HORIZON BANCORP INC /IN/
Form 10-Q
November 09, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

Commission file number 0-10792

HORIZON BANCORP, INC.

(Exact name of registrant as specified in its charter)

Indiana	**35-1562417**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

515 Franklin Street, Michigan City, Indiana	**46360**
(Address of principal executive offices)	**(Zip Code)**

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large Accelerated Filer	Accelerated Filer
Non-accelerated Filer	Smaller Reporting Company
Emerging growth company	

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 38,367,890 shares of Common Stock, no par value, at November 8, 2018.

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HORIZON BANCORP, INC.

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PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HORIZON BANCORP, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollar Amounts in Thousands)

	September 30 2018 (Unaudited)	December 31 2017
Assets		
Cash and due from banks	**$ 69,697**	$ 76,441
Investment securities, available for sale	**542,305**	509,665
Investment securities, held to maturity (fair value of $219,158 and $201,085)	**223,848**	200,448
Loans held for sale	**1,980**	3,094
Loans, net of allowance for loan losses of $17,798 and $16,394	**2,939,588**	2,815,601
Premises and equipment, net	**75,348**	75,529
Federal Home Loan Bank stock	**18,073**	18,105
Goodwill	**119,880**	119,880
Other intangible assets	**10,875**	12,402
Interest receivable	**13,999**	16,244
Cash value of life insurance	**87,530**	75,931
Other assets	**47,438**	40,963
Total assets	**$ 4,150,561**	$ 3,964,303
Liabilities		
Deposits		
Non-interest bearing	**$ 621,475**	$ 601,805
Interest bearing	**2,507,079**	2,279,198
Total deposits	**3,128,554**	2,881,003
Borrowings	**477,719**	564,157
Subordinated debentures	**37,791**	37,653
Interest payable	**1,688**	886
Other liabilities	**27,215**	23,526
Total liabilities	**3,672,967**	3,507,225
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, Authorized, 1,000,000 shares, Issued 0 shares		

Common stock, no par value, Authorized 99,000,000 shares (Restated See Note 1)				
Issued 38,392,959 and 38,323,604 shares (Restated See Note 1), Outstanding 38,367,890 and 38,294,729 shares (Restated See Note 1)				
Additional paid-in capital		**275,804**		275,059
Retained earnings		**214,753**		185,570
Accumulated other comprehensive loss		**(12,963)**		(3,551)
Total stockholders equity		**477,594**		457,078
Total liabilities and stockholders equity	**$**	**4,150,561**	$	3,964,303

See notes to condensed consolidated financial statements

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HORIZON BANCORP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Unaudited)

(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Interest Income				
Loans receivable	**$ 37,522**	$ 28,113	**$ 108,961**	$ 79,699
Investment securities				
Taxable	**2,739**	2,167	**7,732**	6,817
Tax exempt	**2,010**	1,790	**5,745**	5,193
Total interest income	**42,271**	32,070	**122,438**	91,709
Interest Expense				
Deposits	**5,023**	1,841	**11,814**	5,315
Borrowed funds	**2,876**	1,753	**8,127**	4,028
Subordinated debentures	**600**	597	**1,764**	1,721
Total interest expense	**8,499**	4,191	**21,705**	11,064
Net Interest Income	**33,772**	27,879	**100,733**	80,645
Provision for loan losses	**1,176**	710	**2,378**	1,370
Net Interest Income after Provision for Loan Losses	**32,596**	27,169	**98,355**	79,275
Non-interest Income				
Service charges on deposit accounts	**2,009**	1,672	**5,804**	4,638
Wire transfer fees	**160**	175	**490**	503
Interchange fees	**1,410**	1,251	**4,293**	3,809
Fiduciary activities	**1,855**	1,887	**5,598**	5,752
Gains on sale of investment securities (includes $(122) and $6 for the three months ended September 30, 2018 and 2017, respectively, and $(111) and $38 for the nine months ended September 30, 2018 and 2017, respectively, related to accumulated other comprehensive earnings reclassifications)	**(122)**	6	**(111)**	38
Gain on sale of mortgage loans	**1,839**	1,950	**5,158**	5,918
Mortgage servicing income net of impairment	**563**	369	**1,423**	1,175
Increase in cash value of bank owned life insurance	**503**	474	**1,380**	1,346
Death benefit on bank owned life insurance			**154**	

Other income	**469**	237	**1,747**	613
Total non-interest income	**8,686**	8,021	**25,936**	23,792
Non-interest Expense				
Salaries and employee benefits	**14,343**	12,911	**42,525**	37,086
Net occupancy expenses	**2,495**	2,400	**7,981**	7,048
Data processing	**1,759**	1,502	**5,062**	4,311
Professional fees	**437**	649	**1,314**	1,797
Outside services and consultants	**1,204**	2,504	**3,735**	4,991
Loan expense	**1,722**	1,215	**4,504**	3,572
FDIC insurance expense	**396**	270	**1,051**	776
Other losses	**161**	58	**576**	186
Other expense	**3,103**	3,004	**9,651**	8,755
Total non-interest expense	**25,620**	24,513	**76,399**	68,522
Income Before Income Taxes	**15,662**	10,677	**47,892**	34,545
Income tax expense (includes $(25) and $2 for the three months ended September 30, 2018 and 2017, respectively, and $(23) and $13 for the nine months ended September 30, 2018 and 2017, respectively, related to income tax expense from reclassification items)	**2,597**	2,506	**7,908**	9,078
Net Income	**$ 13,065**	$ 8,171	**$ 39,984**	$ 25,467
Basic Earnings Per Share (Restated - See Note 1)	**$ 0.34**	$ 0.24	**$ 1.04**	$ 0.76
Diluted Earnings Per Share (Restated - See Note 1)	**0.34**	0.24	**1.04**	0.75

See notes to condensed consolidated financial statements

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HORIZON BANCORP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollar Amounts in Thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Net Income	**$ 13,065**	$ 8,171	**$ 39,984**	$ 25,467
Other Comprehensive Income (Loss)				
Change in fair value of derivative instruments:				
Change in fair value of derivative instruments for the period	**639**	297	**1,752**	743
Income tax effect	**(134)**	(104)	**(368)**	(260)
Changes from derivative instruments	**505**	193	**1,384**	483
Change in securities:				
Unrealized appreciation (depreciation) for the period on AFS securities	**(3,712)**	(791)	**(12,655)**	5,444
Amortization from transfer of securities from available for sale to held to maturity securities	**(55)**	(54)	**(153)**	(200)
Reclassification adjustment for securities (gains) losses realized in income	**122**	(6)	**111**	(38)
Income tax effect	**764**	297	**2,667**	(1,822)
Unrealized gains (losses) on securities	**(2,881)**	(554)	**(10,030)**	3,384
Other Comprehensive Income (Loss), Net of Tax	**(2,376)**	(361)	**(8,646)**	3,867
Comprehensive Income	**$ 10,689**	$ 7,810	**$ 31,338**	$ 29,334

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HORIZON BANCORP, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Stockholders Equity

(Unaudited)

(Dollar Amounts in Thousands, Except Per Share Data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances, January 1, 2018	**$**	**$**	**$ 275,059**	**$ 185,570**	**$ (3,551)**	**$ 457,078**
Net income				39,984		39,984
Other comprehensive loss, net of tax					(8,646)	(8,646)
Amortization of unearned compensation			45			45
Exercise of stock options			493			493
Stock option expense			207			207
Reclassification of tax adjustment on accumulated other comprehensive loss				766	(766)	
Cash dividends on common stock ($0.30 per share)				(11,567)		(11,567)
Balances, September 30, 2018	**$**	**$**	**$ 275,804**	**$ 214,753**	**$ (12,963)**	**$ 477,594**

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HORIZON BANCORP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(Dollar Amounts in Thousands)

