UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

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

For the transition period from________to

Commission file number 0-10792

HORIZON BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

515 Franklin Street, Michigan City, Indiana 46360
(Address of principal executive offices)(Zip Code)
Registrant's telephone number, including area code: (219) 879-0211
Former name, former address and former fiscal year, if changed since last report: N/A

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	**HBNC**	**The NASDAQ Stock Market, LLC**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 44,114,049 shares of Common Stock, no par value, at November 8, 2023.

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

HORIZON BANCORP, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Dollar Amounts in Thousands)

	September 30, 2023 (Unaudited)	December 31, 2022
Assets		
Cash and due from banks	**$ 175,137**	$ 123,505
Interest earning time deposits	**2,207**	2,812
Investment securities, available for sale	**865,168**	997,558
Investment securities, held to maturity (fair value of $1,556,845 and $1,681,309)	**1,966,483**	2,022,748
Loans held for sale	**2,828**	5,807
Loans, net of allowance for credit losses of $49,699 and $50,464	**4,309,303**	4,107,534
Premises and equipment, net	**94,716**	92,677
Federal Home Loan Bank stock	**34,509**	26,677
Goodwill	**155,211**	155,211
Other intangible assets	**14,530**	17,239
Interest receivable	**37,850**	35,294
Cash value of life insurance	**149,212**	146,175
Other assets	**152,280**	139,281
Total assets	**$ 7,959,434**	$ 7,872,518
Liabilities		
Deposits		
Non–interest bearing	**$ 1,126,703**	$ 1,277,768
Interest bearing	**4,573,394**	4,580,006
Total deposits	**5,700,097**	5,857,774
Borrowings	**1,356,510**	1,142,949
Subordinated notes	**59,007**	58,896
Junior subordinated debentures issued to capital trusts	**57,201**	57,027
Interest payable	**16,281**	5,380
Other liabilities	**76,969**	73,117
Total liabilities	**7,266,065**	7,195,143
Commitments and contingent liabilities		
Stockholders' Equity		
Preferred stock, Authorized, 1,000,000 shares, Issued 0 shares	**—**	—
Common stock, no par value, Authorized 99,000,000 shares		
Issued and Outstanding 44,116,739 and 43,937,889 shares	**—**	—
Additional paid-in capital	**355,478**	354,188
Retained earnings	**461,325**	429,385
Accumulated other comprehensive loss	**(123,434)**	(106,198)
Total stockholders' equity	**693,369**	677,375
Total liabilities and stockholders' equity	**$ 7,959,434**	$ 7,872,518

