

HORIZON BANCORP /IN/
Form ARS
March 15, 2016

2015
Annual Report



Message to the Shareholders

Dear Shareholder,

In 2015, Horizon Bancorp (“Horizon”) reported record net income of \$20.5 million. This represents a 13.5% increase over the prior year’s net income of \$18.1 million. Adjusting for one-time after-tax transaction expenses incurred in the Peoples Bancorp acquisition of \$3.3 million, Horizon’s 2015 adjusted net income was \$23.9 million — or 25.7% above prior year’s adjusted net income. Horizon’s 2015 results reflect a solid effort by the entire Horizon team, which is truly impressive given the added challenge of integrating sixteen new office locations related to the Peoples Bancorp acquisition.

The Peoples Bancorp acquisition represents Horizon’s 7th merger over the past 13 years, and fits well into Horizon’s strategic objective of focused expansion in the states of Indiana and Michigan. We are pleased to report a smooth and successful integration, along with the retention of several experienced and quality bankers from northeast Indiana and southern Michigan with similar values.

In addition to Horizon’s successful merger last year, we opened a new full-service office in Carmel, Indiana. Carmel is one of the fastest growing communities in the Midwest, and complements Horizon’s Indianapolis and Johnson County locations. In addition, Horizon relocated our Greenwood, Indiana south office to an improved facility and consolidated our Greenwood east office. Greenwood is located in Johnson County, Indiana, which is contiguous to Indianapolis on its southern border.

As you can see, Horizon is a company on the move and is always looking for new opportunities to create shareholder value.

Focused Growth Outlook

Horizon’s three-year strategic plan calls for continued acquisitive growth, which we anticipate will account for approximately 40 to 50 percent of our total growth during this time period. Horizon’s acquisition strategy is to partner with like-minded community banks which have similar values, and are located in the states of Indiana or Michigan. Both states have favorable economic environments for business, and are well known to Horizon’s senior leadership team.

We believe bank consolidation will continue as a result of the escalating costs of doing business, increased regulatory burden, shrinking margins, and the need for succession management. Horizon’s acquisition experience, history of smooth integrations, systems capacity, and ability to retain local people has positioned us well to capitalize on this strategy.

Horizon’s three-year organic growth strategy is focused on the markets where we believe we can gain market share or capitalize on demographic growth. These markets include northwest, northeast and central Indiana, and southwest Michigan. Most of these markets project population growth faster than Horizon’s legacy branch locations. We believe organic growth will be achieved by retaining and attracting top talent, and by rewarding our employees for our mutual success.

Another key component in Horizon’s strategic plan is to consistently focus on our four primary and diverse revenue streams, which are business and agricultural banking, retail banking, mortgage lending, and wealth and investment management. Horizon’s four revenue streams do provide shareholders with greater stability to weather varying economic cycles and diversifies Horizon’s capital at risk, which we believe provides for stable and consistent returns over time.

Message to the Shareholders

Milestones Achieved Across the Company

During 2015 Horizon achieved the following new milestones:

- Horizon surpassed \$2.6 billion in total assets.
- Horizon experienced loan growth in all loan portfolios and in all geographic markets for the first time since the Great Recession.
- For the first time our commercial loan balances surpassed \$800 million.
- For the first time our investment management department surpassed \$1 billion in total assets under management.
- Horizon increased its total number of offices to 46 locations throughout the states of Indiana and Michigan.
- Horizon completed the Peoples Bancorp acquisition on July 1, 2015. This was the largest acquisition in our 143-year history.
- In February 2015, Horizon opened a new office in Carmel, Indiana.
- Horizon relocated its Greenwood south office and consolidated its Greenwood east location.

New Partnerships Announced for 2016

On February 4, 2016, Horizon announced its newest partner through the execution of a merger agreement with Kosciusko Financial, Inc. (“Kosciusko”) and its wholly owned subsidiary Farmers State Bank, headquartered in Mentone, Indiana (“Farmers State”). This merger is expected to close in the second quarter of 2016, subject to regulatory and Kosciusko’s shareholder approval. Farmers State will bolster Horizon’s presence in Kosciusko County, Indiana with five new office locations.

Kosciusko County is an attractive market with a strong manufacturing base and projected population growth. Farmers State’s current locations complement Horizon’s existing branch locations in northern Indiana. The partnership with Farmers State continues our theme of working with institutions that share our core values, including a commitment to serving the local community.

Farmers State Bank Overview:

- 5 branches
 - \$148 million in total assets
 - \$106 million in total loans
 - \$123 million in total deposits
 - 0.07% non-performing assets
-

Message to the Shareholders

Creating Shareholder Value

Since 2003, Horizon has had a written shareholder value plan. This plan calls for Horizon to create long-term shareholder value by maintaining our core values, business discipline, and focus on strategic objectives. During 2015, this was demonstrated through several key actions and events, including:

- Return on average common equity of 11.4%, (excluding after-tax merger expenses, gain on sale of investment securities, and a death benefit paid on bank-owned life insurance)
- Return on average assets of 1% (excluding after-tax merger expenses, gain on sale of investment securities, and a death benefit paid on bank-owned life insurance)
- Total loan growth, excluding acquired loans, increased 10.7%
- Increasing the quarterly dividend 7.1% from 14 cents to 15 cents per share
- Maintaining our enrollment in the Russell 2000 and 3000 indices
- Maintaining an average daily trading volume of more than 25,000 shares per day
- Increasing total shares outstanding to more than 11 million
- Maintaining a stock price that is accessible to the widest range of potential investors
- Improving efficiency by closing two offices and leveraging backroom resources

During the year, Horizon's price per common share increased 6.96%, with a total shareholder return of 8.88%. This compares favorably to the KBW NASDAQ Bank Index, which lost 1.59% for the same time period. Horizon's three- and five-year total shareholder returns as of December 31, 2015 were 50.85% and 344.75%, respectively.

In the first quarter of 2016, Horizon's stock price did decline along with the overall drop in the equity markets. This decline in the equity markets is being driven by world events, including low commodity prices, low employment participation rates, slow economic growth and a strong U.S. dollar. Even with these challenges, we believe Horizon's core fundamentals will help to minimize the down-side risk to our shareholders and create long-term shareholder value.

Horizon's commitment to people first, a careful, deliberate and focused approach to expansion, and maintaining a diverse number of revenue streams, gives us confidence in our ability to weather future economic fluctuations, as we have in the past — and to continue to deliver shareholder value.

On a personal note: In May 2016, Director Charley Gillispie will retire from our Board of Directors after 15 years of service. Charley has served Horizon and the local community admirably and we wish him well during his retirement years.

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

Craig M. Dwight
Chairman of the Board and Chief Executive Officer

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Summary of Selected Financial Data

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

	2015	2014	2013	2012	2011
Earnings					
Net interest income	\$74,734	\$62,983	\$61,383	\$58,206	\$48,113
Provision for loan losses	3,162	3,058	1,920	3,524	5,282
Other income	30,402	26,277	25,906	27,331	20,299
Other expenses	74,193	61,946	58,445	54,024	46,147
Income tax expense	7,232	6,155	7,048	8,446	4,186
Net income	20,549	18,101	19,876	19,543	12,797
Preferred stock dividend	(125)	(133)	(370)	(481)	(1,325)
Net income available to common shareholders	\$20,424	\$17,968	\$19,506	\$19,062	\$11,472
Cash dividend declared	\$6,216	\$4,744	\$3,655	\$3,047	\$2,325
Per Share Data					
Basic earnings per share	\$1.94	\$1.98	\$2.26	\$2.39	\$1.55
Diluted earnings per share	1.89	1.90	2.17	2.30	1.51
Cash dividends declared per common share	0.58	0.51	0.42	0.38	0.31
Book value per common share	21.30	19.75	17.64	17.00	14.68
Weighted-average shares outstanding					
Basic	10,510,296	9,060,702	8,619,330	7,974,241	7,407,258
Diluted	10,798,208	9,454,125	9,000,963	8,271,177	7,588,394
Period End Totals					
Loans, net of deferred loan fees and unearned income	\$1,749,131	\$1,378,554	\$1,068,828	\$1,190,717	\$983,193
Allowance for loan losses	14,534	16,501	15,992	18,270	18,882
Total assets	2,652,401	2,076,922	1,758,276	1,848,227	1,547,162
Total deposits	1,880,153	1,482,319	1,291,520	1,294,153	1,009,865
Total borrowings	482,144	383,840	288,782	378,095	400,787
Ratios					
Loan to deposit	93.03	% 93.00	% 82.76	% 92.01	% 97.36
Loan to total funding	74.04	% 73.87	% 67.63	% 71.20	% 69.70
Return on average assets	0.87	% 0.93	% 1.13	% 1.19	% 0.90
Average stockholders' equity to average total assets	9.30	% 9.33	% 9.34	% 8.63	% 8.30
Return on average stockholders' equity	9.87	% 10.60	% 12.86	% 14.72	% 11.20
Dividend payout ratio (dividends divided by net income)	29.85	% 25.72	% 18.56	% 15.90	% 20.09
Price to book value ratio	131.26	% 132.39	% 143.59	% 115.61	% 78.69
Price to earnings ratio	14.78	13.75	11.69	8.53	7.64