	Nine Months Ended September 30 2018	2017
Operating Activities		
Net income	**$ 39,984**	$ 25,467
Items not requiring (providing) cash		
Provision for loan losses	**2,378**	1,370
Depreciation and amortization	**5,045**	4,303
Share based compensation	**207**	238
Mortgage servicing rights, net impairment	**26**	75
Premium amortization on securities, net	**4,436**	4,476
Gain on sale of investment securities	**111**	(38)
Gain on sale of mortgage loans	**(5,158)**	(5,918)
Proceeds from sales of loans	**157,353**	174,271
Loans originated for sale	**(146,088)**	(163,882)
Change in cash value life insurance	**(1,380)**	(1,346)
Death benefit on bank owned life insurance	**154**	
(Gain)/loss on sale of other real estate owned	**(167)**	12
Net change in:		
Interest receivable	**2,245**	(1,811)
Interest payable	**802**	180
Other assets	**(4,858)**	2,215
Other liabilities	**9,549**	(2,335)
Net cash provided by operating activities	**64,639**	37,277
Investing Activities		
Purchases of securities available for sale	**(130,207)**	(127,752)
Proceeds from sales, maturities, calls and principal repayments of securities available for sale	**79,188**	67,416
Purchases of securities held to maturity	**(28,374)**	(20,152)
Proceeds from maturities of securities held to maturity	**6,109**	4,883
Change in Federal Reserve and FHLB stock	**32**	8,987
Net change in loans	**(137,864)**	(154,038)
Proceeds on the sale of OREO and repossessed assets	**3,298**	2,125
Change in premises and equipment, net	**(3,292)**	(2,667)
Purchases of bank owned life insurance	**(10,450)**	
Net cash received in acquisition of branch		11,000

Net cash received in acquisition, Lafayette		20,425
Net cash used in investing activities	**(221,560)**	(189,773)
Financing Activities		
Net change in:		
Deposits	**247,551**	(28,860)
Borrowings	**(86,300)**	190,814
Proceeds from issuance of stock	**493**	616
Dividends paid on common stock	**(11,567)**	(8,244)
Net cash provided by financing activities	**150,177**	154,326
Net Change in Cash and Cash Equivalents	**(6,744)**	1,830
Cash and Cash Equivalents, Beginning of Period	**76,441**	70,832
Cash and Cash Equivalents, End of Period	**$ 69,697**	$ 72,662
Additional Supplemental Information		
Interest paid	**$ 20,903**	$ 10,836
Income taxes paid	**6,661**	10,350
Transfer of loans to other real estate	**2,398**	1,717
Acquisition of LaPorte, measurement period adjustments		704

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HORIZON BANCORP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(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, Inc. (Horizon or the Company) and its wholly-owned subsidiaries, including Horizon Bank (Horizon Bank or the Bank). Horizon Bank (formerly known as Horizon Bank, N.A.) was a national association until its conversion to an Indiana commercial bank effective June 23, 2017. All inter-company balances and transactions have been eliminated. The results of operations for the periods ended September 30, 2018 and September 30, 2017 are not necessarily indicative of the operating results for the full year of 2018 or 2017. 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 2017 filed with the Securities and Exchange Commission on February 28, 2018. The condensed consolidated balance sheet of Horizon as of December 31, 2017 has been derived from the audited balance sheet as of that date.

On May 15, 2018, the Board of Directors of the Company approved a three-for-two stock split of the Company s authorized common stock, no par value. All share and per share amounts in the condensed consolidated financial statements and notes thereto have been retroactively adjusted, where necessary, to reflect this three-for-two stock split. The effect of the three-for-two stock split on the outstanding common shares is that shareholders of record as of the close of business on May 31, 2018, the record date, received an additional half share for each share of common stock held, with shareholders receiving cash in lieu of any fractional shares. The additional shares issued in the stock split were payable and issued on June 15, 2018, and the common shares began trading on a split-adjusted basis on June 19, 2018.

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

The following table shows computation of basic and diluted earnings per share.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017

Basic earnings per share								
Net income	**$**	**13,065**	$	8,171	**$**	**39,984**	$	25,467
Weighted average common shares outstanding[1]		**38,365,379**		33,870,240		**38,340,012**		33,489,681
Basic earnings per share	**$**	**0.34**	$	0.24	**$**	**1.04**	$	0.76
Diluted earnings per share								
Net income available to common shareholders	**$**	**13,065**	$	8,171	**$**	**39,984**	$	25,467
Weighted average common shares outstanding[1]		**38,365,379**		33,870,240		**38,340,012**		33,489,681
Effect of dilutive securities:								
Restricted stock		**47,603**		55,123		**43,926**		50,686
Stock options		**121,988**		147,546		**119,465**		143,329
Weighted average common shares outstanding		**38,534,970**		34,072,909		**38,503,403**		33,683,696
	$	**0.34**	$	0.24	**$**	**1.04**	$	0.75

(1) Adjusted for 3:2 stock split on June 15, 2018

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

There were no shares for the three and nine months ended September 30, 2018 and 2017, respectively, which were included in the computation of diluted earnings per share because they were non-dilutive.

Horizon has share-based employee compensation plans, which are described in the notes to the financial statements included in the December 31, 2017 Annual Report on Form 10-K.

Adoption of New Accounting Standards

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-02, ***Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income***

The FASB has issued ASU No. 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this ASU allow a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. The amendments in this ASU also require certain disclosures about stranded tax effects. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this ASU is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company early adopted ASU 2018-02 on January 1, 2018 through a $766,000 cumulative-effect adjustment from AOCI to increase retained earnings related to unrealized gains and losses on available for sale securities and derivative instruments.

FASB ASU No. 2016-01, ***Financial Instruments Overall*** **(Subtopic 825-10):** ***Recognition and Measurement of Financial Assets and Financial Liabilities***

The FASB has issued ASU No. 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* The new guidance is intended to improve the recognition and measurement of financial instruments. The ASU affects public and private companies, not-for-profit organizations, and employee benefit plans that hold financial assets or owe financial liabilities.

The new guidance makes targeted improvements to existing U.S. GAAP by:

Requiring equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;

Requiring public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;

Requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;

Eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities;

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Eliminating the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and

Requiring a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as own credit) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. In addition, the new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Company adopted ASU 2016-01 on January 1, 2018, and it did not have a material effect on its accounting for equity investments, fair value disclosures and other disclosure requirements.

FASB ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606)

The FASB has issued ASU No. 2014-09 creating, *Revenue from Contracts with Customers (Topic 606).* The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. The Company adopted ASU 2014-09 on January 1, 2018 and did not identify any significant changes in the timing of revenue recognition when considering the amended accounting guidance. Additional disclosures related to revenue recognition appear in Note 1 Accounting Policies.

In May 2016, the FASB issued ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and some practical expedients.

In December 2016, the FASB issued ASU No. 2016-20, *Revenue from Contracts with Customers (Topic 606): Technical Corrections and Improvements*. The FASB board decided to issue a separate update for technical corrections and improvements to Topic 606 and other Topics amended by ASU No. 2014-09 to increase awareness of the proposals and to expedite improvements to ASU No. 2014-09. The amendment affects narrow aspects of the guidance issued in ASU No. 2014-09.

Revenue Recognition

Accounting Standards Codification 606, *Revenue from Contracts with Customers* (ASC 606) provides that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance enumerates five steps that entities should follow in achieving this core principle. Revenue generated from financial instruments, including loans and investment securities, are not included in the scope of ASC 606. The adoption of ASC 606 did not result in a change to the accounting for any of the Company s revenue streams that are within the scope of the amendments. Revenue-generating activities that are within the scope of ASC 606 and that are presented as non-interest income in the Company s consolidated statements of income include:

HORIZON BANCORP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

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

Service charges and fees on deposit accounts these include general service fees charged for deposit account maintenance and activity and transaction-based fees charged for certain services, such as debit card, wire transfer or overdraft activities. Revenue is recognized when the performance obligation is completed, which is generally after a transaction is completed or monthly for account maintenance services.

