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

FORM 10-Q

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

Commission file number 0-10792

HORIZON BANCORP

(Exact name of registrant as specified in its charter)

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

incorporation or organization)	**Identification No.)**
515 Franklin Square, Michigan City, Indiana	**46360**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

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

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

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

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

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

HORIZON BANCORP

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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 2015 (Unaudited)	December 31 2014
Assets		
Cash and due from banks	**$ 43,857**	$ 43,476
Investment securities, available for sale	**330,970**	323,764
Investment securities, held to maturity (fair value of $167,581 and $169,904)	**162,661**	165,767
Loans held for sale	**7,677**	6,143
Loans, net of allowance for loan losses of $16,421 and $16,501	**1,502,862**	1,362,053
Premises and equipment, net	**54,778**	52,461
Federal Reserve and Federal Home Loan Bank stock	**11,080**	11,348
Goodwill	**28,176**	28,176
Other intangible assets	**3,531**	3,965
Interest receivable	**8,823**	8,246
Cash value of life insurance	**39,897**	39,382
Other assets	**24,995**	32,141
Total assets	**$ 2,219,307**	$ 2,076,922
Liabilities		
Deposits		
Non-interest bearing	**$ 307,215**	$ 267,667
Interest bearing	**1,277,508**	1,214,652
Total deposits	**1,584,723**	1,482,319
Borrowings	**385,236**	351,198
Subordinated debentures	**32,719**	32,642
Interest payable	**461**	497
Other liabilities	**14,037**	15,852
Total liabilities	**2,017,176**	1,882,508
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, Authorized, 1,000,000 shares Series B shares $.01 par value, $1,000 liquidation value Issued 12,500 shares	**12,500**	12,500

Common stock, no par value Authorized, 22,500,000 shares Issued, 9,313,779 and 9,278,916 shares Outstanding, 9,256,026 and 9,213,036 shares		
Additional paid-in capital	**46,622**	45,916
Retained earnings	**141,889**	134,477
Accumulated other comprehensive income	**1,120**	1,521
Total stockholders equity	**202,131**	194,414
Total liabilities and stockholders equity	**$ 2,219,307**	$ 2,076,922

See notes to condensed consolidated financial statements

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Dollar Amounts in Thousands, Except Per Share Data)

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

Total non-interest income	**7,186**	6,627	**14,252**	12,149
Non-interest Expense				
Salaries and employee benefits	**8,385**	8,293	**16,889**	15,776
Net occupancy expenses	**1,375**	1,360	**2,926**	2,784
Data processing	**966**	937	**1,889**	1,807
Professional fees	**660**	419	**1,187**	1,027
Outside services and consultants	**918**	1,298	**1,544**	1,959
Loan expense	**1,367**	1,272	**2,624**	2,287
FDIC insurance expense	**339**	285	**676**	541
Other losses	**150**	95	**105**	133
Other expense	**2,490**	2,449	**4,878**	4,608
Total non-interest expense	**16,650**	16,408	**32,718**	30,922
Income Before Income Tax	**6,480**	6,668	**13,750**	10,948
Income tax expense (includes $0 for the three months ended and $43 for the six months ended June 30, 2015 and $0 for the three and six months ended June 30, 2014, related to income tax expense from reclassification items)	**1,752**	1,890	**3,664**	2,753
Net Income	**4,728**	4,778	**10,086**	8,195
Preferred stock dividend	**(31)**	(32)	**(63)**	(63)
Net Income Available to Common Shareholders	**$ 4,697**	$ 4,746	**$ 10,023**	$ 8,132
Basic Earnings Per Share	**$ 0.51**	$ 0.52	**$ 1.09**	$ 0.91
Diluted Earnings Per Share	**0.49**	0.50	**1.04**	0.88

See notes to condensed consolidated financial statements

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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	
	2015 (Unaudited)	**2014 (Unaudited)**	**2015 (Unaudited)**	**2014 (Unaudited)**
Net Income	**$ 4,728**	$ 4,778	**$ 10,086**	$ 8,195
Other Comprehensive Income				
Change in fair value of derivative instruments:				
Change in fair value of derivative instruments for the period	**511**	(317)	**182**	(542)
Income tax effect	**(179)**	111	**(64)**	190
Changes from derivative instruments	**332**	(206)	**118**	(352)
Change in securities available-for-sale:				
Unrealized appreciation (depreciation) for the period on AFS securities	**(2,364)**	2,336	**(650)**	6,762
Unrealized depreciation for the period on held-to-maturity	**(158)**	(108)	**(272)**	(108)
Reclassification adjustment for securities gains realized in income			**124**	
Income tax effect	**882**	(779)	**279**	(2,329)
Unrealized gains (losses) on available-for-sale securities	**(1,640)**	1,449	**(519)**	4,325
Other Comprehensive Income (Loss), Net of Tax	**(1,308)**	1,243	**(401)**	3,973
Comprehensive Income	**$ 3,420**	$ 6,021	**$ 9,685**	$ 12,168