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Board of Directors & Executive Officers

Board of Directors	Director Emeritus	Market Presidents & Senior Officers
Susan D. Aaron Chairman Vision Financial Services	Robert C. Dabagia Chairman Emeritus	Steven L. Bechman Market President, Johnson County, Indiana
Lawrence E. Burnell Vice Chairman White Lodging Services Corp.	Horizon Bancorp Executive Officers	William S. Denton Regional President, Central Indiana
Craig M. Dwight Chairman, President & Chief Executive Officer Horizon Bancorp	Craig M. Dwight Chairman, President & Chief Executive Officer	Robert B. Gardiner Market President, Lake County, Indiana
James B. Dworkin Chancellor Purdue University North Central	Thomas H. Edwards Executive Vice President	Jeffrey H. Gatton Market President, Southern Michigan
Charley E. Gillispie Special Assistant to the President & Retired Senior Vice President of Administration & Finance Valparaiso University	Mark E. Secor Chief Financial Officer	Dan L. Hampton Market President, Indianapolis, Indiana
Daniel F. Hopp Retired Senior Vice President Corporate Affairs & General Counsel Whirlpool Corporation	James D. Neff Secretary	Carla J. Kanney Senior Vice President, Branch Administration & Security
Larry N. Middleton President Century 21 Middleton Company, Inc.	Horizon Bank, N.A. Executive Officers	Steven C. Kring Market President, LaPorte County, Indiana
Peter L. Pairitz Business Developer	Craig M. Dwight Chairman & Chief Executive Officer	Dennis J. Kuhn Regional President, Central, Michigan & Northeast Indiana
Steven W. Reed Partner BGBC Partners, LLP	Thomas H. Edwards President & Chief Credit Officer & Bank Board Member	Larry D. Kummer Market President, Northeast Indiana
Robert E. Swinehart Retired President & Chief Operating Officer Emerson Power Transmission Corp.	Mark E. Secor Executive Vice President & Chief Financial Officer	Kent J. Mishler Market President, Porter County, Indiana
	James D. Neff Secretary & Executive Vice President, Mortgage Lending	Mark D. Noeldner Market President, North Central Indiana
	David G. Rose Executive Vice President & Senior Retail Banking Officer	Chris G. Nugent
	Kathie A. DeRuiter Executive Vice President & Senior Operations Officer	

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Spero W. Valavanis
Principal
Design Organization, Inc., a
Division of Shive-Hattery, Inc.

Maurice F. Winkler, III
Retired President & Chief
Executive Officer
Peoples Bancorp

Market President,
Ingham/Eaton Counties, Michigan

Cindy L. Pressinell
Senior Vice President,
Marketing & Human Resources

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Board of Directors & Executive Officers, cont. / Shareholders Relations

Donald E. Radde Market President, Berrien County, Michigan	Horizon Bank, N.A, Subsidiaries	Shareholder Relations
Rachel L. Saxon President & Senior Wealth & Investment Management Officer	Horizon Insurance Services, Inc. Rachel L. Saxon President	For additional copies of this report, current stock quotes, a list of market makers, and other investor inquiries, call (219) 874-9272 or visit our web site at www.horizonbank.com .
Steven J. Skalka Senior Vice President, Wealth & Investment Manager	The Loan Store, Inc. Craig M. Dwight Chairman, President & Chief Executive Officer	Transfer Agent Computershare Shareholder Services P.O. Box 30170 College Station, TX 77842-3170
Keene B. Taylor Senior Vice President, Senior Mortgage Loan Officer	Horizon Investments, Inc.	(800) 368-5948
Joseph E. Walter Market President, LaGrange County, Indiana	William A. Uelman President & Secretary	
Tracy E. Woolsey Senior Vice President, Employee Benefits Trust Officer	Horizon Properties, Inc. Mark E. Secor President	
Nancy Wrzalinski Senior Vice President, Senior Auditor & ERM Manager	Horizon Bancorp Subsidiary Horizon Risk Management, Inc. Joshua C. Miller President	

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

Commission file number 0-10792

Horizon Bancorp

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large Accelerated Filer Accelerated Filer
Non-Accelerated Filer (Do not check if a smaller reporting company) Smaller Reporting Company

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant, based on the average bid price of such stock as of June 30, 2015, the last day of the registrant's most recently completed second fiscal quarter, was approximately \$208.6 million.

As of February 29, 2016, the registrant had 11,939,887 shares of common stock outstanding.

Documents Incorporated by Reference

Part of Form 10-K into which

portion of document is
incorporated
Part III

Document
Portions of the Registrant's Proxy Statement to be filed for its May 5, 2016 annual meeting of shareholders

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2015 Annual Report on Form 10-K

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2015 Annual Report on 10-K

FORWARD-LOOKING STATEMENTS

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

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

By their nature, forward-looking statements are based on assumptions, which although believed to be reasonable, are subject to risks, uncertainties, and other factors, such as the following:

- economic conditions and their impact on Horizon and its customers;
- changes in the level and volatility of interest rates, spreads on earning assets and interest-bearing liabilities, and interest rate sensitivity;
- rising interest rates and their impact on mortgage loan volumes and the outflow of deposits;
- loss of key Horizon personnel;
- increases in disintermediation, as new technologies allow consumers to complete financial transactions without the assistance of banks;
- estimates of fair value of certain of Horizon’s assets and liabilities;

- volatility and disruption in financial markets;
- prepayment speeds, loan originations, credit losses and market values, collateral securing loans and other assets;
- sources of liquidity;
- potential risk of environmental liability related to lending activities;
- changes in the competitive environment in Horizon’s market areas and among other financial service providers;
- legislation and/or regulation affecting the financial services industry as a whole, and Horizon and its subsidiaries in particular, including the effects resulting from the reforms enacted by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and the adoption of regulations by regulatory bodies under the Dodd-Frank Act;
- the impact of the new Basel III capital rules;
- changes in regulatory supervision and oversight, including monetary policy and capital requirements;
- changes in accounting policies or procedures as may be adopted and required by regulatory agencies;
- rapid technological developments and changes;
- the risks presented by cyber terrorism and data security breaches;
- containing costs and expenses;
- the slowing or failure of economic recovery;
- the ability of the U.S. federal government to manage federal debt limits; and
- the risks of expansion through mergers and acquisitions, including unexpected credit quality problems with acquired loans, difficulty integrating acquired operations and material differences in the actual financial results of such transactions compared with Horizon’s initial expectations, including the full realization of anticipated cost savings.

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You are cautioned that actual results may differ materially from those contained in the forward-looking statements. The “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this Form 10-K lists some of the factors that could cause Horizon’s actual results to vary materially from those expressed in or implied by any forward-looking statements. Your attention is directed to this discussion.

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

PART I

ITEM 1. BUSINESS

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

General

Horizon Bancorp (“Horizon” or the “Company”) is a registered bank holding company incorporated in Indiana and headquartered in Michigan City, Indiana. Horizon provides a broad range of banking services in Northern and Central Indiana and Southwestern and Central Michigan through its bank subsidiary, Horizon Bank, N.A. (the “Bank”) and other affiliated entities and Horizon Risk Management, Inc. Horizon operates as a single segment, which is commercial banking. Horizon’s common stock is traded on the NASDAQ Global Select Market under the symbol HBNC. The Bank was chartered as a national banking association in 1873 and has operated continuously since that time. The Bank is a full-service commercial bank offering commercial and retail banking services, corporate and individual trust and agency services and other services incident to banking. Horizon Risk Management, Inc. is a captive insurance company incorporated in Nevada and was formed as a wholly owned subsidiary of Horizon.

On July 1, 2015, Horizon completed the acquisition of Peoples Bancorp, an Indiana corporation (“Peoples”) and the Bank’s acquisition of Peoples Federal Savings Bank of DeKalb County (“Peoples FSB”), through mergers effective July 1, 2015. Under the terms of the acquisition, the exchange ratio was 0.95 shares of Horizon common stock and \$9.75 in cash for each outstanding share of Peoples common stock. Peoples shareholders owning fewer than 100 shares of common stock received \$33.14 in cash for each common share. Peoples shares outstanding at the closing were 2,311,858, and the shares of Horizon common stock issued to Peoples shareholders totaled 2,192,202. Horizon’s stock price was \$25.32 per share at the close of business on July 1, 2015. Based upon these numbers, the total value of the consideration for the acquisition was \$78.1 million. As a result of the acquisition, the Company will have an opportunity to increase its deposit base and reduce transaction costs. The Company also expects to reduce cost through economies of scale.