See notes to condensed consolidated financial statements

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HORIZON BANCORP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)
(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Interest Income				
Loans receivable	$ **63,003**	$ 45,517	$ **178,961**	$ 122,641
Investment securities – taxable	**8,788**	8,436	**26,253**	24,500
Investment securities – tax exempt	**7,002**	7,478	**21,617**	21,482
Other	**1,332**	65	**1,960**	223
Total interest income	**80,125**	61,496	**228,791**	168,846
Interest Expense				
Deposits	**24,704**	4,116	**58,481**	7,289
Borrowed funds	**11,224**	3,895	**30,713**	6,425
Subordinated notes	**880**	880	**2,641**	2,641
Junior subordinated debentures issued to capital trusts	**1,227**	744	**3,469**	1,755
Total interest expense	**38,035**	9,635	**95,304**	18,110
Net Interest Income	**42,090**	51,861	**133,487**	150,736
Credit loss expense (recovery)	**263**	(601)	**1,185**	(1,747)
Net Interest Income after Credit Loss Expense (Recovery)	**41,827**	52,462	**132,302**	152,483
Non–interest Income				
Service charges on deposit accounts	**3,086**	3,023	**9,135**	8,651
Wire transfer fees	**120**	148	**345**	477
Interchange fees	**3,186**	3,089	**9,637**	9,451
Fiduciary activities	**1,206**	1,203	**3,728**	4,111
Gain (loss) on sale of investment securities	**—**	—	**(480)**	—
Gain on sale of mortgage loans	**1,582**	1,441	**3,372**	5,969
Mortgage servicing income, net	**631**	355	**1,984**	4,163
Increase in cash value of bank owned life insurance	**1,055**	814	**3,051**	1,843
Death benefit on bank owned life insurance	**—**	—	**—**	644
Other income	**964**	115	**1,675**	1,468
Total non–interest income	**11,830**	10,188	**32,447**	36,777
Non–interest Expense				
Salaries and employee benefits	**20,058**	20,613	**58,932**	60,305
Net occupancy expenses	**3,283**	3,293	**10,095**	10,044
Data processing	**2,999**	2,539	**8,684**	7,683
Professional fees	**707**	552	**1,873**	1,149
Outside services and consultants	**2,316**	2,855	**7,548**	7,865
Loan expense	**1,120**	1,392	**3,635**	4,130
FDIC insurance expense	**1,300**	670	**2,680**	2,170
Core deposit intangible amortization	**903**	926	**2,709**	2,777
Other losses	**188**	398	**543**	928
Other expense	**3,294**	3,578	**10,255**	10,439
Total non–interest expense	**36,168**	36,816	**106,954**	107,490
Income Before Income Taxes	**17,489**	25,834	**57,795**	81,770
Income tax expense	**1,284**	2,013	**4,599**	9,527
Net Income	$ **16,205**	$ 23,821	$ **53,196**	$ 72,243
Basic Earnings Per Share	$ **0.37**	$ 0.55	$ **1.22**	$ 1.66
Diluted Earnings Per Share	**0.37**	0.55	**1.21**	1.65

See notes to condensed consolidated financial statements

HORIZON BANCORP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(Dollar Amounts in Thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Net Income	**$ 16,205**	$ 23,821	**$ 53,196**	$ 72,243
Other Comprehensive Income (Loss)				
Change in fair value of derivative instruments:				
Change in fair value of derivative instruments for the period	**—**	1,952	**(523)**	5,741
Reclassification adjustment for swap termination gain realized in income	**—**	—	**(1,453)**	—
Income tax effect	**—**	(410)	**415**	(1,206)
Changes from derivative instruments	**—**	1,542	**(1,561)**	4,535
Change in securities:				
Unrealized gain (loss) for the period on available for sale securities	**(32,139)**	(39,856)	**(19,790)**	(169,013)
Reclassification of securities from available for sale to held to maturity	**—**	—	**—**	(794)
Amortization (accretion) from transfer of securities from available for sale to held to maturity securities	**(158)**	(143)	**(531)**	(1,081)
Reclassification adjustment for securities (gains) losses realized in income	**—**	—	**480**	—
Income tax effect	**6,782**	8,400	**4,166**	35,887
Unrealized gains (losses) on securities	**(25,515)**	(31,599)	**(15,675)**	(135,001)
Other Comprehensive Income (Loss), Net of Tax	**(25,515)**	(30,057)	**(17,236)**	(130,466)
Comprehensive Income (Loss)	**$ (9,310)**	$ (6,236)	**$ 35,960**	$ (58,223)

See notes to condensed consolidated financial statements

HORIZON BANCORP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(Dollar Amounts in Thousands, Except Per Share Data)