See notes to condensed consolidated financial statements

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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	Total
Balances, January 1, 2015	**$ 12,500**	**$ 45,916**	**$ 134,477**	**$ 1,521**	**$ 194,414**
Net income			10,086		10,086
Other comprehensive income, net of tax				(401)	(401)
Amortization of unearned compensation		179			179
Exercise of stock options		290			290
Tax benefit related to stock options		99			99
Stock option expense		138			138
Cash dividends on preferred stock (1.00%)			(63)		(63)
Cash dividends on common stock ($.28 per share)			(2,611)		(2,611)
Balances, June 30, 2015	**$ 12,500**	**$ 46,622**	**$ 141,889**	**$ 1,120**	**$ 202,131**

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HORIZON BANCORP AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Dollar Amounts in Thousands)

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

Net cash used in investing activities	**(149,721)**	(138,067)
Financing Activities		
Net change in		
Deposits	**102,404**	86,564
Borrowings	**34,115**	66,993
Proceeds from issuance of stock	**389**	
Dividends paid on common shares	**(2,611)**	(2,231)
Dividends paid on preferred shares	**(63)**	(63)
Net cash provided by financing activities	**134,234**	151,263
Net Change in Cash and Cash Equivalents	**381**	19,083
Cash and Cash Equivalents, Beginning of Period	**43,476**	31,721
Cash and Cash Equivalents, End of Period	**$ 43,857**	$ 50,804
Additional Supplemental Information		
Interest paid	**$ 6,519**	$ 6,527
Income taxes paid	**3,700**	600
Transfer of loans to other real estate owned	**(1,384)**	1,999
Transfer of available-for-sale securities to held-to-maturity		167,047
The Company purchased all of the capital stock of Summit for $18,896. In conjunction with the acquisition, liabilities were assumed as follows:		158,585
Fair value of assets acquired		6,207
Cash paid to retire Summit debt		1,029
Cash paid for the capital stock		138,660

See notes to condensed consolidated financial statements

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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, 2015 and June 30, 2014 are not necessarily indicative of the operating results for the full year of 2015 or 2014. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of Horizon s management, necessary to fairly present the financial position, results of operations and cash flows of Horizon for the periods presented. Those adjustments consist only of normal recurring adjustments.

Certain information and note disclosures normally included in Horizon s annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon s Annual Report on Form 10-K for 2014 filed with the Securities and Exchange Commission on March 13, 2015. The condensed consolidated balance sheet of Horizon as of December 31, 2014 has been derived from the audited balance sheet as of that date.

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

	Three Months Ended June 30		**Six Months Ended June 30**	
	2015 (Unaudited)	**2014 (Unaudited)**	**2015 (Unaudited)**	**2014 (Unaudited)**
Basic earnings per share				
Net income	**$ 4,728**	$ 4,778	**$ 10,086**	$ 8,195
Less: Preferred stock dividends	**31**	32	**63**	63
Net income available to common shareholders	**$ 4,697**	$ 4,746	**$ 10,023**	$ 8,132
Weighted average common shares outstanding	**9,240,005**	9,182,986	**9,228,075**	8,908,492
Basic earnings per share	**$ 0.51**	$ 0.52	**$ 1.09**	$ 0.91

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

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

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

Reclassifications

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

Note 2 Acquisitions

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

On July 1, 2015 Horizon completed the acquisition of Peoples and Horizon Bank N.A. s acquisition of Peoples FSB, through mergers effective July 1, 2015. Under the terms of the acquisition, the exchange ratio was 0.95 shares of Horizon common stock (the Exchange Ratio) and $9.75 in cash for each outstanding share of Peoples common stock. Peoples shareholders owning fewer than 100 shares of common stock received $33.14 in cash for each common share. Peoples shares outstanding at the closing were 2,311,858, and the shares of Horizon common stock issued to Peoples shareholders totaled 2,192,202. Horizon s stock price was $25.32 per share at the close of business on July 1, 2015. Based upon these numbers, the total value of the consideration for the acquisition was $78.1 million.