On April 3, 2014 Horizon completed its acquisition of SCB Bancorp, Inc. (“Summit”) and the Bank’s acquisition of Summit Community Bank, through mergers effective as of that date. Under the final terms of the acquisition, the exchange ratio was 0.4904 shares of Horizon’s common stock and \$5.15 in cash for each share of Summit common stock outstanding. Summit shares outstanding at the closing were 1,164,442, and the shares of Horizon common stock issued to Summit shareholders totaled 570,820. Horizon’s stock price was \$22.23 per share at the close of business on

April 3, 2014. Based upon these numbers, the total value of the consideration for the acquisition was \$18.9 million (not including the retirement of Summit debt). As a result of the acquisition, the Company experienced, and expects to continue to experience, increases in its deposit base, reductions in transaction costs and reduced costs through economies of scale.

On July 17, 2012, Horizon completed its acquisition of Heartland Bancshares, Inc. (“Heartland”) and Heartland’s wholly owned subsidiary, Heartland Community Bank (“Heartland Bank”). Heartland was merged into Horizon, and Heartland Bank was merged into the Bank. The exchange ratio was 0.81 shares of Horizon’s common stock for each share of

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HORIZON BANCORP

Heartland common stock outstanding. Horizon acquired the 1,442,449 outstanding shares of Heartland common stock in exchange for 1,168,383 shares of Horizon common stock, which had a market price of \$16.83 per share at the close of business on July 17, 2012. Horizon also purchased and retired all shares of preferred stock that Heartland had issued pursuant to the Troubled Asset Relief Program Capital Purchase Program (“TARP”). Based upon the \$16.83 market price and the TARP preferred stock purchase, the total value of the consideration for the acquisition was \$26.9 million. As a result of the acquisition, the Company experienced, and expects to continue to experience, increases in its deposit base, reductions in transaction costs and reduced costs through economies of scale.

The Bank maintains 46 full service offices. At December 31, 2015, the Bank had total assets of \$2.65 billion and total deposits of \$1.88 billion. The Bank has wholly-owned direct and indirect subsidiaries: Horizon Investments, Inc. (“Horizon Investments”), Horizon Properties, Inc. (“Horizon Properties”), Horizon Insurance Services, Inc. (“Horizon Insurance”) and Horizon Grantor Trust. Horizon Investments manages the investment portfolio of the Bank. Horizon Properties manages the real estate investment trust. Horizon Insurance is used by the Company’s Wealth Management to sell certain insurance products. Horizon Grantor Trust holds title to certain company owned life insurance policies.

Horizon formed Horizon Bancorp Capital Trust II in 2004 (“Trust II”) and Horizon Bancorp Capital Trust III in 2006 (“Trust III”) for the purpose of participating in pooled trust preferred securities offerings. The Company assumed additional debentures as the result of the acquisition of Alliance Financial Corporation in 2005, which formed Alliance Financial Statutory Trust I (“Alliance Trust”). The Company also assumed additional debentures as the result of the acquisition of American Trust & Savings Bank (“American”) in 2010, which formed Am Tru Statutory Trust I (“Am Tru Trust”). The Company also assumed additional debentures as the result of the Heartland transaction, which formed Heartland (IN) Statutory Trust II (“Heartland Trust”). See Note 15 of the Consolidated Financial Statements included at Item 8 for further discussion regarding these previously consolidated entities that are now reported separately.

The business of Horizon is not seasonal to any material degree. No material part of Horizon’s business is dependent upon a single or small group of customers, the loss of any one or more of which would have a materially adverse effect on the business of Horizon. In 2015, revenues from loans accounted for 63.3% of the total consolidated revenue, and revenues from investment securities accounted for 11.1% of total consolidated revenue.

Available Information

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

Employees

The Bank employed approximately 558 full and part-time employees as of December 31, 2015. Other than the Bank, neither Horizon nor any of its direct or indirect subsidiaries have employees.

Competition

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

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Based on deposits as of June 30, 2015, Horizon was the largest of the nine bank and thrift institutions in La Porte County with a 39.05% market share and the fifth largest of the 14 institutions in Porter County with a 10.06% market share. In the counties in northeastern Indiana where Horizon just acquired Peoples FSB, Horizon holds the largest market share of 11 banks at 30.76% market share in DeKalb County; 7.04% in LaGrange County; 8.39% in Noble County; 9.84% in Whitley County and then less than 1% in Allen County where the newest branch of the former Peoples FSB is located. The branches in Michigan that were formerly with Peoples FSB are in the counties of Cass and St. Joseph with 6.01% and 5.93% market share, respectively. In Johnson County Indiana, where Horizon acquired the branches of Heartland Bank, the Bank enjoys a 12.19% market share as the third largest of the 19 institutions in that county. In Berrien County, Michigan, Horizon was the fourth largest of the 11 bank and thrift institutions with a 7.90% market share. Horizon's market share of deposits in Lake County, Indiana was just over 1% at 1.74%, a little over 1% at 1.08% in Kalamazoo County, Michigan, and less than 1% in each of St. Joseph, Elkhart, Marion, and Hamilton Counties in Indiana. The branches of the Bank acquired in the acquisition of Summit Community Bank are located in Ingham County, Michigan and have a 2.70% market share. (Source: FDIC Summary of Deposits Market Share Reports, available at www.fdic.gov.)

Regulation and Supervision

As a bank holding company and a financial holding company, the Company is subject to extensive regulation, supervision, and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board" or "Federal Reserve") as its primary federal regulator. The Bank, as a nationally chartered bank, is subject to extensive regulation, supervision and examination by the Office of the Comptroller of the Currency ("OCC") as its primary federal regulator and, as to certain matters, by the Federal Reserve Board and the Federal Deposit Insurance Corporation ("FDIC"). Both federal and state law extensively regulate various aspects of the banking business, such as reserve requirements, truth-in-lending and truth-in-savings disclosures, equal credit opportunity, fair credit reporting, trading in securities and other aspects of banking operations. Branching by the Bank is subject to the jurisdiction and requires notice to, or the prior approval of, the OCC. The Dodd-Frank Act permits the establishment of de novo branches in states where such branches could be opened by a state bank chartered by that state. The consent of the state is no longer required. The supervision, regulation and examination of Horizon and the Bank by the regulatory agencies are intended primarily for the protection of depositors rather than for Horizon's shareholders.

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

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

The Bank Holding Company Act

The Bank Holding Company Act of 1956, as amended (“BHC Act”), generally limits the business in which a bank holding company and its subsidiaries may engage to banking or managing or controlling banks and those activities that the Federal Reserve Board has determined to be so closely related to banking as to be a proper incident thereto. Bank holding companies, such as Horizon, that qualify as, and elect to be, financial holding companies, however, may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board), without prior approval of the Federal Reserve Board. Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

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

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

The BHC Act, the Bank Merger Act and other federal and state statutes regulate acquisitions of banks and bank holding companies. The BHC Act requires the prior approval of the Federal Reserve before a bank holding company may acquire more than a 5% voting interest or substantially all assets of any bank or bank holding company. Under the Bank Merger Act, the prior approval of the OCC or another federal banking agency is required for the Bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval for mergers and other acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant’s performance record under the Community Reinvestment Act and the effectiveness of the subject organizations in combating money laundering activities.

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

Bank holding companies are required to comply with the Federal Reserve’s risk-based capital guidelines. The FDIC and the OCC also have risk-based capital ratio guidelines to which depository institutions under their respective supervision are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. For Horizon’s regulatory capital ratios and regulatory requirements as of December 31, 2015, see the information in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 below, which is incorporated herein by reference.

National Bank Act

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As a national bank, the Bank is subject to the provisions of the National Bank Act. The Bank is supervised, regulated, and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve, Consumer Financial Protection Bureau (“CFPB”) and the FDIC.

Deposit Insurance and Assessments

The Bank’s deposits are insured to applicable limits by the Deposit Insurance Fund (“DIF”) of the FDIC. Generally, deposits are insured up to the statutory limit of \$250,000. Banks are subject to deposit insurance premiums and assessments to maintain the DIF. A bank’s deposit insurance premium assessment rate depends on the capital category and supervisory category to which it is assigned. The FDIC has authority to raise or lower assessment rates on insured banks in order to achieve statutorily required reserve ratios in the DIF and to impose special additional assessments.

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The Dodd-Frank Act has resulted in significant changes to the FDIC's deposit insurance system. Under the Dodd-Frank Act, the FDIC is authorized to set the reserve ratio for the DIF at no less than 1.35%, and must achieve the 1.35% designated reserve ratio by September 30, 2020. The FDIC must offset the effect of the increase in the minimum designated reserve ratio from 1.15% to 1.35% on insured depository institutions of less than \$10 billion and may declare dividends to depository institutions when the reserve ratio at the end of a calendar quarter is at least 1.5%, although the FDIC has the authority to suspend or limit such permitted dividend declarations. In December 2010, the FDIC adopted a final rule setting the designated reserve ratio for the deposit insurance fund at 2% of estimated insured deposits.