Fiduciary activities this includes periodic fees due from trust and wealth management customers for managing the customers financial assets. Fees are charged based on a standard agreement and are recognized as they are earned.

Reclassifications

Certain reclassifications have been made to the 2017 condensed consolidated financial statements to be comparable to 2018. These reclassifications had no effect on net income.

Note 2 Acquisitions

Wolverine Bancorp, Inc.

On October 17, 2017, Horizon completed the acquisition of Wolverine Bancorp, Inc., a Maryland corporation (Wolverine) and Horizon Bank s acquisition of Wolverine Bank, a federally chartered savings bank and wholly-owned subsidiary of Wolverine, through mergers effective October 17, 2017. Under the terms of the Merger Agreement, shareholders of Wolverine received 1.5228 shares of Horizon common stock and $14.00 in cash for each outstanding share of Wolverine common stock. Wolverine shares outstanding at the closing to be exchanged were 2,129,331, and the shares of Horizon common stock issued to Wolverine shareholders totaled 3,241,045. Based upon the October 16, 2017 closing price of $19.37 per share of Horizon common stock immediately prior to the effectiveness of the merger, less the consideration used to pay off Wolverine Bancorp s ESOP loan receivable, the transaction has an implied valuation of approximately $93.8 million. The Company incurred approximately $1.9 million in costs related to the acquisition. These expenses are classified in the non-interest expense section of the income statement and are primarily located in the salaries and employee benefits, professional services and other expense line items. As a result of the acquisition, the Company was able to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

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(Unaudited)

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

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 estimates and assumptions that are subject to change, the final purchase price for the Wolverine acquisition is allocated as follows:

Assets		**Liabilities**	
Cash and due from banks	$ 44,450	Deposits	
		Non-interest bearing	$ 25,221
Loans		NOW accounts	8,026
Commercial	276,167	Savings and money market	129,044
Residential mortgage	30,603	Certificates of deposit	94,688
Consumer	3,897	Total deposits	256,979
Total loans	310,667		
Premises and equipment, net	2,941	Borrowings	36,970
FRB and FHLB stock	2,700	Interest payable	214
Goodwill	26,827	Other liabilities	6,154
Core deposit intangible	2,024		
Interest receivable	584		
Other assets	3,897		
Total assets purchased	$ 394,090	Total liabilities assumed	$ 300,317
Common shares issued	$ 62,111		
Cash paid	31,662		
Total estimated purchase price	$ 93,773		

Of the total purchase price of $93.8 million, $2.0 million has been allocated to core deposit intangible. Additionally, $26.8 million has been allocated to goodwill and none of the purchase price is deductible. The core deposit intangible is being amortized over 10 years on a straight line basis.

The Company acquired various loans in the acquisition that 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 assumptions, such as default rates, severity and prepayment speeds.

HORIZON BANCORP, INC. AND SUBSIDIARIES

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(Unaudited)

(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 October 17, 2017.

Contractually required principal and interest at acquisition	$ 21,912
Contractual cash flows not expected to be collected (nonaccretable differences)	1,832
Expected cash flows at acquisition	20,080
Interest component of expected cash flows (accretable discount)	2,267
Fair value of acquired loans accounted for under ASC 310-30	$ 17,813

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.

Lafayette Community Bancorp

On September 1, 2017, Horizon completed the acquisition of Lafayette Community Bancorp, an Indiana corporation (Lafayette) and Horizon Bank s acquisition of Lafayette Community Bank, a state-chartered bank and wholly-owned subsidiary of Lafayette, through mergers effective September 1, 2017. Under the terms of the Merger Agreement, shareholders of Lafayette received 0.8817 shares of Horizon common stock and $1.73 in cash for each outstanding share of Lafayette common stock. Lafayette shareholders owning fewer than 100 shares of common stock received $17.25 in cash for each common share. Lafayette shares outstanding at the closing to be exchanged were 1,856,679, and the shares of Horizon common stock issued to Lafayette shareholders totaled 1,636,888. Based upon the August 31, 2017 closing price of $17.45 per share of Horizon common stock immediately prior to the effectiveness of the merger, the transaction has an implied valuation of approximately $34.5 million. The Company incurred approximately $1.7 million in costs related to the acquisition. These expenses are classified in the non-interest expense section of the income statement and are primarily located in the salaries and employee benefits, professional services and other expense line items. As a result of the acquisition, the Company was able to increase its deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

Horizon held 5% ownership in Lafayette immediately preceding the merger date. In accordance with ASC 805-10 Business Combinations, Horizon was required to remeasure the equity interest in Lafayette s common stock and recognize the resulting gain or loss, if any, in earnings. Since Lafayette was traded in the OTC market, the remeasurement was based on the closing price of Lafayette s common stock immediately prior to the acquisition announcement and immediately prior to Horizon taking control of Lafayette. This remeasurement resulted in a gain of $530,000 which was recorded during the fourth quarter of 2017.

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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 Lafayette acquisition is detailed in the following table.

Assets		**Liabilities**	
Cash and due from banks	$ 24,846	Deposits	
Investment securities, available for sale	6	Non-interest bearing	$ 34,990
		NOW accounts	30,174
Loans		Savings and money market	53,663
Commercial	116,258	Certificates of deposit	32,520
Residential mortgage	12,761	Total deposits	151,347
Consumer	5,280		
Total loans	134,299		
Premises and equipment, net	7,818	Interest payable	42
FHLB stock	395	Other liabilities	990
Goodwill	15,408		
Core deposit intangible	2,085		
Interest receivable	338		
Other assets	1,649		
Total assets purchased	$ 186,844	Total liabilities assumed	$ 152,379
Common shares issued	$ 30,044[(1)]		
Cash paid	4,421		
Total estimated purchase price	$ 34,465		

(1) This includes $955,000 of common shares previously held by Horizon.

Of the total estimated purchase price of $34.5 million, $2.1 million has been allocated to core deposit intangible. Additionally, $15.4 million has been allocated to goodwill and none of the purchase price is deductible. The core deposit intangible will be amortized over 10 years on a straight-line basis.

The Company acquired various loans in the acquisition that 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.

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The following table details an estimate of the acquired loans that are accounted for in accordance with ASC 310-30 as of September 1, 2017.

Contractually required principal and interest at acquisition	$ 6,128
Contractual cash flows not expected to be collected (nonaccretable differences)	1,326
Expected cash flows at acquisition	4,802
Interest component of expected cash flows (accretable discount)	933
Fair value of acquired loans accounted for under ASC 310-30	$ 3,869

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.

Bargersville Branch Purchase

On February 3, 2017, Horizon completed the purchase and assumption of certain assets and liabilities of a single branch of First Farmers Bank & Trust Company, in Bargersville, Indiana. Net cash of $11.0 million was received in the transaction, representing the deposit balances assumed at closing, net of amounts paid for loans acquired in the transaction of $3.4 million and a 3.0% premium on deposits. Customer deposit balances were recorded at $14.8 million and a core deposit intangible of $452,000 was recorded in the transaction, which will be amortized over 10 years on a straight line basis. There was no goodwill generated in the transaction.

The results of operations of Wolverine and Lafayette have been included in the Company s consolidated financial statements since the acquisition dates. The following schedule includes pro-forma results for the three and nine months ended September 30, 2017 as if the Wolverine and Lafayette acquisitions had occurred as of the beginning of the comparable prior reporting period, which was January 1, 2016.