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

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

On April 3, 2014 Horizon closed its acquisition of SCB Bancorp, Inc. (Summit) and Horizon Bank N.A. s acquisition of Summit Community Bank, through mergers effective as of that date. Under the final terms of the acquisition, the exchange ratio was 0.4904 shares of Horizon s common stock and $5.15 in cash for each share of Summit common stock outstanding. Summit shares outstanding at the closing were 1,164,442, and the shares of Horizon common stock issued to Summit shareholders totaled 570,820. Horizon s stock price was $22.23 per share at the close of business on April 3, 2014. Based upon these numbers, the total value of the consideration for the acquisition was $18.9 million (not including the retirement of Summit debt). The Company had approximately $1.3 million in costs related to the acquisition. These expenses are classified in the other expense section of the income statement and primarily located in the salaries and employee benefits, professional services and other expense line items. As a result of the acquisition, the Company will have an opportunity to increase its deposit base and reduce transaction costs. The Company also expects to reduce cost through economies of scale.

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

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

Of the total estimated purchase price of $19.9 million, $822,000 has been allocated to core deposit intangible. Additionally, $8.4 million has been allocated to goodwill and $4.4 million of the purchase price is deductible and was assigned to the business assets. The core deposit intangible will be amortized over seven years on a straight line basis.

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

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

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

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

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HORIZON BANCORP AND SUBSIDIARIES

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

The following table details the acquired loans that are accounted for in accordance with ASC 310-30 as of April 3, 2014.

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

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

Note 3 Securities

The fair value of securities is as follows:

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

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

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 26,996	$ 56	$ (229)	$ 26,823
State and municipal	46,535	1,462	(45)	47,952
Federal agency collateralized mortgage obligations	122,930	975	(1,045)	122,860
Federal agency mortgage-backed pools	122,583	3,172	(360)	125,395
Private labeled mortgage-backed pools	670	19		689
Corporate notes	32	13		45
Total available for sale investment securities	$ 319,746	$ 5,697	$ (1,679)	$ 323,764
Held to maturity				
U.S. Treasury and federal agencies	$ 9,804	$ 82	$	$ 9,886
State and municipal	129,595	3,398	(106)	132,887
Federal agency collateralized mortgage obligations	4,039	35	(1)	4,073
Federal agency mortgage-backed pools	22,329	729		23,058
Total held to maturity investment securities	$ 165,767	$ 4,244	$ (107)	$ 169,904

HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At June 30, 2015, no individual investment security had an unrealized loss that was determined to be other-than-temporary.

The unrealized losses on the Company s investments in securities of state and municipal governmental agencies, U.S. Treasury and federal agencies, federal agency collateralized mortgage obligations, and federal agency mortgage-backed pools were caused by interest rate volatility and not a decline in credit quality. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The Company expects to recover the amortized cost basis over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company did not consider those investments to be other-than-temporarily impaired at June 30, 2015.

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

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

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

	June 30, 2015		December 31, 2014	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Available for sale				
Within one year	$ 6,436	$ 6,477	$ 6,098	$ 6,169
One to five years	50,332	51,057	44,720	45,093
Five to ten years	15,380	15,571	16,147	16,768
After ten years	5,931	5,973	6,598	6,790
	78,079	79,078	73,563	74,820
Federal agency collateralized mortgage obligations	116,674	116,942	122,930	122,860
Federal agency mortgage-backed pools	132,762	134,950	122,583	125,395
Private labeled mortgage-backed pools			670	689
Total available for sale investment securities	$ 327,515	$ 330,970	$ 319,746	$ 323,764
Held to maturity				
Within one year	$	$	$	$
One to five years	8,184	8,319	592	593
Five to ten years	101,504	105,071	99,225	101,323
After ten years	27,609	27,914	39,582	40,857
	137,297	141,304	139,399	142,773
Federal agency collateralized mortgage obligations	3,670	3,681	4,039	4,073
Federal agency mortgage-backed pools	21,694	22,596	22,329	23,058
Total held to maturity investment securities	$ 162,661	$ 167,581	$ 165,767	$ 169,904

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

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

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

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

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

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Note 4 Loans

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

Commercial

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

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

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Real Estate and Consumer

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

Mortgage Warehousing

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

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

HORIZON BANCORP AND SUBSIDIARIES

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

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

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

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

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HORIZON BANCORP AND SUBSIDIARIES

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Note 5 Accounting for Certain Loans Acquired in a Transfer

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

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

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

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

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

Outstanding balance	$	36,488	$	99,999	$	136,487
Carrying amount, net of allowance of $359					$	136,128

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

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

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

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

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Note 6 Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

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

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

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Note 7 Non-performing Loans and Impaired Loans