Also as a consequence of the Dodd-Frank Act, the assessment base for deposit insurance premiums was changed, effective April 1, 2011, from adjusted domestic deposits to average consolidated total assets minus average tangible equity. Tangible equity for this purpose means Tier 1 capital. Effective April 1, 2011, the initial base assessment rates were as follows:

- For small Risk Category I banks, such as Horizon, the rates range from 5-9 basis points.
- The rates for small institutions in Risk Categories II, III and IV are 14, 23 and 35 basis points, respectively.
- For large institutions and large, highly complex institutions, the rate schedule ranges from 5 to 35 basis points. Adjustments are made to the initial assessment rates based on long-term unsecured debt, depository institution debt, and brokered deposits. Horizon's FDIC deposit insurance expense increased slightly during 2015 compared to 2014. The FDIC continued to offset the regular insurance assessments until the earlier of the exhaustion of an institution's prepaid assessments or June 30, 2013. Any prepaid assessment remaining after collection of the amount due on June 30, 2013, was returned to the institution. The FDIC returned to the Bank \$2.0 million in prepaid assessments.

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

FDIC-insured institutions are also subject to the requirement to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the Federal government established to recapitalize the predecessor to the Savings Association Insurance Fund ("SAIF"). These assessments will continue until the FICO bonds are repaid between 2017 and 2019. The FICO assessment rate was 0.60 basis points for each \$100 of insured deposits for each quarter of 2015, except for the third quarter when it was 0.58 basis points. For the first quarter of 2016, the FICO assessment rate is 0.58 basis points for each \$100 in domestic deposits maintained at an institution.

Transactions with Affiliates and Insiders

Horizon and the Bank are subject to the Federal Reserve Act, which restricts financial transactions between banks, affiliated companies and their executive officers, including limits on credit transactions between these parties. The statute prescribes terms and conditions for bank affiliate transactions deemed to be consistent with safe and sound banking practices, and restricts the types of collateral security permitted in connection with a bank's extension of credit to an affiliate.

Effective July 21, 2011, among other changes, the Dodd-Frank Act eliminated the exceptions under Section 23A of the Federal Reserve Act for transactions with financial subsidiaries and expanded the scope of transactions treated as "covered transactions" to include derivatives transactions and securities repurchase agreements. The Dodd-Frank Act also expands the types of transactions subject to insider lending limits.

Capital Regulation

The federal bank regulatory authorities have adopted risk-based capital guidelines for banks and bank holding companies that are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and account for off-balance sheet items. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to risk weighted categories consisting primarily of 0%, 20%, 50%, 100% or 150%, but also including 250% and beyond, with higher levels of capital being required for the categories perceived as representing greater risk.

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

In July 2013, the federal banking agencies approved final rules to be phased in from 2015 to 2019 implementing the U.S. Basel Committee on Banking Supervision's capital framework ("Basel III") for all U.S. banks and for bank holding companies. Under these final rules, minimum requirements have increased for both the quantity and quality of capital held by Horizon and the Bank. The rules include a new common equity Tier 1 capital ratio of 4.5%, a minimum Tier 1 capital ratio of 6.0% (increased from 4.0%), a total capital ratio of 8 % (unchanged from prior rules) and a minimum leverage ratio of 4.0%. The final rules also require a common equity Tier 1 capital conservation buffer of 2.5% of risk-weighted assets, which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain the required capital conservation buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of certain bonuses to senior executive management. The capital conservation buffer requirement will be phased in over three years beginning in 2016. The capital conservation buffer requirement effectively raises the minimum required common equity Tier 1 capital ratio to 7.0%, the Tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis.

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

These new minimum capital ratios became effective for Horizon on January 1, 2015, and will be fully phased-in on January 1, 2019. Horizon's management believes that, as of December 31, 2015, Horizon and the Bank would meet all capital adequacy requirements under the Basel III capital rules on a fully phased-in basis, as if such requirements were currently in effect.

The following is a summary of Horizon's and the Bank's regulatory capital and capital requirements at December 31, 2015.

Actual		Required For Capital ¹ Well Capitalized Under Prompt ¹			
		Adequacy Purposes		Corrective Action Provisions	
Amount	Ratio	Amount	Ratio	Amount	Ratio

As of December 31, 2015

Total capital¹ (to risk-weighted assets)

Consolidated	\$ 264,452	13.99%	\$ 151,223	8.00%	N/A	N/A
Bank	237,348	12.57%	151,057	8.00%	\$ 188,821	10.00%

Tier 1 capital¹ (to risk-weighted assets)

Consolidated	249,918	13.22%	113,427	6.00%	N/A	N/A
Bank	222,814	11.80%	113,295	6.00%	151,060	8.00%

Common equity tier 1 capital¹ (to risk-weighted assets)

Consolidated	204,350	10.81%	85,067	4.50%	N/A	N/A
Bank	222,814	11.80%	84,971	4.50%	122,737	6.50%

Tier 1 capital¹ (to average assets)

Consolidated	249,918	9.82%	101,800	4.00%	N/A	N/A
Bank	222,814	8.77%	101,626	4.00%	127,032	5.00%

¹ As defined by regulatory agencies

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

Dividends

Dividends received from the Bank are the primary source of Horizon's revenues. The Bank's payment of dividends, without prior regulatory approval, is subject to regulatory limitations. The National Bank Act requires the Bank to obtain the prior approval of the OCC for the payment of dividends if the total of all dividends declared by it in one year would exceed its net profits for the current year plus its retained net profits for the two preceding years, less any required transfers to surplus. In addition, the Bank may only pay dividends to the extent that its retained net profits (including the portion transferred to surplus) exceed the Bank's undivided profits after deducting statutory bad debt in excess of the Bank's allowance for loan losses. Under the Federal Deposit Insurance Act, the Bank is prohibited from paying any dividends, making other distributions or paying any management fees if, after such payment, it would fail to satisfy its minimum capital requirements.

In 2011, Horizon issued 12,500 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series B (the "Series B Preferred Stock") to the U. S. Department of the Treasury (the "Treasury"). The issuance to the Treasury of the Series B Preferred Stock resulted in the imposition of limitations on Horizon's ability to pay dividends. Under the terms of the Series B Preferred Stock, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking *pari passu* with the Series B Preferred Stock, junior preferred shares, or other junior securities, including the common stock, during the current quarter and for the next three quarters following the failure to declare and pay dividends on the Series B Preferred Stock, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking *pari passu* may be paid to the extent necessary to avoid any resulting material covenant breach. Effective February 1, 2016, Horizon redeemed all the Series B Preferred Stock and, accordingly, the restrictions imposed on the payment of dividends by the outstanding Series B Preferred Stock will no longer have any effect.

Prompt Corrective Regulatory Action

Federal law provides the federal banking regulators with broad powers to require an undercapitalized financial institution to take prompt corrective action to resolve the institution's problems. The extent of the regulators' powers depends on whether the institution in question is "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," as defined by regulation. Depending upon the capital category to which an institution is assigned, the regulators' corrective powers include: (i) requiring the submission of a capital restoration plan; (ii) placing limits on asset growth and restrictions on activities; (iii) requiring the institution to issue additional capital stock (including additional voting stock) or to be acquired; (iv) restricting transactions with affiliates; (v) restricting the interest rate the institution may pay on deposits; (vi) ordering a new election of directors of the institution; (vii) requiring that senior executive officers or directors be dismissed; (viii) prohibiting the institution from accepting deposits from correspondent banks; (ix) requiring the institution to divest certain subsidiaries; (x) prohibiting the payment of principal or interest on subordinated debt; and (xi) ultimately, appointing a receiver for the institution. New prompt corrective action requirements became effective January 1, 2015 and increased the capital level requirements necessary to qualify as "well capitalized." At December 31, 2015, the Bank was categorized as "well capitalized," meaning that the Bank's total risk-based capital ratio exceeded 10%, the Bank's Tier I

risk-based capital ratio exceeded 8%, the Bank's common equity Tier I risk-based capital ratio exceeded 6.5%, the Bank's leverage ratio exceeded 5%, and the Bank was not subject to a regulatory order, agreement or directive to meet and maintain a specific capital level for any capital measure.

Anti-Money Laundering and the USA Patriot Act

Horizon is subject to the provisions of the USA PATRIOT Act of 2001, which contains anti-money laundering and financial transparency laws and requires financial institutions to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering, suspicious activities and currency transaction reporting, and currency crimes.

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Sarbanes-Oxley Act of 2002

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

Pursuant to the final rules adopted by the SEC to implement Section 404 of the Sarbanes-Oxley Act of 2002, Horizon is required to include in each Form 10-K it files a report of management on Horizon’s internal control over financial reporting. The internal control report must include a statement of management’s responsibility for establishing and maintaining adequate control over financial reporting of Horizon, identify the framework used by management to evaluate the effectiveness of Horizon’s internal control over financial reporting and provide management’s assessment of the effectiveness of Horizon’s internal control over financial reporting. This Annual Report on Form 10-K also includes an attestation report issued by Horizon’s registered public accounting firm on Horizon’s internal control over financial reporting. For fiscal years prior to the year ended December 31, 2012, Horizon was not an “accelerated filer” and, therefore, Horizon was exempt from the attestation report requirements.