	Three Months Ended September 30 2017	Nine Months Ended September 30 2017
Summary of Operations:		

Net Interest Income	$	32,038	$	62,164
Provision for Loan Losses		(1,090)		(1,337)
Net Interest Income after Provision for Loan Losses		33,128		63,501
Non-interest Income		8,662		16,565
Non-interest Expense		26,714		51,398
Income before Income Taxes		15,076		28,668
Income Tax Expense		4,549		8,412
Net Income		10,527		20,256
Net Income Available to Common Shareholders	$	10,527	$	20,256
Basic Earnings per Share	$	0.32	$	0.61
Diluted Earnings per Share	$	0.31	$	0.60

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.

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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.

Note 3 Securities

The fair value of securities is as follows:

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 17,036	$	$ (464)	$ 16,572
State and municipal	159,812	57	(3,194)	156,675
Federal agency collateralized mortgage obligations	178,069		(5,398)	172,671
Federal agency mortgage-backed pools	193,461	16	(7,502)	185,975
Corporate notes	10,408	103	(99)	10,412
Total available for sale investment securities	$ 558,786	$ 176	$ (16,657)	$ 542,305
Held to maturity				
State and municipal	$ 204,619	$ 1,062	$ (5,257)	$ 200,424
Federal agency collateralized mortgage obligations	5,262	3	(182)	5,083
Federal agency mortgage-backed pools	13,967	27	(343)	13,651
Total held to maturity investment securities	$ 223,848	$ 1,092	$ (5,782)	$ 219,158

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 19,277	$	$ (225)	$ 19,052
State and municipal	148,045	2,189	(670)	149,564

Federal agency collateralized mortgage obligations	132,871	45	(2,551)	130,365
Federal agency mortgage-backed pools	211,487	155	(2,985)	208,657
Private labeled mortgage-backed pools	1,650		(8)	1,642
Corporate notes	272	113		385
Total available for sale investment securities	$ 513,602	$ 2,502	$ (6,439)	$ 509,665
Held to maturity				
State and municipal	$ 179,836	$ 3,493	$ (2,932)	$ 180,397
Federal agency collateralized mortgage obligations	5,734	17	(69)	5,682
Federal agency mortgage-backed pools	14,878	216	(88)	15,006
Total held to maturity investment securities	$ 200,448	$ 3,726	$ (3,089)	$ 201,085

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HORIZON BANCORP, INC. AND SUBSIDIARIES

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

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified. At September 30, 2018, no individual investment security had an unrealized loss that was determined to be other-than-temporary.

The unrealized losses on the Company s investments in securities of state and municipal governmental agencies, U.S. Treasury and federal agencies, federal agency collateralized mortgage obligations, and federal agency mortgage-backed pools were caused by interest rate volatility and not a decline in credit quality. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. The Company expects to recover the amortized cost basis over the term of the securities. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company did not consider those investments to be other-than-temporarily impaired at September 30, 2018.

The amortized cost and fair value of securities available for sale and held to maturity at September 30, 2018 and December 31, 2017, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2018		December 31, 2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
Within one year	$ 19,958	$ 19,861	$ 13,347	$ 13,326
One to five years	34,822	34,019	40,468	40,193
Five to ten years	96,035	94,103	50,473	51,156
After ten years	36,441	35,676	63,306	64,326
	187,256	183,659	167,594	169,001
Federal agency collateralized mortgage obligations	178,069	172,671	132,871	130,365
Federal agency mortgage-backed pools	193,461	185,975	211,487	208,657

Private labeled mortgage-backed pools			1,650	1,642
Total available for sale investment securities	$ 558,786	$ 542,305	$ 513,602	$ 509,665
Held to maturity				
Within one year	$ 5,646	$ 5,628	$ 1,948	$ 1,934
One to five years	48,383	48,788	40,603	41,531
Five to ten years	102,816	101,199	89,801	91,249
After ten years	47,774	44,809	47,484	45,683
	204,619	200,424	179,836	180,397
Federal agency collateralized mortgage obligations	5,262	5,083	5,734	5,682
Federal agency mortgage-backed pools	13,967	13,651	14,878	15,006
Total held to maturity investment securities	$ 223,848	$ 219,158	$ 200,448	$ 201,085

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

	September 30, 2018					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities						
U.S. Treasury and federal agencies	$ 7,763	$ (137)	$ 8,809	$ (327)	$ 16,572	$ (464)
State and municipal	215,439	(3,691)	56,725	(4,760)	272,164	(8,451)
Federal agency collateralized mortgage obligations	72,495	(830)	102,498	(4,750)	174,993	(5,580)
Federal agency mortgage-backed pools	48,696	(1,270)	145,787	(6,575)	194,483	(7,845)
Corporate notes	8,124	(99)			8,124	(99)
Total temporarily impaired securities	$ 352,517	$ (6,027)	$ 313,819	$ (16,412)	$ 666,336	$ (22,439)

	December 31, 2017					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities						
U.S. Treasury and federal agencies	$ 15,882	$ (180)	$ 2,870	$ (45)	$ 18,752	$ (225)
State and municipal	54,312	(2,758)	30,691	(844)	85,003	(3,602)
Federal agency collateralized mortgage obligations	54,006	(589)	73,462	(2,031)	127,468	(2,620)
Federal agency mortgage-backed pools	103,926	(1,019)	86,846	(2,054)	190,772	(3,073)
Private labeled mortgage-backed pools	1,642	(8)			1,642	(8)
Total temporarily impaired securities	$ 229,768	$ (4,554)	$ 193,869	$ (4,974)	$ 423,637	$ (9,528)

Information regarding security proceeds, gross gains and gross losses are presented below.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Sales of securities available for sale				
Proceeds	$ 7,485	$ 387	$ 17,321	$ 5,490
Gross gains		6	37	151
Gross losses	(122)		(148)	(113)

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Note 4 Loans

	September 30 2018	December 31 2017
Commercial		
Working capital and equipment	**$ 764,422**	$ 720,477
Real estate, including agriculture	**850,364**	880,861
Tax exempt	**46,171**	36,324
Other	**37,625**	32,066
Total	**1,698,582**	1,669,728
Real estate 1-4 family	**643,396**	599,217
Other	**7,854**	7,543
Total	**651,250**	606,760
Consumer		
Auto	**316,925**	244,003
Recreation	**13,339**	8,728
Real estate/home improvement	**39,104**	37,052
Home equity	**161,398**	165,240
Unsecured	**4,017**	3,479
Other	**1,349**	2,497
Total	**536,132**	460,999
Mortgage warehouse	**71,422**	94,508
Total loans	**2,957,386**	2,831,995
Allowance for loan losses	**(17,798)**	(16,394)
Loans, net	**$ 2,939,588**	$ 2,815,601

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

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

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

	September 30, 2018			
	Loan Balance	**Interest Due**	**Deferred Costs/(Fees)**	**Recorded Investment**
Owner occupied real estate	$ 583,261	$ 1,690	$ (1,693)	$ 583,258
Non-owner occupied real estate	704,284	1,091	(2,128)	703,247
Residential spec homes	7,254	16	(2)	7,268
Development & spec land	43,889	127	(27)	43,989
Commercial and industrial	364,151	2,919	(407)	366,663
Total commercial	1,702,839	5,843	(4,257)	1,704,425
Residential mortgage	630,955	1,995	(2,099)	630,851
Residential construction	22,394	41		22,435
Mortgage warehouse	71,422	480		71,902
Total real estate	724,771	2,516	(2,099)	725,188
Direct installment	37,895	107	586	38,588
Indirect installment	303,579	696		304,275
Home equity	192,397	931	1,675	195,003
Total consumer	533,871	1,734	2,261	537,866
Total loans	2,961,481	10,093	(4,095)	2,967,479
Allowance for loan losses	(17,798)			(17,798)
Net loans	$ 2,943,683	$ 10,093	$ (4,095)	$ 2,949,681