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

June 30, 2015	Non-accrual	Loans Past Due Over 90 Days Still Accruing	Non-Performing TDRs	Performing TDRs	Total Non-Performing Loans
Commercial					
Owner occupied real estate	$ 4,447	$	$	$ 150	$ 4,597
Non owner occupied real estate	4,898	207	2,352	68	7,525
Residential development					
Development & Spec Land Loans					
Commercial and industrial	477		785		1,262
Total commercial	9,822	207	3,137	218	13,384
Real estate					
Residential mortgage	2,319		760	2,482	5,561
Residential construction			258		258
Mortgage warehouse					
Total real estate	2,319		1,018	2,482	5,819
Consumer					
Direct Installment	447				447
Direct Installment Purchased					
Indirect Installment	405				405
Home Equity	2,057		368	571	2,996
Total Consumer	2,909		368	571	3,848
Total	$ 15,050	$ 207	$ 4,523	$ 3,271	$ 23,051

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

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

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Included in the $15.1 million of non-accrual loans and the $4.5 million of non-performing TDRs at June 30, 2015 were $679,000 and $302,000, respectively, of loans acquired for which accretable yield was recognized.

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

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

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

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

The Company s TDRs are considered impaired loans and included in the allowance methodology using the guidance for impaired loans. At June 30, 2015, the type of concessions the Company has made on restructured loans has been temporary rate reductions and/or reductions in monthly payments and there have been no restructured loans with modified recorded balances. Any modification to a loan that is a concession and is not in the normal course of lending is considered a restructured loan. A restructured loan is returned to accruing status after six consecutive payments but is still reported as TDR unless the loan bears interest at a market rate. As of June 30, 2015, the Company had $7.8 million in TDRs and $3.3 million were performing according to the restructured terms and four TDR were returned to accrual status during the first six months of 2015. There was $792,000 of specific reserves allocated to TDRs at June 30, 2015 based on the discounted cash flows or when appropriate the fair value of the collateral.

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

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

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

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

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

June 30, 2015	Unpaid Principal Balance	Recorded Investment	Allowance For Loan Loss Allocated	Three Months Ending Average Balance in Impaired Loans	Three Months Ending Cash/Accrual Interest Income Recognized	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	$ 1,605	$ 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

June 30, 2014	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	$ 2,121	$ 2,124	$	$ 1,885	$ 40	$ 1,432	$ 51
Non owner occupied real estate	3,244	3,246		3,270	93	3,283	98
Residential development							
Development & Spec Land Loans							
Commercial and industrial	283	283		441		466	
Total commercial	5,648	5,653		5,596	133	5,181	149
With an allowance recorded							
Commercial							
Owner occupied real estate							
Non owner occupied real estate	340	340	170	342		347	
Residential development							
Development & Spec Land Loans							
Commercial and industrial	1,722	1,722	965	1,710		1,570	2
Total commercial	2,062	2,062	1,135	2,052		1,917	2
Total	$ 7,710	$ 7,715	$ 1,135	$ 7,648	$ 133	$ 7,098	$ 151

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HORIZON BANCORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

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

June 30, 2015	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial						
Owner occupied real estate	$ 157	$ 21	$	$ 178	$ 238,705	$ 238,883
Non owner occupied real estate	82		207	289	313,582	313,871
Residential development					2,606	2,606
Development & Spec Land Loans					13,593	13,593
Commercial and industrial	591	46		637	139,186	139,823
Total commercial	830	67	207	1,104	707,672	708,776
Real estate						
Residential mortgage	308	147		455	257,340	257,795
Residential construction					19,087	19,087
Mortgage warehouse					195,924	195,924
Total real estate	308	147		455	472,351	472,806
Consumer						
Direct Installment	138	41		179	43,940	44,119
Direct Installment Purchased					179	179
Indirect Installment	721	130		851	151,417	152,268
Home Equity	699	245		944	139,372	140,316
Total consumer	1,558	416		1,974	334,908	336,882
Total	$ 2,696	$ 630	$ 207	$ 3,533	$ 1,514,931	$ 1,518,464
Percentage of total loans	0.18%	0.04%	0.01%	0.23%	99.77%	

December 31, 2014	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial						
Owner occupied real estate	$ 103	$ 645	$	$ 748	$ 227,632	$ 228,380
Non owner occupied real estate	413			413	296,886	297,299
Residential development					2,027	2,027

Development & Spec Land Loans					12,097	12,097
Commercial and industrial	19	1		20	133,236	133,256
Total commercial	535	646		1,181	671,878	673,059
Real estate						
Residential mortgage	1,033	193	40	1,266	241,255	242,521
Residential construction					11,505	