Financial System Reform – The Dodd-Frank Act and the CFPB

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

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

Additionally, the CFPB is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities.

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

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The Dodd-Frank Act contains numerous other provisions affecting financial institutions of all types, many of which may have an impact on the operating environment of Horizon in substantial and unpredictable ways. Horizon has incurred higher operating costs in complying with the Dodd-Frank Act, and expects higher costs to continue for the foreseeable future. Horizon's management continues to review rules and regulations adopted pursuant to the Dodd-Frank Act and assess their probable impact on the business, financial condition and results of operations of Horizon.

Other Regulation

In addition to the matters discussed above, the Bank is subject to additional regulation of its activities, including a variety of consumer protection regulations affecting its lending, deposit, and collection activities and regulations affecting secondary mortgage market activities.

Effect of Governmental Monetary Policies

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

Federal Home Loan Bank ("FHLB") System

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

As a member of the FHLB, the Bank is required to purchase and maintain stock in the FHLB of Indianapolis in an amount equal to at least 1% of its aggregate unpaid residential mortgage loans, home purchase contracts, or similar obligations at the beginning of each year. At December 31, 2015, the Bank's investment in stock of the FHLB of Indianapolis was \$10.1 million. The FHLB imposes various limitations on advances such as limiting the amount of certain types of real estate related collateral to 30% of a member's capital and limiting total advances to a member. Interest rates charged for advances vary depending upon maturity, the cost of funds to the FHLB of Indianapolis and the purpose of the borrowing.

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

and low and moderate income housing projects. For the year ended December 31, 2015, dividends paid by the FHLB of Indianapolis to the Bank totaled approximately \$370,000, for an annualized rate paid in dividends of 4.2%.

Limitations on Rates Paid for Deposits; Restrictions on Brokered Deposits

FDIC regulations restrict the interest rates that less than well-capitalized insured depository institutions may pay on deposits and also restrict the ability of such institutions to accept brokered deposits. These regulations permit a “well capitalized” depository institution to accept, renew or roll over brokered deposits without restriction, and an “adequately capitalized” depository institution to accept, renew or roll over brokered deposits with a waiver from the FDIC (subject to certain restrictions on payments of rates). The regulations prohibit an “undercapitalized” depository institution from accepting, renewing or rolling over brokered deposits. These regulations contemplate that the definitions of “well

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capitalized,” “adequately capitalized” and “undercapitalized” will be the same as the definitions adopted by the agencies to implement the prompt corrective action provisions of FDICIA. Management does not believe that these regulations will have a materially adverse effect on the Bank’s current operations.

Legislative Initiatives

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

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

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

II. INVESTMENT PORTFOLIO

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

(dollars in thousands)	December 31, 2015		December 31, 2014		December 31, 2013	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale						
U.S. Treasury and federal agencies	\$ 5,940	\$ 5,926	\$ 26,996	\$ 26,823	\$ 43,808	\$ 43,134
State and municipal	73,829	75,095	46,535	47,952	176,670	177,898
Federal agency collateralized mtg. obligations	157,291	156,203	122,930	122,860	116,047	114,706
Federal agency mortgage-backed pools	206,970	207,704	122,583	125,395	170,006	170,894
Private labeled mortgage-backed pools	—	—	670	689	1,188	1,226
Corporate notes	32	54	32	45	708	733
Total available for sale	444,062	444,982	319,746	323,764	508,427	508,591
Total held to maturity	187,629	193,703	165,767	169,904	9,910	9,910
Total investment securities	\$ 631,691	\$ 638,685	\$ 485,513	\$ 493,668	\$ 518,337	\$ 518,501

B. The following is a schedule of maturities of each category of available for sale and held-to-maturity debt securities and the related weighted-average yield of such securities as of December 31, 2015:

(dollars in thousands)	One Year or Less	After One Year Through Five Years	After Five Years Through Ten Years	After Ten Years
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	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale								
U.S. Treasury and federal agencies ⁽¹⁾	\$ —	0.00%	\$ 5,468	1.17%	\$ 458	2.05%	\$ —	0.00%
State and municipal	7,232	2.45%	33,425	3.22%	16,694	3.60%	17,744	3.73%
Federal agency collateralized mtg. obligations ⁽²⁾	—	0.00%	8,459	3.09%	55,709	2.85%	92,035	2.50%
Federal agency mortgage-backed pools ⁽²⁾	3	5.97%	1,229	4.52%	59,847	2.70%	146,625	3.00%
Corporate notes	—	0.00%	—	0.00%	—	0.00%	54	0.00%
Total available for sale	\$ 7,235	2.45%	\$ 48,581	3.00%	\$ 132,708	2.88%	\$ 256,458	2.87%
Total held to maturity	\$ —	0.00%	\$ 18,403	2.95%	\$ 130,254	3.71%	\$ 45,046	3.60%
Total investment securities	\$ 7,235	2.45%	\$ 66,984	2.99%	\$ 262,962	3.29%	\$ 301,504	2.98%

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

(2) Maturity based upon final maturity date

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

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Excluding those holdings of the investment portfolio in Treasury securities and other agencies and corporations of the U.S. Government, there were no investments in securities of any one issuer that exceeded 10% of the consolidated stockholders' equity of Horizon at December 31, 2015.

III. LOAN PORTFOLIO

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

(dollars in thousands)	December 31 2015	December 31 2014	December 31 2013	December 31 2012	December 31 2011
Commercial	\$ 804,995	\$ 674,314	\$ 505,189	\$ 460,471	\$ 352,376
Real estate	437,144	254,625	185,958	189,714	157,141
Mortgage warehouse	144,692	129,156	98,156	251,448	208,299
Consumer	362,300	320,459	279,525	289,084	265,377
	1,749,131	1,378,554	1,068,828	1,190,717	983,193
Allowance for loan losses	(14,534)	(16,501)	(15,992)	(18,270)	(18,882)
Total loans	\$ 1,734,597	\$ 1,362,053	\$ 1,052,836	\$ 1,172,447	\$ 964,311

B. Maturities and Sensitivities of Loans to Changes in Interest Rates - The following is a schedule of maturities and sensitivities of loans to changes in interest rates, excluding real estate mortgage, mortgage warehouse and installment loans, as of December 31, 2015:

(dollars in thousands)	One Year or Less	One Through Five Years	After Five Years	Total
Maturing or repricing Commercial, financial, agricultural and commercial tax-exempt loans	\$ 515,253	\$ 257,355	\$ 32,387	\$ 804,995

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

(dollars in thousands)

	Fixed Rate	Variable Rate
Total commercial, financial, agricultural and commercial tax-exempt loans due after one year	\$ 209,885	\$ 79,857

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C. Risk Elements

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

(dollars in thousands)	December 31 2015	December 31 2014	December 31 2013	December 31 2012	December 31 2011
Non-performing loans					
Commercial					
More than 90 days past due	\$ —	\$ —	\$ 45	\$ —	\$ —
Non-accrual	5,030	10,024	4,014	5,754	6,905
Trouble debt restructuring - accruing	60	610	1,296	1,265	—
Trouble debt restructuring - non-accrual	1,915	1,221	2,116	3,674	1,053
Real estate					
More than 90 days past due	1	40	2	2	—
Non-accrual	4,354	2,297	2,459	4,565	4,694
Trouble debt restructuring - accruing	808	2,526	2,686	1,761	2,682
Trouble debt restructuring - non-accrual	1,074	1,031	999	2,827	1,120
Mortgage warehouse					
More than 90 days past due	—	—	—	—	—
Non-accrual	—	—	—	—	—
Trouble debt restructuring - accruing	—	—	—	—	—
Trouble debt restructuring - non-accrual	—	—	—	—	—
Consumer					
More than 90 days past due	27	75	2	52	37
Non-accrual	2,878	2,991	3,275	3,055	2,769
Trouble debt restructuring - accruing	350	1,236	1,072	676	858
Trouble debt restructuring - non-accrual	183	391	311	148	25
Total non-performing loans	16,680	22,442	18,277	23,779	20,143
Other real estate owned and repossessed collateral					
Commercial	161	411	830	1,337	1,092
Real estate	3,046	636	1,277	1,228	1,708
Mortgage warehouse	—	—	—	—	—
Consumer	—	154	14	11	49
Total other real estate owned and repossessed collateral	3,207	1,201	2,121	2,576	2,849
Total non-performing assets	\$ 19,887	\$ 23,643	\$ 20,398	\$ 26,355	\$ 22,992

(dollars in thousands)

Gross interest income that would have been recorded on non-accrual loans outstanding as of December 31, 2015, in the period if the loans had been current, in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period.	\$ 841	\$ 1,143
Interest income actually recorded on non-accrual loans outstanding as of December 31, 2015, and included in net income for the period.	207	487
Interest income not recognized during the period on non-accrual loans outstanding as of December 31, 2015.	\$ 634	\$ 656

Discussion of Non-Accrual Policy

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

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2. Potential Problem Loans:

Impaired and non-accrual loans for which the discounted cash flows or collateral value exceeded the carrying value of the loan totaled \$16.7 million and \$22.4 million at December 31, 2015 and 2014. The allowance for impaired and non-accrual loans included in the Bank's allowance for loan losses totaled \$2.5 million and \$3.2 million at those respective dates. The average balance of impaired loans during 2015 and 2014 was \$7.1 million and \$5.3 million.