	December 31, 2017			
	Loan Balance	**Interest Due**	**Deferred Costs/(Fees)**	**Recorded Investment**
Owner occupied real estate	$ 575,816	$ 1,511	$ (1,917)	$ 575,410
Non-owner occupied real estate	683,901	1,138	(2,478)	682,561
Residential spec homes	16,591	63	(80)	16,574
Development & spec land	49,996	117	(579)	49,534

Commercial and industrial	349,085	2,572	(607)	351,050
Total commercial	1,675,389	5,401	(5,661)	1,675,129
Residential mortgage	593,108	1,776	(2,375)	592,509
Residential construction	16,027	39		16,066
Mortgage warehouse	94,508	480		94,988
Total real estate	703,643	2,295	(2,375)	703,563
Direct installment	36,737	113	552	37,402
Indirect installment	227,659	528	(168)	228,019
Home equity	194,860	889	1,359	197,108
Total consumer	459,256	1,530	1,743	462,529
Total loans	2,838,288	9,226	(6,293)	2,841,221
Allowance for loan losses	(16,394)			(16,394)
Net loans	$ 2,821,894	$ 9,226	$ (6,293)	$ 2,824,827

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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:

	September 30, 2018					
	Commercial	Real Estate	Consumer	Outstanding Balance	Allowance for Loan Losses	Carrying Amount
Heartland	$ 242	$ 185	$	$ 427	$	$ 427
Summit	1,463	575		2,038		2,038
Peoples	280	103		383		383
Kosciusko	769	199		968		968
LaPorte	811	962	29	1,802	106	1,696
Lafayette	3,245			3,245	15	3,230
Wolverine	9,488			9,488		9,488
Total	$ 16,298	$ 2,024	$ 29	$ 18,351	$ 121	$ 18,230

	December 31, 2017					
	Commercial	Real Estate	Consumer	Outstanding Balance	Allowance for	Carrying Amount

					Loan Losses	
Heartland	$ 390	$ 229	$	$ 619	$	$ 619
Summit	3,653	870		4,523		4,523
Peoples	315	126		441		441
Kosciusko	838	403		1,241		1,241
LaPorte	1,034	1,004	33	2,071		2,071
Lafayette	4,271			4,271		4,271
Wolverine	16,697			16,697		16,697
Total	$ 27,198	$ 2,632	$ 33	$ 29,863	$	$ 29,863

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

	Nine Months Ended September 30, 2018					
	Beginning balance	Additions	Accretion	Reclassification from nonaccretable difference	Disposals	Ending balance
Heartland	$ 452	$	$ (77)	$	$ (193)	$ 182
Summit	147		(48)		(9)	90
Kosciusko	386		(60)			326
LaPorte	980		(110)		(7)	863
Lafayette	933		(229)		(16)	688
Wolverine	2,267		(686)		(681)	900
Total	$ 5,165	$	$ (1,210)	$	$ (906)	$ 3,049

	Nine Months Ended September 30, 2017					
	Beginning balance	Additions	Accretion	Reclassification from nonaccretable difference	Disposals	Ending balance
Heartland	$ 557	$	$ (99)	$	$ (6)	$ 452
Summit	502		(268)		(2)	232
Peoples	389		(388)		(1)	
Kosciusko	530		(80)		(42)	408
LaPorte	1,479		(194)		(264)	1,021
Total	$ 3,457	$	$ (1,029)	$	$ (315)	$ 2,113

During the nine months ended September 30, 2018 and 2017 the Company increased the allowance for loan losses on purchased loans by a charge to the income statement of $121,000 and $71,000, 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 using the highest of the one, two or five-year historical loss experience is an appropriate methodology in the current economic environment, as it captures loss rates that are comparable to the current period being analyzed. The actual allowance for loan loss activity is provided below.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018 (Unaudited)	2017 (Unaudited)	2018 (Unaudited)	2017 (Unaudited)
Balance at beginning of the period	$ 17,071	$ 15,027	$ 16,394	$ 14,837
Loans charged-off:				
Commercial				
Owner occupied real estate	97	12	110	12
Non-owner occupied real estate		20		20
Residential spec homes				
Development & spec land				1
Commercial and industrial	109	232	109	491
Total commercial	206	264	219	524
Real estate				
Residential mortgage	2	37	17	89
Residential construction				
Mortgage warehouse				
Total real estate	2	37	17	89
Consumer				
Direct installment	20	84	124	113
Indirect installment	432	254	1,302	862
Home equity	11	24	142	95
Total consumer	463	362	1,568	1,070
Total loans charged-off	671	663	1,804	1,683

Recoveries of loans previously charged-off:				
Commercial				
Owner occupied real estate	7	7	19	8
Non-owner occupied real estate	5	4	22	29
Residential spec homes	2	2	6	6
Development & spec land				
Commercial and industrial	13	93	71	234
Total commercial	27	106	118	277
Real estate				
Residential mortgage	4	13	15	35
Residential construction				
Mortgage warehouse				
Total real estate	4	13	15	35
Consumer				
Direct installment	10	249	42	281
Indirect installment	107	119	378	384
Home equity	74	25	277	85
Total consumer	191	393	697	750
Total loan recoveries	222	512	830	1,062
Net loans charged-off	449	151	974	621
Provision charged to operating expense				
Commercial	1,895	429	1,589	1,357
Real estate	(243)	361	(612)	(113)
Consumer	(476)	(80)	1,401	126
Total provision charged to operating expense	1,176	710	2,378	1,370
Balance at the end of the period	$ 17,798	$ 15,586	$ 17,798	$ 15,586

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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 of the underlying collateral, which is the appraised value less estimated selling costs.

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 contractually 90 days past due, and charges down to the net realizable value other secured loans when they are contractually 90 days past due. Loans at these respective delinquency thresholds for which the Company can clearly document that the loan is both well-secured and in the process of collection, such that collection in full will occur regardless of delinquency status, are not charged off.

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

	September 30, 2018				
	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 924	$	$	$	$ 924

Collectively evaluated for impairment	9,657	1,574	1,030	4,613	16,874
Loans acquired with deteriorated credit quality					
Total ending allowance balance	$ 10,581	$ 1,574	$ 1,030	$ 4,613	$ 17,798
Loans:					
Individually evaluated for impairment	$ 8,358	$	$	$	$ 8,358
Collectively evaluated for impairment	1,696,067	653,286	71,902	537,866	2,959,121
Loans acquired with deteriorated credit quality					
Total ending loans balance	$ 1,704,425	$ 653,286	$ 71,902	$ 537,866	$ 2,967,479

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	December 31, 2017				
	Commercial	Real Estate	Mortgage Warehousing	Consumer	Total
Allowance For Loan Losses					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 184	$	$	$	$ 184
Collectively evaluated for impairment	8,909	2,188	1,030	4,083	16,210
Loans acquired with deteriorated credit quality					
Total ending allowance balance	$ 9,093	$ 2,188	$ 1,030	$ 4,083	$ 16,394
Loans:					
Individually evaluated for impairment	$ 7,187	$	$	$	$ 7,187
Collectively evaluated for impairment	1,667,942	608,575	94,988	462,529	2,834,034
Loans acquired with deteriorated credit quality					
Total ending loans balance	$ 1,675,129	$ 608,575	$ 94,988	$ 462,529	$ 2,841,221

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:

	September 30, 2018				
	Non-accrual	Loans Past Due Over 90 Days Still Accruing	Non-peforming TDRs	Performing TDRs	Total Non-performing Loans
Commercial					
Owner occupied real estate	$ 5,341	$	$	$	$ 5,341
Non-owner occupied real estate	527		501		1,028
Residential spec homes					