	Three Months Ended					
	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances, July 1, 2022	**$ —**	**$ —**	**$ 352,412**	**$ 398,517**	**$ (93,064)**	**$ 657,865**
Net income	—	—	—	23,821	—	23,821
Other comprehensive loss, net of tax	—	—	—	—	(30,057)	(30,057)
Amortization of unearned compensation	—	—	627	—	—	627
Exercise of stock options	—	—	14	—	—	14
Net settlement of share awards	—	—	(89)	—	—	(89)
Stock retirement plans	—	—	(127)	—	—	(127)
Cash dividends on common stock ($0.16 per share)	—	—	—	(7,061)	—	(7,061)
Balances, September 30, 2022	**$ —**	**$ —**	**$ 352,837**	**$ 415,277**	**$ (123,121)**	**$ 644,993**
Balances, July 1, 2023	**$ —**	**$ —**	**$ 354,953**	**$ 452,209**	**$ (97,919)**	**$ 709,243**
Net income	—	—	—	16,205	—	16,205
Other comprehensive loss, net of tax	—	—	—	—	(25,515)	(25,515)
Amortization of unearned compensation	—	—	944	—	—	944
Net settlement of share awards	—	—	(482)	—	—	(482)
Stock retirement plans	—	—	63	—	—	63
Cash dividends on common stock ($0.16 per share)	—	—	—	(7,089)	—	(7,089)
Balances, September 30, 2023	**$ —**	**$ —**	**$ 355,478**	**$ 461,325**	**$ (123,434)**	**$ 693,369**

See notes to condensed consolidated financial statements

HORIZON BANCORP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(Unaudited)
(Dollar Amounts in Thousands, Except Per Share Data)

	Nine Months Ended					
	Preferred Stock	**Common Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total**
Balances, January 1, 2022	**$ —**	**$ —**	**$ 352,122**	**$ 363,742**	**$ 7,345**	**$ 723,209**
Net income	—	—	—	72,243	—	72,243
Other comprehensive loss, net of tax	—	—	—	—	(130,466)	(130,466)
Amortization of unearned compensation	—	—	1,770	—	—	1,770
Exercise of stock options	—	—	108	—	—	108
Stock option expense	—	—	13	—	—	13
Net settlement of share awards	—	—	(1,785)	—	—	(1,785)
Stock retirement plans	—	—	609	—	—	609
Cash dividends on common stock ($0.47 per share)	—	—	—	(20,708)	—	(20,708)
Balances, September 30, 2022	**$ —**	**$ —**	**$ 352,837**	**$ 415,277**	**$ (123,121)**	**$ 644,993**
Balances, January 1, 2023	**$ —**	**$ —**	**$ 354,188**	**$ 429,385**	**$ (106,198)**	**$ 677,375**
Net income	—	—	—	53,196	—	53,196
Other comprehensive income, net of tax	—	—	—	—	(17,236)	(17,236)
Amortization of unearned compensation	—	—	2,647	—	—	2,647
Net settlement of share awards	—	—	(1,204)	—	—	(1,204)
Stock retirement plans	—	—	(153)	—	—	(153)
Cash dividends on common stock ($0.48 per share)	—	—	—	(21,256)	—	(21,256)
Balances, September 30, 2023	**$ —**	**$ —**	**$ 355,478**	**$ 461,325**	**$ (123,434)**	**$ 693,369**

See notes to condensed consolidated financial statements

HORIZON BANCORP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollar Amounts in Thousands)