3. Foreign Outstandings:

None.

4. Loan Concentrations:

As of December 31, 2015, there are no significant concentrations of loans exceeding 10% of total loans. See Item III A above for a listing of the types of loans by concentration.

D. Other Interest-Bearing Assets

There are no other interest-bearing assets as of December 31, 2015, which would be required to be disclosed under Item III C.1 or 2 if such assets were loans.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

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

(dollars in thousands)	December 31 2015	December 31 2014	December 31 2013	December 31 2012	December 31 2011
Loans outstanding at the end of the period ⁽¹⁾	\$ 1,749,131	\$ 1,378,554	\$ 1,068,828	\$ 1,190,717	\$ 983,193
Average loans outstanding during the period ⁽¹⁾	1,593,790	1,247,510	1,092,662	1,043,620	862,498

⁽¹⁾ Net of unearned income and deferred loan fees

(dollars in thousands)

	December 31 2015	December 31 2014	December 31 2013	December 31 2012	December 31 2011
Balance at beginning of the period	\$ 16,501	\$ 15,992	\$ 18,270	\$ 18,882	\$ 19,064
Loans charged-off:					
Commercial	3,437	1,802	2,532	2,388	967
Real estate	288	328	1,055	597	956
Consumer	2,374	1,999	2,663	2,958	4,757
Total loans charged-off	6,099	4,129	6,250	5,943	6,680
Recoveries of loans previously charged-off:					
Commercial	192	773	668	782	163
Real estate	69	21	114	77	10
Consumer	709	786	1,270	948	1,043
Total loan recoveries	970	1,580	2,052	1,807	1,216
Net loans charged-off	5,129	2,549	4,198	4,136	5,464
Provision charged to operating expense	3,162	3,058	1,920	3,524	5,282
Balance at the end of the period	\$ 14,534	\$ 16,501	\$ 15,992	\$ 18,270	\$ 18,882
Percent of net charge-offs to average loans outstanding for the period	0.32%	0.20%	0.38%	0.40%	0.63%

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

	December 31 2015		December 31 2014		December 31 2013		December 31 2012		December 31 2011	
	% of Loans to		% of Loans to		% of Loans to		% of Loans to		% of Loans to	
(dollars in thousands)	Allowance Amount	Total Loans	Allowance Amount	Total Loans	Allowance Amount	Total Loans	Allowance Amount	Total Loans	Allowance Amount	Total Loans
Commercial, financial and agricultural	\$ 7,195	46%	\$ 7,910	50%	\$ 6,663	48%	\$ 7,771	39%	\$ 8,017	36%
Real estate	2,476	25%	2,508	18%	3,462	17%	3,204	16%	2,472	16%
Mortgage warehousing	1,007	8%	1,132	9%	1,638	9%	1,705	21%	1,695	21%
Consumer	3,856	21%	4,951	23%	4,229	26%	5,590	24%	6,698	27%
Unallocated	—	—	—	—	—	—	—	—	—	—
Total	\$ 14,534	100%	\$ 16,501	100%	\$ 15,992	100%	\$ 18,270	100%	\$ 18,882	100%

In 1999, Horizon began a mortgage warehousing program. This program is described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 below and in the Notes to the Consolidated Financial Statements in Item 8 below, which are incorporated herein by reference. The greatest risk related to these loans is transaction and fraud risk. During 2015, Horizon processed approximately \$2.7 billion in mortgage warehouse loans.

V. DEPOSITS

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

VI. RETURN ON EQUITY AND ASSETS

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

VII. SHORT TERM BORROWINGS

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

(dollars in thousands)	December 31 2015	December 31 2014
Outstanding at year end	\$ 59,399	\$ 44,725
Approximate weighted-average interest rate at year-end	0.13%	0.12%
Highest amount outstanding as of any month-end during the year	\$ 61,205	\$ 49,325
Approximate average outstanding during the year	\$ 54,899	\$ 45,899
Approximate weighted-average interest during the year	0.13%	0.12%

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ITEM 1A. RISK FACTORS

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

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

Risks Related to Our Business

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

- **Credit risk:** the risk that loan customers or other parties will be unable to perform their contractual obligations;
- **Market risk:** the risk that changes in market rates and prices will adversely affect our financial condition or results of operation;
- **Liquidity risk:** the risk that Horizon or the Bank will have insufficient cash or access to cash to meet its operating needs;
- **Operational risk:** the risk of loss resulting from fraud, inadequate or failed internal processes, people and systems, or external events;
 - **Economic risk:** the risk that the economy in our markets could decline further resulting in increased unemployment, decreased real estate values and increased loan charge-offs; and
- **Compliance risk:** the risk of additional action by our regulators or additional regulation could hinder our ability to do business profitably.

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

We are operating in a challenging and uncertain economic environment, including generally uncertain world, national and local conditions in our markets. The capital and credit markets have been experiencing volatility and disruption since 2008. This presents financial institutions with unprecedented circumstances and challenges that in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. Our financial statements have been prepared using values and information currently available to us, but given this volatility, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values and the allowance for loan losses, which could negatively impact our ability to meet regulatory capital requirements and maintain sufficient liquidity. The risks associated with our business become more acute in periods of a slowing economy or slow growth such as we began experiencing in the latter half of 2008 and which continued through 2015. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. While we continue to take steps to decrease and limit our exposure to residential construction and land development loans and home equity loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events.

Continued declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job loss, could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. Further deterioration in local economic conditions in our

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markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following other consequences: increases in loan delinquencies, problem assets and foreclosures; demand for our products and services may decline; deposits may decrease, which would adversely impact our liquidity position; and collateral for our loans, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans.

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

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

Also, technology and other changes have lowered barriers to entry and made it possible for customers to complete financial transactions using non-banks that historically have involved banks at one or both ends of the transaction. Non-banks now offer products and services traditionally provided by banks. For example, consumers can maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The effects of disintermediation can also impact the lending business because of the fast growing body of financial technology companies that use software to deliver mortgage lending and other financial services. A related risk is the migration of bank personnel away from the traditional bank environments into financial technology companies and other non-banks.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our primary market area for deposits and loans consists of North and Central Indiana and Southwest and Central Michigan. An economic slowdown could hurt our business and the possible consequences of such a downturn could include the following:

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

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

We depend heavily on the services of our existing senior management team, particularly our CEO Craig M. Dwight, to carry out our business and investment strategies. As we continue to grow and expand our business and our locations, products and services, we will increasingly need to rely on Mr. Dwight's experience, judgment and expertise as well as that of the other members of our senior management team. We also depend heavily on our experienced and effective lending teams and their respective special market insights, including, for example, our agricultural lending specialists. In addition to the importance of retaining our lending team, we will also need to continue to attract and retain qualified banking personnel at all levels. Competition for such personnel is intense in our geographic market areas. If we are unable to attract and retain an effective lending team and other talented people, our business could suffer. The loss of the services of any senior management personnel, particularly Mr. Dwight, or the inability to recruit and retain qualified lending and other personnel in the future, could have a material adverse effect on our consolidated results of operations, financial condition and prospects.

Potential acquisitions may disrupt our business and dilute stockholder value.

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

- potential exposure to unknown or contingent liabilities of the target company;
 - exposure to potential asset quality issues of the target company;
 - potential disruption to our business;
 - potential diversion of our management's time and attention away from day-to-day operations;
 - the possible loss of key employees, business and customers of the target company;
 - difficulty in estimating the value of the target company, and;
 - potential problems in integrating the target company's systems, customers and employees with ours.
- As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving the payment of cash or the issuance of our debt or equity securities may occur at any time. Acquisitions typically involve the payment of a premium over book and market values, and, therefore, some dilution of our tangible book value and net income per common share may occur in connection with any future transaction. To the extent we were to issue additional common shares in any such transaction, our current shareholders would be diluted and such an issuance may have the effect of decreasing our stock price, perhaps significantly. Furthermore, failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on our financial condition and results of operations.