Development & spec land	71				71
Commercial and industrial	1,915				1,915
Total commercial	7,854		501		8,355
Real estate					
Residential mortgage	1,702	142	429	1,481	3,754
Residential construction					
Mortgage warehouse					
Total real estate	1,702	142	429	1,481	3,754
Consumer					
Direct installment	62				62
Indirect installment	608	60			668
Home equity	1,191		147	349	1,687
Total consumer	1,861	60	147	349	2,417
Total	$ 11,417	$ 202	$ 1,077	$ 1,830	$ 14,526

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	December 31, 2017				
	Non-accrual	**Loans Past Due Over 90 Days Still Accruing**	**Non-peforming TDRs**	**Performing TDRs**	**Total Non-performing Loans**
Commercial					
Owner occupied real estate	$ 4,877	$	$ 11	$ 1	$ 4,889
Non-owner occupied real estate	115		440		555
Residential spec homes					
Development & spec land	176				176
Commercial and industrial	1,734				1,734
Total commercial	6,902		451	1	7,354
Real estate					
Residential mortgage	3,693		351	1,450	5,494
Residential construction				222	222
Mortgage warehouse					
Total real estate	3,693		351	1,672	5,716
Consumer					
Direct installment	160				160
Direct installment purchased					
Indirect installment	1,041	167			1,208
Home equity	1,480		211	285	1,976
Total consumer	2,681	167	211	285	3,344
Total	$ 13,276	$ 167	$ 1,013	$ 1,958	$ 16,414

Included in the $11.4 million of non-accrual loans and the $1.1 million of non-performing TDRs at September 30, 2018 were $2.2 million and $0, 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 Commercial Banking Officer and/or the Chief Operations 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.

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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 the three methods described above.

The Company s TDRs are considered impaired loans and included in the allowance methodology using the guidance for impaired loans. At September 30, 2018, 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 September 30, 2018, the Company had $2.9 million in TDRs and $1.8 million were performing according to the restructured terms and $32,000 in TDRs were returned to accrual status during the first nine months of 2018. There were $70,000 specific reserves allocated to TDRs at September 30, 2018 based on the discounted cash flows or when appropriate the fair value of the collateral.

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

	September 30, 2018						
				Three Months Ended		Nine Months Ended	
	Unpaid Principal Balance	**Recorded Investment**	**Allowance for Loan Loss Allocated**	**Average Balance in Impaired Loans**	**Cash/Accrual Interest Income Recognized**	**Average Balance in Impaired Loans**	**Cash/Accrual Interest Income Recognized**
With no recorded allowance							
Commercial							
Owner occupied real estate	$ 4,496	$ 4,490	$	$ 5,014	$ (25)	$ 5,077	$ 71
Non-owner occupied real estate	841	857		936	(5)	1,119	5
Residential spec homes							
Development & spec land	71	69		69		72	
Commercial and industrial	1,165	1,160		1,418	5	1,241	12
Total commercial	6,573	6,576		7,437	(25)	7,509	88
With an allowance recorded							

Commercial							
Owner occupied real estate	845	845	145	852		874	
Non-owner occupied real estate	187	187	30	189	4	178	4
Residential spec homes							
Development & spec land							
Commercial and industrial	750	750	749	750	4	750	4
Total commercial	1,782	1,782	924	1,791	8	1,802	8
Total	$ 8,355	$ 8,358	$ 924	$ 9,228	$ (17)	$ 9,311	$ 96

	September 30, 2017						
				Three Months Ended		Nine Months Ended	
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Loss Allocated	Average Balance in Impaired Loans	Cash/Accrual Interest Income Recognized	Average Balance in Impaired Loans	Cash/Accrual Interest Income Recognized
With no recorded allowance							
Commercial							
Owner occupied real estate	$ 923	$ 934	$	$ 1,167	$ 4	$ 1,033	$ 4
Non-owner occupied real estate	701	701		468		308	2
Residential spec homes							
Development & spec land	102	102		222		230	
Commercial and industrial	1,707	1,714		2,066	3	1,071	19
Total commercial	3,433	3,451		3,923	7	2,642	25
With an allowance recorded							
Commercial							
Owner occupied real estate							
Non-owner occupied real estate							
Residential spec homes							
Development & spec land							
Commercial and industrial							
Total commercial							
Total	$ 3,433	$ 3,451	$	$ 3,923	$ 7	$ 2,642	$ 25

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

	September 30, 2018					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Loans Not Past Due	Total
Commercial						
Owner occupied real estate	$ 448	$ 58	$	$ 506	$ 582,755	$ 583,261
Non-owner occupied real estate	370	34		404	703,880	704,284
Residential spec homes					7,254	7,254
Development & spec land					43,889	43,889
Commercial and industrial	1,388	343		1,731	362,420	364,151
Total commercial	2,206	435		2,641	1,700,198	1,702,839
Real estate						
Residential mortgage	2,642	156	142	2,940	628,015	630,955
Residential construction	123			123	22,271	22,394
Mortgage warehouse					71,422	71,422
Total real estate	2,765	156	142	3,063	721,708	724,771
Consumer						
Direct installment	67	20		87	37,808	37,895
Indirect installment	1,025	313	60	1,398	302,181	303,579
Home equity	815	112		927	191,470	192,397
Total consumer	1,907	445	60	2,412	531,459	533,871
Total	$ 6,878	$ 1,036	$ 202	$ 8,116	$ 2,953,365	$ 2,961,481
Percentage of total loans	0.23%	0.03%	0.01%	0.27%	99.73%	

	December 31, 2017					
	30-59 Days Past	60-89 Days Past Due	90 Days or Greater	Total Past Due	Loans Not Past Due	Total

	Due		Past Due			
Commercial						
Owner occupied real estate	$ 1,613	$ 1,950	$	$ 3,563	$ 572,253	$ 575,816
Non-owner occupied real estate	512	122		634	683,267	683,901
Residential spec homes					16,591	16,591
Development & spec land	31			31	49,965	49,996
Commercial and industrial	520	1		521	348,564	349,085
Total commercial	2,676	2,073		4,749	1,670,640	1,675,389
Real estate						
Residential mortgage	1,248	49		1,297	591,811	593,108
Residential construction	63			63	15,964	16,027
Mortgage warehouse					94,508	94,508
Total real estate	1,311	49		1,360	702,283	703,643
Consumer						
Direct installment	78	10		88	36,649	36,737
Indirect installment	1,859	244	167	2,270	225,389	227,659
Home equity	502	527		1,029	193,831	194,860
Total consumer	2,439	781	167	3,387	455,869	459,256
Total	$ 6,426	$ 2,903	$ 167	$ 9,496	$ 2,828,792	$ 2,838,288
Percentage of total loans	0.23%	0.10%	0.01%	0.33%	99.67%	

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

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

For new and renewed commercial loans, the Bank s Credit Department, which acts independently of the loan officer, assigns the credit quality grade to the loan. Loan grades for loans with an aggregate credit exposure that exceeds the authorities in the respective markets (ranging from $1,000,000 to $3,500,000) are validated by the Loan Committee, which is chaired by the Chief Commercial Banking Officer (CCBO).

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

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The CCBO, 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. 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.

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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 unstablized, 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.

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.

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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.

The following table presents loans by credit grades.