	Nine Months Ended September 30	
	2023	2022
Operating Activities		
Net income	**$ 53,196**	$ 72,243
Items not requiring (providing) cash		
Credit loss expense (recovery)	**1,185**	(1,747)
Depreciation and amortization	**7,920**	7,647
Share based compensation	**2,647**	1,783
Amortization of mortgage servicing rights	**832**	2,018
Impairment (recovery) of mortgage servicing rights	**—**	(2,594)
Premium amortization on securities, net	**7,742**	9,286
Loss on sale of investment securities	**480**	—
Gain on sale of mortgage loans	**(3,372)**	(5,969)
Proceeds from sales of loans	**107,436**	201,941
Loans originated for sale	**(101,948)**	(188,187)
Gain on cash value life insurance	**(3,051)**	(1,843)
Gain on sale of other real estate owned	**(234)**	(618)
Net change in:		
Interest receivable	**(2,556)**	(3,959)
Interest payable	**10,901**	(274)
Other assets	**(1,048)**	(4,491)
Other liabilities	**(6,174)**	(2,277)
Net cash provided by operating activities	**73,956**	82,959
Investing Activities		
Purchases of securities available for sale	**(1,435)**	(179,691)
Proceeds from sales of securities available for sale	**88,194**	—
Proceeds from maturities, calls and principal repayments of securities available for sale	**22,783**	60,045
Purchases of securities held to maturity	**(10,141)**	(421,682)
Proceeds from maturities, calls and principal repayments of securities held to maturity	**61,191**	57,218
Net change in interest earning time deposits	**605**	1,968
Purchase of FHLB stock	**(7,832)**	(2,435)
Redemption of FHLB stock	**—**	198
Purchase of loans	**(99,594)**	—
Net change in loans	**(105,373)**	(375,651)
Proceeds on the sale of OREO and repossessed assets	**2,280**	3,555
Premises and equipment expenditures	**(6,440)**	(4,701)
Purchases of bank owned life insurance	**—**	(50,000)
Proceeds from bank owned life insurance	**14**	3,554
Net cash used in investing activities	**(55,748)**	(907,622)
Financing Activities		
Net change in deposits	**(157,677)**	27,847
Proceeds from borrowings	**587,853**	1,005,923
Repayment of borrowings	**(378,914)**	(687,647)
Net change in repurchase agreements	**4,622**	17,076
Net settlement of share awards	**(1,204)**	(1,785)
Exercise of stock options	**—**	108
Dividends paid on common stock	**(21,256)**	(20,708)
Net cash provided by financing activities	**33,424**	340,814
Net Change in Cash and Cash Equivalents	**51,632**	(483,849)
Cash and Cash Equivalents, Beginning of Period	**123,505**	593,508
Cash and Cash Equivalents, End of Period	**$ 175,137**	$ 109,659

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HORIZON BANCORP, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollar Amounts in Thousands)

Additional Supplemental Information		
Interest paid	**$ 84,403**	$ 18,384
Income taxes paid	**1,554**	936
Transfer of loans to other real estate and repossessed assets	**2,342**	1,483
Transfer of available for sale securities to held to maturity securities	**—**	120,881

See notes to condensed consolidated financial statements

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

Note 1 - Accounting Policies

The accompanying unaudited condensed consolidated financial statements include the accounts of Horizon Bancorp, Inc. ("Horizon" or the "Company") and its wholly-owned subsidiaries, including Horizon Bank ("Horizon Bank" or the "Bank"), which is an Indiana commercial bank. All inter–company balances and transactions have been eliminated. The results of operations for the periods ended September 30, 2023 and September 30, 2022 are not necessarily indicative of the operating results for the full year of 2023 or 2022. The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of Horizon's management, necessary to fairly present the financial position, results of operations and cash flows of Horizon for the periods presented. Those adjustments consist only of normal recurring adjustments.

Certain information and note disclosures normally included in Horizon's annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in Horizon's Annual Report on Form 10–K for the fiscal year ended December 31, 2022 filed with the Securities and Exchange Commission on March 15, 2023 (the "2022 Annual Report on Form 10–K"). The condensed consolidated balance sheet of Horizon as of December 31, 2022 has been derived from the audited balance sheet as of that date.

On July 16, 2019, the Board of Directors of the Company authorized a stock repurchase program for up to 2,250,000 shares of Horizon's issued and outstanding common stock, no par value. As of September 30, 2023, Horizon had repurchased a total of 803,349 shares at an average price per share of $16.89.

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	**2022**	**2023**	**2022**
Basic earnings per share				
Net income	**$ 16,205**	$ 23,821	**$ 53,196**	$ 72,243
Weighted average common shares outstanding	**43,646,609**	43,573,370	**43,623,614**	43,567,028
Basic earnings per share	**$ 0.37**	$ 0.55	**$ 1.22**	$ 1.66
Diluted earnings per share				
Net income	**$ 16,205**	$ 23,821	**$ 53,196**	$ 72,243
Weighted average common shares outstanding	**43,646,609**	43,573,370	**43,623,614**	43,567,028
Effect of dilutive securities:				
Restricted stock	**143,673**	92,405	**182,559**	92,718
Stock options	**5,787**	38,018	**7,774**	39,289
Weighted average common shares outstanding	**43,796,069**	43,703,793	**43,813,947**	43,699,035
Diluted earnings per share	**$ 0.37**	$ 0.55	**$ 1.21**	$ 1.65