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

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

We may need to raise additional capital in the future to fund acquisitions and to provide us with sufficient capital resources and liquidity to meet our commitments, regulatory capital requirements and business needs, particularly if our asset quality or earnings were to deteriorate significantly. Although we are currently, and have historically been, “well capitalized” for regulatory purposes, our capital levels are not far in excess of the well capitalized threshold, and in the past we have been required to maintain increased levels of capital in connection with certain acquisitions. Additionally, we periodically explore acquisition opportunities with other financial institutions, some of which are in distressed financial condition. Any future acquisition, particularly the acquisition of a significantly troubled institution or an institution of comparable size to us, may require us to raise additional capital in order to obtain regulatory approval and/or to remain well capitalized.

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2015, we had \$57.0 million of goodwill and other intangible assets. A significant and sustained decline in our stock price and market capitalization, a significant decline in our expected future cash flows, a significant adverse change in the business climate, or slower growth rates could result in impairment of goodwill. If we were to conclude that a future write-down of our goodwill is necessary, then we would record the appropriate charge, which could be materially adverse to our operating results and financial position. For further discussion, see Notes 1 and 11, “Nature of Operations and Summary of Significant Accounting Policies” and “Intangible Assets,” to the Consolidated Financial Statements included in Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2015.

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

Our operations are subject to extensive regulation by federal agencies. See “Regulation and Supervision” in the description of our Business in Item 1 of Part I of this report for detailed information on the laws and regulations to which we are subject. Changes in applicable laws, regulations or regulator policies can materially affect our business.

The likelihood of any major changes in the future and their effects are impossible to determine. As an example, the Bank could experience higher credit losses because of federal or state legislation or by regulatory or bankruptcy court action that reduces the amount the Bank's borrowers are otherwise contractually required to pay under existing loan contracts. Also, the Bank could experience higher credit losses because of federal or state legislation or regulatory action that limits its ability to foreclose on property or other collateral or makes foreclosure less economically feasible.

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

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

In the normal course of business, we process large volumes of transactions. If systems of internal control should fail to work as expected, if systems are used in an unauthorized manner, or if employees subvert the system of internal controls, significant losses could result.

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

We establish and maintain systems of internal operational controls that are designed to provide us with timely and accurate information about our level of operational risk. While not foolproof, these systems have been designed to manage operational risk at appropriate, cost-effective levels. Procedures also exist that are designed to ensure that policies relating to conduct, ethics and business practices are followed. From time to time, losses from operational risk may occur, including the consequences of operational errors.

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

Our information systems may experience cyber-attacks or an interruption or breach in security.

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

We also face risks related to cyber-attacks and other security breaches in connection with credit card and debit card transactions that typically involve the transmission of sensitive information regarding our customers through various

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

To the extent we are involved in any future cyber-attacks or other breaches, we may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any

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insurance we maintain. We could also suffer significant damage to our reputation. Although we are insured against many of these risks, including privacy breach response costs, notification expenses, breach support and credit monitoring expenses, cyber extortion and cyber terrorism, there can be no assurances that such insurance will be sufficient to cover all costs arising from a data or information technology breach and our exposure may exceed our coverage.

We continually encounter technological changes.

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

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

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

Damage to our reputation could damage our business.

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

The soundness of other financial institutions could adversely affect us.

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

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Risks Related to our Common Stock

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

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

These factors include:

- variations in our operating results or the quality of our assets;
 - operating results that vary from the expectations of management, securities analysts and investors;
- increases in loan losses, non-performing loans and other real estate owned;
- changes in expectations as to our future financial performance;
- announcements of new products, strategic developments, acquisitions and other material events by us or our competitors;
- the operating and securities price performance of other companies that investors believe are comparable to us;
- loss of our inclusion on the Russell 3000 or other indices;
- actual or anticipated sales of our equity or equity-related securities;
- our past and future dividend practice;
- our creditworthiness;

- interest rates;
 - the credit, mortgage and housing markets, the markets for securities relating to mortgages or housing;
 - developments with respect to financial institutions generally; and
 - economic, financial, geopolitical, regulatory, congressional or judicial events that affect us or the financial markets.
- In addition the stock market in general has recently experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies and particularly those in the financial services and banking sector, including for reasons unrelated to their operating performance. These broad market fluctuations may adversely affect our stock price, notwithstanding our operating results.

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

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

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

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

Our articles of incorporation provide for a staggered board, which means that only one-third of our board can be replaced by shareholders at any annual meeting. Our articles also provide that our directors may only be removed without cause by shareholders owning 70% or more of our outstanding common stock. Furthermore, our articles provide that only our board of directors, and not our shareholders, may adopt, alter, amend and repeal our by-laws.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The main office and full service branch of Horizon and the Bank is located at 515 Franklin Square, Michigan City, Indiana. The building located across the street from the main office of Horizon and the Bank, at 502 Franklin Square, houses the credit administration, operations, facilities and purchasing, and information technology departments of the Bank. In addition to these principal facilities, the Bank has 45 sales offices located at:

3631 South Franklin Street	Michigan City	Indiana
113 West First Street	Wanatah	Indiana
1500 West Lincolnway	LaPorte	Indiana
423 South Roosevelt Street	Chesterton	Indiana
4208 North Calumet Avenue	Valparaiso	Indiana
902 East Lincolnway	Valparaiso	Indiana
455 Morthland Drive	Valparaiso	Indiana
2650 Willowcreek Road	Portage	Indiana
8590 Broadway	Merrillville	Indiana
10429 Calumet Avenue	Munster	Indiana
17400 State Road 23	South Bend	Indiana
1909 East Bristol Street	Elkhart	Indiana
4574 Elkhart Road	Goshen	Indiana
1321 119 th Street	Whiting	Indiana
1349 Calumet Avenue	Hammond	Indiana

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1300 North Main Street	Crown Point	Indiana
420 North Morton Street	Franklin	Indiana
151 Marlin Drive	Greenwood	Indiana
942 South US 31	Greenwood	Indiana
507 Three Notch Lane	Bargersville	Indiana
302 North Alabama Steet	Indianapolis	Indiana
1216 West Carmel Drive	Carmel	Indiana
212 West Seventh Street	Auburn	Indiana
105 North Main Street	Avilla	Indiana
507 North Main Street	Columbia City	Indiana
123-129 South Main Street	Columbia City	Indiana
1212 South Randolph Street	Garrett	Indiana

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303 Defiance Street	Howe	Indiana
116 West Mitchell Street	Kendallville	Indiana
114 South Detroit Street	LaGrange	Indiana
210 West Lake Street	Topeka	Indiana
625 South Wayne Street	Waterloo	Indiana
22730 Main Street	Woodburn	Indiana
811 Ship Street	St. Joseph	Michigan
2608 Niles Road	St. Joseph	Michigan
1041 East Napier Avenue	Benton Harbor	Michigan
500 West Buffalo Street	New Buffalo	Michigan
6801 West US 12	Three Oaks	Michigan
3250 West Centre Avenue	Portage	Michigan
1600 Abbot Road	East Lansing	Michigan
2151 West Grand River	Okemos	Michigan
500 North Grand Street	Schoolcraft	Michigan
123 Portage Avenue	Three Rivers	Michigan
1213 West Michigan Avenue	Three Rivers	Michigan
15534 US 12	Union	Michigan

Horizon owns all of the facilities except for the East Lansing, Michigan office located at 1600 Abbot Road, which is leased.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

SPECIAL ITEM: EXECUTIVE OFFICERS OF REGISTRANT

Craig M. Dwight	59	Chairman of Horizon since July 1, 2014; Chairman and Chief Executive Officer of the Bank since January 2003; Chief Executive Officer of Horizon and the Bank since July 1, 2001; President of the Bank since 1998.
Thomas H. Edwards	63	President of the Bank since January 2003.
Mark E. Secor	49	Executive Vice President of Horizon since January 1, 2014; Chief Financial Officer and Executive Vice President of Horizon and the Bank since January 2009; Vice President, Chief Investment and Asset Liability Manager since June 2007; Chief Financial Officer of St. Joseph Capital Corp., Mishawaka, Indiana from 2004 to 2007.

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James D. Neff 56 Corporate Secretary of Horizon since 2007; Executive Vice President-Mortgage Banking of the Bank since January 2004; Senior Vice President of the Bank since October 1999.

Dave G. Rose 57 Executive Vice President of Horizon since January 1, 2014; President of the Bank's Northwest Indiana Region since January 1999.

Kathie A. DeRuiter 54 Executive Vice President of Horizon and Senior Bank Operations Officer since January 1, 2014; Senior Vice President, Senior Bank Operations Officer since January 1, 2003; Vice President, Senior Bank Operations Officer since January 1, 2000.

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

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PART II

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

Repurchases of Securities

There were no purchases by the Company of its common stock during the fourth quarter of 2015.