	September 30, 2018				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial					
Owner occupied real estate	$ 563,429	$ 5,176	$ 14,656	$	$ 583,261
Non-owner occupied real estate	692,995	5,903	5,386		704,284
Residential spec homes	7,254				7,254
Development & spec land	41,084	2,734	71		43,889
Commercial and industrial	350,617	5,021	8,513		364,151
Total commercial	1,655,379	18,834	28,626		1,702,839
Real estate					

Residential mortgage	627,343		3,612		630,955
Residential construction	22,394				22,394
Mortgage warehouse	71,422				71,422
Total real estate	721,159		3,612		724,771
Consumer					
Direct installment	37,833		62		37,895
Indirect installment	302,911		668		303,579
Home equity	190,710		1,687		192,397
Total consumer	531,454		2,417		533,871
Total	$ 2,907,992	$ 18,834	$ 34,655	$	$ 2,961,481
Percentage of total loans	98.19%	0.64%	1.17%	0.00%	

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	December 31, 2017				
	Pass	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Commercial					
Owner occupied real estate	$ 548,992	$ 8,622	$ 18,202	$	$ 575,816
Non-owner occupied real estate	675,030	3,864	5,007		683,901
Residential spec homes	16,591				16,591
Development & spec land	48,884	886	226		49,996
Commercial and industrial	327,970	7,448	13,667		349,085
Total commercial	1,617,467	20,820	37,102		1,675,389
Real estate					
Residential mortgage	587,614		5,494		593,108
Residential construction	15,805		222		16,027
Mortgage warehouse	94,508				94,508
Total real estate	697,927		5,716		703,643
Consumer					
Direct installment	36,577		160		36,737
Indirect installment	226,451		1,208		227,659
Home equity	192,884		1,976		194,860
Total consumer	455,912		3,344		459,256
Total	$ 2,771,306	$ 20,820	$ 46,162	$	$ 2,838,288
Percentage of total loans	97.64%	0.73%	1.63%	0.00%	

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:

	September 30, 2018						
	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	$ 56,629	$	$	$	$	$	$ 56,629
Securities pledged for Repurchase Agreements							
Federal agency collateralized mortgage obligations	$ 32,535	$	$	$	$	$	$ 32,535
Federal agency mortgage-backed pools	29,467						29,467
Total	$ 62,002	$	$	$	$	$	$ 62,002

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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 5.81% on a notional amount of $30.5 million at September 30, 2018 and December 31, 2017. Under the agreements, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

The Company assumed additional interest rate swap agreements as the result of the LaPorte acquisition in July 2016. The agreements provide for the Company to receive interest from the counterparty at one month LIBOR and to pay interest to the counterparty at a weighted average fixed rate of 2.31% on a notional amount of $30.0 million at September 30, 2018 and December 31, 2017. Under the agreements, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

On July 20, 2018, the Company entered into an interest rate swap agreement for an additional portion of its floating rate debt. The agreement provides for the Company to receive interest from the counterparty at one month LIBOR and to pay interest to the counterparty at a rate of 2.81% on a notional amount of $50.0 million at September 30, 2018. Under the agreement, 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 September 30, 2018, 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 September 30, 2018, 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.

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 $205.8 million at September 30, 2018 and $154.6 million at December 31, 2017.

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 September 30, 2018, 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.

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

	Asset Derivatives September 30, 2018		Liability Derivatives September 30, 2018	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments				
Interest rate contracts	Other Assets	$ 4,918	Loans	$ 4,918
Interest rate contracts	Other Assets	24	Other liabilities	
Total derivatives desginated as hedging instruments		4,942		4,918
Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	231	Other liabilities	92
Total derivatives not designated as hedging instruments		231		92
Total derivatives		$ 5,173		$ 5,010

	Asset Derivatives December 31, 2017		Liability Derivatives December 31, 2017	
	Balance Sheet Location	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Derivatives designated as hedging instruments				
Interest rate contracts	Loans	$	Loans	$ 811
Interest rate contracts	Other Assets	811	Other liabilities	1,728
Total derivatives desginated as hedging instruments		811		2,539

Derivatives not designated as hedging instruments				
Mortgage loan contracts	Other assets	143	Other liabilities	3
Total derivatives not designated as hedging instruments		143		3
Total derivatives		$ 954		$ 2,542

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

	Amount of Loss Recognized in Other Comprehensive Income on Derivative (Effective Portion)			
	Three Months Ended		**Nine Months Ended**	
	September 30, 2018	**September 30, 2017**	**September 30, 2018**	**September 30, 2017**
Derivatives in cash flow hedging relationship				
Interest rate contracts	$ 505	$ 193	$ 1,384	$ 483

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.

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	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Derivative in fair value hedging relationship					
Interest rate contracts	Interest income - loans	$ 2,768	$ (4)	$ 574	$ 423
Interest rate contracts	Interest income - loans	(2,768)	4	(574)	(423)
Total		$	$	$	$

	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Derivative not designated as hedging relationship					
Mortgage contracts	Other income - gain on sale of loans	$ 112	$ (112)	$ 195	$ (324)

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 September 30, 2018. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available for sale securities

When quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Treasury and federal agency securities, state and municipal securities, federal agency 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.

HORIZON BANCORP, INC. AND SUBSIDIARIES

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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:

		September 30, 2018		
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Available for sale securities				
U.S. Treasury and federal agencies	$ 16,572	$	$ 16,572	$
State and municipal	156,675		156,675	
Federal agency collateralized mortgage obligations	172,671		172,671	
Federal agency mortgage-backed pools	185,975		185,975	
Corporate notes	10,412		10,412	
Total available for sale securities	542,305		542,305	
Hedged loans	205,778		205,778	
Forward sale commitments	231		231	

Interest rate swap agreements	4,942		4,942	
Commitments to originate loans	(92)		(92)	

	December 31, 2017			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Treasury and federal agencies	$ 19,052	$	$ 19,052	$
State and municipal	149,564		149,564	
Federal agency collateralized mortgage obligations	130,365		130,365	
Federal agency mortgage-backed pools	208,657		208,657	
Private labeled mortgage-backed pools	1,642		1,642	
Corporate notes	385		385	
Total available for sale securities	509,665		509,665	
Hedged loans	154,575		154,575	
Forward sale commitments	143		143	
Interest rate swap agreements	(917)		(917)	
Commitments to originate loans	(3)		(3)	

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

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Non-interest Income				
Total gains and losses from:				
Hedged loans	$ 364	$ (4)	$ 4,108	$ 423
Fair value interest rate swap agreements	(364)	4	(4,108)	(423)
Derivative loan commitments	(184)	(112)	(1)	(324)
	$ (184)	$ (112)	$ (1)	$ (324)

Certain other assets are measured at fair value on a non-recurring 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)
September 30, 2018				
Impaired loans	$ 7,431	$	$	$ 7,431
Mortgage servicing rights	12,044			12,044
December 31, 2017				
Impaired loans	$ 6,957	$	$	$ 6,957
Mortgage servicing rights	11,602			11,602

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 $26,000 during the first nine months of 2018 and decreased by $75,000 during the first nine months of 2017.

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

	September 30, 2018			
	Fair Value	**Valuation Technique**	**Unobservable Inputs**	**Range (Weighted Average)**
Impaired loans	$ 7,431	Collateral based measurement	Discount to reflect current market conditions and ultimate collectability	0%-100% (11.1%)
Mortgage servicing rights	12,044	Discounted cash flows	Discount rate,	10.3%-11.3% (10.3%),
			Constant prepayment rate,	9.3%-14.9% (9.5%),
			Probability of default	0.1%-0.8% (0.6%)

	December 31, 2017			
	Fair Value	**Valuation Technique**	**Unobservable Inputs**	**Range (Weighted Average)**
Impaired loans	$ 6,957	Collateral based measurement	Discount to reflect current market conditions and ultimate collectability	0%-46.8% (2.6%)
Mortgage servicing rights	11,602	Discounted cash flows	Discount rate,	9.6%-10.8% (9.7%),
			Constant prepayment rate,	9.2%-27.7% (10.5%),
			Probability of default	0%-1.5% (0.2%)

Note 11 Fair Value of Financial Instruments

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

The estimated fair values of financial instruments, as shown below, are not intended to reflect the estimated liquidation or market value of Horizon taken as a whole. The disclosed fair value estimates are limited to Horizon s significant financial instruments at September 30, 2018 and December 31, 2017. 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 At September 30, 2018, the fair value of net loans are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors. This is not comparable with the fair values disclosed at December 31, 2017, which were based on an entrance price basis. At December 31, 2017, the fair value of portfolio loans were 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.

