSIDIARIES

Part II Other Information

For the Three and Six Months ended June 30, 2016

ITEM 6. EXHIBITS
(a) Exhibits

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Horizon Bancorp (incorporated by reference to Exhibit 3.1 to Registrant s Form 8-K filed May 10, 2016)
3.2	Amended and Restated Bylaws of Horizon Bancorp (incorporated by reference to Exhibit 3.1 to Registrant s Form 8-K filed April 18, 2013)
31.1	Certification of Craig M. Dwight
31.2	Certification of Mark E. Secor
32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Interactive Data Files

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SIGNATURES

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

	HORIZON BANCORP
Dated: August 9, 2016	/s/ Craig M. Dwight Craig M. Dwight Chief Executive Officer
Dated: August 9, 2016	/s/ Mark E. Secor Mark E. Secor Chief Financial Officer

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INDEX TO EXHIBITS

Exhibit No.	Description	Location
Exhibit 3.1	Amended and Restated Articles of Incorporation of Horizon Bancorp	Incorporated by reference to Exhibit 3.1 to Registrant s Form 8-K filed May 10, 2016
Exhibit 3.2	Amended and Restated Bylaws of Horizon Bancorp	Incorporated by reference to Exhibit 3.1 to Registrant s Form 8-K filed April 18, 2013
Exhibit 31.1	Certification of Craig M. Dwight	Attached
Exhibit 31.2	Certification of Mark E. Secor	Attached
Exhibit 32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached
Exhibit 101	Interactive Data Files	Attached