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

There were 665,063 and 624,189 shares for the three and nine months ended September 30, 2023 which were not included in the computation of diluted earnings per share because they were non–dilutive. There were 316,760 and 316,760 shares for the three and nine months ended September 30, 2022 which were not included in the computation of diluted earnings per share because they were non–dilutive.

Reclassifications

Certain reclassifications have been made to the 2022 condensed consolidated financial statements to be comparable to 2023. These reclassifications were not material and had no effect on net income.

Revision of Previously Issued Financial Statements

We have revised amounts reported in previously issued financial statements for the periods presented in this Quarterly Report on Form 10–Q related to immaterial errors. The errors relate to the amortization expense of the indirect loan dealer reserve asset not being reported as a reduction in interest income on loans, the non–cash transfer of available for sale securities to held to maturity securities and the incorrect classification of revolving lines of credit as term loans in the vintage loan disclosure. The correction of these errors resulted in a reduction in interest income on loans receivable and a reduction in non–interest loan expense on the Company's consolidated income statement, the disclosure of the transfer of available for sale securities to held to maturity securities in the statements of cash flows and the classification of certain term loans as lines of credit in the vintage loan disclosure. These revisions do not impact the Company's net income.

We evaluated the aggregate effects of these errors to our previously issued financial statements in accordance with SEC Staff Accounting Bulletins No. 99 and No. 108 and, based upon quantitative and qualitative factors, determined that the errors were not material to the previously issued financial statements and disclosures included in our Annual Report on Form 10–K for the year ended December 31, 2022 and in our Quarterly Report on Form 10–Q for the three and nine months ended September 30, 2022.

The following tables present the revisions to the line items of our previously issued financial statements to reflect the correction of the errors:

Consolidated Statements of Income

Three Months Ended September 30, 2022

	As Reported	Indirect Loan Dealer Reserve Adjustment	As Revised
Interest income			
Loans receivable	$ 47,051	$ (1,534)	$ 45,517
Total interest income	63,030	(1,534)	61,496
Net interest income	53,395	(1,534)	51,861
Net interest income after credit loss expense (recovery)	53,996	(1,534)	52,462
Non–interest expense			
Loan expense	2,926	(1,534)	1,392
Total non–interest expense	38,350	(1,534)	36,816
Net income	23,821	—	23,821

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

Consolidated Statements of Income

Nine Months Ended September 30, 2022

	As Reported	Indirect Loan Dealer Reserve Adjustment	As Revised
Interest income			
Loans receivable	$ 126,479	$ (3,838)	$ 122,641
Total interest income	172,684	(3,838)	168,846
Net interest income	154,574	(3,838)	150,736
Net interest income after credit loss expense (recovery)	156,321	(3,838)	152,483
Non–interest expense			
Loan expense	7,968	(3,838)	4,130
Total non–interest expense	111,328	(3,838)	107,490
Net income	72,243	—	72,243

Additional immaterial reclassifications made to the 2022 condensed consolidated financial statements to be comparable to 2023 are not included within the revision to the consolidated statement of cash flows noted below.

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2022

	As Reported	Indirect Loan Dealer Reserve Adjustment	Transfer of AFS Securities to HTM Securities	As Revised
Operating Activities				
Net change in other assets	$ (12,865)	$ 5,400	$ —	$ (7,465)
Net cash provided by operating activities	77,664	5,400	—	83,064
Investing activities				
Net change in loans	(370,251)	(5,400)	—	(375,651)
Net cash used in investing activities	(902,327)	(5,400)	—	(907,727)
Net Change in Cash and Cash Equivalents	(483,849)	—	—	(483,849)
Additional Supplemental Information				
Transfer of available for sale securities to held to maturity securities	—	—	120,881	120,881

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

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The following tables present loans by credit grades and origination year at December 31, 2022.