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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.

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).

	September 30, 2018			
	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	$ 69,697	$ 69,697	$	$

Investment securities, held to maturity	223,848		219,158	
Loans held for sale	1,980			1,980
Loans (excluding loan level hedges), net	2,733,810			2,610,426
Stock in FHLB	18,073		18,073	
Interest receivable	13,999		13,999	
Liabilities				
Non-interest bearing deposits	$ 621,475	$ 621,475	$	$
Interest bearing deposits	2,507,079		2,373,715	
Borrowings	477,719		471,265	
Subordinated debentures	37,791		35,811	
Interest payable	1,688		1,688	

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	December 31, 2017			
	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	$ 76,441	$ 76,441	$	$
Investment securities, held to maturity	200,448		201,085	
Loans held for sale	3,094			3,094
Loans (excluding loan level hedges), net	2,661,026			2,585,879
Stock in FHLB	18,105		18,105	
Interest receivable	16,244		16,244	
Liabilities				
Non-interest bearing deposits	$ 601,805	$ 601,805	$	$
Interest bearing deposits	2,279,198		2,156,487	
Borrowings	564,157		560,057	
Subordinated debentures	37,653		35,994	
Interest payable	886		886	

Note 12 Accumulated Other Comprehensive Income

	September 30 2018	December 31 2017
Unrealized loss on securities available for sale	$ (16,481)	$ (3,937)
Unamortized gain on securities held to maturity, previously transferred from AFS	47	200
Unrealized loss on derivative instruments	24	(1,728)
Tax effect	3,447	1,914
Total accumulated other comprehensive loss	$ (12,963)	$ (3,551)

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. 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 and Tier I leverage ratios as set forth in the table below. As of September 30, 2018 and December 31, 2017, the Bank met all capital adequacy requirements to be considered well capitalized. There have been no conditions or events since the end of the third quarter of 2018 that management believes have changed the Bank s classification as well capitalized. There is no threshold for well-capitalized status for bank holding companies.

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Horizon and the Bank s actual and required capital ratios as of September 30, 2018 and December 31, 2017 were as follows:

	Actual		Required for Capital[1] Adequacy Purposes		Required For Capital[1] Adequacy Purposes with Capital Buffer		Well Capitalized Under Prompt[1] Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
September 30, 2018								
Total capital[1] (to risk-weighted assets)								
Consolidated	$ 417,728	13.31%	$ 251,097	8.00%	$ 290,331	9.25%	N/A	N/A
Bank	397,610	12.66%	251,262	8.00%	290,522	9.25%	$ 314,078	10.00%
Tier 1 capital[1] (to risk-weighted assets)								
Consolidated	399,885	12.74%	188,323	6.00%	227,557	7.25%	N/A	N/A
Bank	379,767	12.09%	188,447	6.00%	227,706	7.25%	251,262	8.00%
Common equity tier 1 capital[1] (to risk-weighted assets)								
Consolidated	361,422	11.52%	141,242	4.50%	180,476	5.75%	N/A	N/A
Bank	379,767	12.09%	141,335	4.50%	180,595	5.75%	204,150	6.50%
Tier 1 capital[1] (to average assets)								
Consolidated	399,885	10.05%	159,098	4.00%	159,098	4.00%	N/A	N/A
Bank	379,767	9.53%	159,405	4.00%	159,405	4.00%	199,257	5.00%
December 31, 2017								
Total capital[1] (to risk-weighted assets)								
Consolidated	$ 384,800	12.91%	$ 238,543	8.00%	$ 275,816	9.25%	N/A	N/A
Bank	382,788	12.85%	238,386	8.00%	275,634	9.25%	$ 297,982	10.00%
Tier 1 capital[1] (to risk-weighted assets)								
Consolidated	368,355	12.35%	178,907	6.00%	216,180	7.25%	N/A	N/A
Bank	366,343	12.29%	178,790	6.00%	216,038	7.25%	238,386	8.00%

Common equity tier 1 capital[1] (to risk-weighted assets)								
Consolidated	329,892	11.06%	134,181	4.50%	171,454	5.75%	N/A	N/A
Bank	366,343	12.29%	134,092	4.50%	171,340	5.75%	193,689	6.50%
Tier 1 capital[1] (to average assets)								
Consolidated	368,355	9.92%	148,503	4.00%	148,503	4.00%	N/A	N/A
Bank	366,343	9.89%	148,116	4.00%	148,116	4.00%	185,145	5.00%

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Note 14 Future Accounting Matters

Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement*

The FASB has issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement*. These amendments modify the disclosure requirements in Topic 820 as follows:

Removals: the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level 3 fair value measurements.

Modifications: for investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee s assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly; and the amendments clarify that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date.

Additions: the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements.

The guidance is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should all be applied prospectively for only the most recent interim or annual period presented in the initial year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of ASU No. 2018-13 and delay adoption of the additional disclosures until their effective date. We are currently evaluating the impact of adoption of ASU 2018-13 and the impact on our accounting and disclosures.

FASB ASU No. 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities*

The FASB has issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815), Targeted Improvements to Accounting for Hedging Activities*. The new guidance improves the financial reporting of hedging relationships to better portray the economic results of an entity s risk management activities in its financial statements. The amendments in this ASU also make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. For public entities, the new guidance will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early application is permitted in any interim period after issuance of the ASU. All transition requirements and elections should be applied to hedging relationships existing (that is, hedging relationships in which the hedging instrument has not expired, been sold, terminated, or exercised or the entity has not removed the designation of the hedging relationship) on the date of adoption. The effect of adoption should be reflected as of the beginning of the fiscal year of adoption (that is, the initial application date). We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

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HORIZON BANCORP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

FASB ASU No. 2017-04, ***Intangibles Goodwill and Other*** **(Topic 350):** ***Simplifying the Test for Goodwill Impairment***

The FASB has issued ASU No. 2017-04, *Intangibles Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.* The new guidance is intended to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, the income tax effects of tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the qualitative impairment test is necessary. The amendments should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. The amendments in this update should be adopted for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted on testing dates after January 1, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASU No. 2016-13, ***Financial Instruments Credit Losses*** **(Topic 326):** ***Measurement of Credit Losses on Financial Instruments***

The FASB has issued ASU No. 2016-13, *Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* The main objective of this amendment is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment 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 enhance their credit loss estimates. The amendment 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. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. Early adoption will be permitted beginning after December 15, 2018. We expect a one-time cumulative-effect adjustment to the allowance for loan losses will be recognized in retained earnings on the consolidated balance sheet as of the beginning of the first reporting period in which the new standard is effective, as is consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. We are currently implementing third-party software that was purchased and are validating the data loaded into the solution. Our implementation team meets on a regular basis to oversee activities and monitor progress. Methodologies are still being evaluated at this time so the magnitude of any such adjustment or the overall impact of the new standard on the financial condition or results of operations cannot yet be determined.

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(Unaudited)

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

FASB Accounting Standards Updates No. 2016-02, *Leases* (Topic 842)

The FASB has issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. Based on leases outstanding as of December 31, 2017, we do not expect the new standard to have a material impact on our balance sheet or income statement.

Note 15 General Litigation

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

Note 16 Business Combinations

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

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

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

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

As of September 30, 2018, Salin had total assets of approximately $918.4 million and total deposits of approximately $752.1 million and total loans of approximately $595.7 million.

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HORIZON BANCORP, INC. AND SUBSIDIARIES

Management s Discussion and Analysis of Financial Condition

And Results of Operations

For the Three and Nine Months ended September 30, 2018 and 2017

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, Inc. (Horizon or the Company) and Horizon Bank (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 expre