Performance Graph

The SEC requires Horizon to include a line graph comparing Horizon's cumulative five-year total shareholder returns on the common shares with market and industry returns over the past five years. SNL Financial LC prepared the following graph. The return represented in the graph assumes the investment of \$100 on December 31, 2010, and further assumes reinvestment of all dividends. The Company's common stock began trading on the NASDAQ Global Market on February 1, 2007, and on the NASDAQ Global Select Market on January 2, 2014. Prior to that date, the common stock was traded on the NASDAQ Capital Market.

Index	Period Ending					
	December 31 2010	December 31 2011	December 31 2012	December 31 2013	December 31 2014	December 31 2015
Horizon Bancorp	100.00	100.30	174.45	229.20	241.71	263.17
Russell 2000	100.00	95.82	111.49	154.78	162.35	155.18
SNL Bank \$1B-\$5B	100.00	91.20	112.45	163.52	170.98	191.39
SNL Micro Cap Bank	100.00	95.11	120.19	155.07	175.86	195.56

Source : SNL Financial LC, Charlottesville, VA
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The following chart compares the change in market price of Horizon's common stock since December 31, 2010 to that of publicly traded banks in Indiana and Michigan with assets greater than \$500 million, excluding the reinvestment of dividends.

Index	Period Ending					
	December 31 2010	December 31 2011	December 31 2012	December 31 2013	December 31 2014	December 31 2015
Horizon Bancorp	100.00	97.73	166.21	214.26	221.11	236.50
Indiana Banks ⁽¹⁾	100.00	102.15	109.89	150.84	157.23	162.16
Michigan Banks ⁽¹⁾	100.00	99.28	118.24	165.38	168.06	193.00

(1) excludes merger targets

Source : SNL Financial LC, Charlottesville, VA

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The other information regarding Horizon's common stock, including the approximate number of holders of the common stock, is included under the caption "Horizon's Common Stock and Related Stockholders Matters" in Item 8 below, which is incorporated by reference.

ITEM 6. SELECTED FINANCIAL DATA

The information required under this item is incorporated by reference to the information appearing under the caption "Summary of Selected Financial Data" in Item 8 of this Form 10-K.

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

Overview

Horizon is a registered bank holding company incorporated in Indiana and headquartered in Michigan City, Indiana. Horizon provides a broad range of banking services in Northern and Central Indiana and Southwestern and Central Michigan through its bank subsidiary. Horizon operates as a single segment, which is commercial banking. Horizon's common stock is traded on the NASDAQ Global Select Market under the symbol HBNC. The Bank was chartered as a national banking association in 1873 and has operated continuously since that time. The Bank is a full-service commercial bank offering commercial and retail banking services, corporate and individual trust and agency services, and other services incident to banking. All share data included below has been adjusted to reflect Horizon's three-for-two stock splits paid on November 9, 2012 and December 9, 2011.

Following are some highlights of Horizon's financial performance during 2015:

- Net income for the year ending December 31, 2015 was \$20.5 million or \$1.89 diluted earnings per share.
- Excluding merger expenses, gain on sale of investment securities and the death benefit on bank owned life insurance, net income for the year ending December 31, 2015 increased 29.0% compared to the year ending December 31, 2014 to \$23.6 million or \$2.18 diluted earnings per share.
- Net interest income for the year ending December 31, 2015 increased 18.7% or \$11.8 million compared to the year ending December 31, 2014.
- Non-interest income for the year ending December 31, 2015 increased 15.7% or \$4.1 million compared to the year ending December 31, 2014.
- Commercial loans surpassed \$800.0 million during the fourth quarter of 2015 for the first time in the Company's history, ending the year at \$805.0 million.
- Total loans, excluding acquired loans, increased 10.7% or \$148.0 million during the year ending December 31, 2015.

- Excluding merger expenses, gain on sale of investment securities and the death benefit on bank owned life insurance, return on average assets was 1.00% for the year ending December 31, 2015.
- Excluding merger expenses, gain on sale of investment securities and the death benefit on bank owned life insurance, return on average common equity was 11.36% for the year ending December 31, 2015.
- Non-performing loans to total loans as of December 31, 2015 were 0.95% compared to 1.62% as of December 31, 2014.
- Substandard loans totaled \$25.1 million as of December 31, 2015, a decrease of \$2.6 million from \$27.7 million as of December 31, 2014.
- Horizon's tangible book value per share increased to \$16.53 at December 31, 2015, compared to \$16.26 at December 31, 2014 and \$14.97 at December 31, 2013.
- Horizon Bank's capital ratios, including Tier 1 Capital to Average Assets of 8.77% and Total Capital to Risk Weighted Assets of 12.57% as of December 31, 2015, continue to be well above the regulatory standards for well-capitalized banks.

Critical Accounting Policies

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

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Allowance for Loan Losses

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

Acquired credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (FASB ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loans. Accordingly, allowances for credit losses related to these loans are not carried over and recorded at the acquisition dates. Loans acquired through business combinations that do not meet the specific criteria of FASB ASC 310-30, but for which a discount is attributable, at least in part to the credit quality, are also accounted for under this guidance. As a result, related discounts are recognized subsequently through accretion based on the expected cash flows of the acquired loans. For purposes of applying FASB ASC 310-30, loans acquired in business combinations are aggregated into pools of loans with common risk characteristics.

Goodwill and Intangible Assets

Management believes that the accounting for goodwill and other intangible assets also involves a higher degree of judgment than most other significant accounting policies. FASB ASC 350-10 establishes standards for the amortization of acquired intangible assets and impairment assessment of goodwill. At December 31, 2015, Horizon had core deposit intangibles of \$7.4 million subject to amortization and \$49.6 million of goodwill, which is not subject to amortization. Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. Horizon's goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of Horizon to provide quality, cost effective banking services in a competitive marketplace. The goodwill value is supported by revenue that is in part driven by the volume of business transacted. A decrease in earnings resulting from a decline in the customer base or the inability to deliver cost effective services over sustained periods can lead to impairment of goodwill that could adversely affect earnings in future periods. FASB ASC 350-10 requires an annual evaluation of goodwill for impairment. The evaluation of goodwill for impairment requires the use of estimates and assumptions. Market price at the close of business on December 31, 2015 was \$27.96 per share compared to a tangible book value of \$16.53 per common share. Horizon's return on

average assets was 87 basis points for the year ending December 31, 2015.

Mortgage Servicing Rights

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

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Future changes in management's assessment of the impairment of these servicing assets, as a result of changes in observable market data relating to market interest rates, loan prepayment speeds, and other factors, could impact Horizon's financial condition and results of operations either positively or negatively.

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

Derivative Instruments

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

Horizon's accounting policies related to derivatives reflect the guidance in FASB ASC 815-10. Derivatives that qualify for the hedge accounting treatment are designated as either: a hedge of the fair value of the recognized asset or liability or of an unrecognized firm commitment (a fair value hedge) or a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (a cash flow hedge). For fair value hedges, the cumulative change in fair value of both the hedge instruments and the underlying loans is recorded in non-interest income. For cash flow hedges, changes in the fair values of the derivative instruments are reported in OCI to the extent the hedge is effective. The gains and losses on derivative instruments that are reported in OCI are reflected in the consolidated income statement in the periods in which the results of operations are impacted by the variability of the cash flows of the hedged item. Generally, net interest income is increased or decreased by amounts receivable or payable with respect to the derivatives, which qualify for hedge accounting. At inception of the hedge,

Horizon establishes the method it uses for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. The ineffective portion of the hedge, if any, is recognized currently in the consolidated statements of income. Horizon excludes the time value expiration of the hedge when measuring ineffectiveness.

Valuation Measurements

Valuation methodologies often involve a significant degree of judgment, particularly when there are no observable active markets for the items being valued. Investment securities, residential mortgage loans held for sale and derivatives are carried at fair value, as defined in FASB ASC 820, which requires key judgments affecting how fair value for such assets and liabilities is determined. In addition, the outcomes of valuations have a direct bearing on the carrying amounts of goodwill, mortgage servicing rights, and pension and other post-retirement benefit obligations. To determine the values of these assets and liabilities, as well as the extent, to which related assets may be impaired, management makes assumptions and estimates related to discount rates, asset returns, prepayment speeds and other factors. The use of different discount rates or other valuation assumptions could produce significantly different results, which could affect Horizon's results of operations.

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Analysis of Financial Condition

Horizon's total assets were \$2.7 billion as of December 31, 2015, an increase of \$575.5 million from December 31, 2014.

Investment Securities

Investment securities totaled \$632.6 million at December 31, 2015, and consisted of Treasury and federal agency securities of \$11.8 million (1.9%); state and municipal securities of \$221.4 million (35.0%); federal agency mortgage-backed pools of \$234.1 million and federal agency collateralized mortgage obligations of \$165.3 million (63.1%); and corporate securities of \$54,000 (0.0%). Investment securities increased \$143.1 million during 2015 primarily as a result of cash received from the Peoples merger.

As indicated above, 63.1% of the investment portfolio consists of mortgage-backed securities and collateralized mortgage obligat