	As Reported			As Revised			
	Term	Revolving	Total	Term	Revolving Term	Revolving	Total
Commercial							
Owner occupied real estate							
Pass	$ 490,056	$ 76,493	$ 566,549	$ 484,893	$ 76,493	$ 5,163	$ 566,549
Special Mention	9,413	83	9,496	9,413	83	—	9,496
Substandard	15,641	2,876	18,517	15,641	2,876	—	18,517
Total owner occupied real estate	$ 515,110	$ 79,452	$ 594,562	$ 509,947	$ 79,452	$ 5,163	$ 594,562
Non–owner occupied real estate							
Pass	$ 955,956	$ 182,681	$ 1,138,637	$ 944,105	$ 182,681	$ 11,851	$ 1,138,637
Special Mention	42,419	—	42,419	42,419	—	—	42,419
Substandard	6,021	—	6,021	6,021	—	—	6,021
Total non–owner occupied real estate	$ 1,004,396	$ 182,681	$ 1,187,077	$ 992,545	$ 182,681	$ 11,851	$ 1,187,077
Residential spec homes							
Pass	$ 6,404	$ 4,334	$ 10,738	$ 779	$ 4,333	$ 5,626	$ 10,738
Special Mention	—	—	—	—	—	—	—
Substandard	—	100	100	—	100	—	100
Total residential spec homes	$ 6,404	$ 4,434	$ 10,838	$ 779	$ 4,433	$ 5,626	$ 10,838
Development & spec land							
Pass	$ 13,279	$ 13,008	$ 26,287	$ 13,257	$ 13,008	$ 22	$ 26,287
Special Mention	145	—	145	145	—	—	145
Substandard	178	748	926	178	748	—	926
Total development & spec land	$ 13,602	$ 13,756	$ 27,358	$ 13,580	$ 13,756	$ 22	$ 27,358
Commercial & industrial							
Pass	$ 574,972	$ 49,859	$ 624,831	$ 419,702	$ 49,276	$ 159,017	$ 627,995
Special Mention	4,636	—	4,636	3,427	—	1,208	4,635
Substandard	12,603	5,517	18,120	5,468	2,322	7,167	14,957
Total commercial & industrial	$ 592,211	$ 55,376	$ 647,587	$ 428,597	$ 51,598	$ 167,392	$ 647,587
Total commercial	$ 2,131,723	$ 335,699	$ 2,467,422	$ 1,945,448	$ 331,920	$ 190,054	$ 2,467,422

HORIZON BANCORP, INC. AND SUBSIDIARIES
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	As Reported			As Revised			
	Term	Revolving	Total	Term	Revolving Term	Revolving	Total
Real estate							
Residential mortgage							
Performing	$ 603,636	$ 792	$ 604,428	$ 604,428	$ —	$ —	$ 604,428
Non–performing	8,123	—	8,123	8,123	—	—	8,123
Total residential mortgage	$ 611,759	$ 792	$ 612,551	$ 612,551	$ —	$ —	$ 612,551
Residential construction							
Performing	$ 187	$ 40,554	$ 40,741	$ —	$ 40,741	$ —	$ 40,741
Non–performing	—	—	—	—	—	—	—
Total residential construction	$ 187	$ 40,554	$ 40,741	$ —	$ 40,741	$ —	$ 40,741
Mortgage warehouse							
Performing	$ —	$ 69,529	$ 69,529	$ —	$ —	$ 69,529	$ 69,529
Non–performing	—	—	—	—	—	—	—
Total mortgage warehouse	$ —	$ 69,529	$ 69,529	$ —	$ —	$ 69,529	$ 69,529
Total real estate	$ 611,946	$ 110,875	$ 722,821	$ 612,551	$ 40,741	$ 69,529	$ 722,821
Consumer							
Direct installment							
Performing	$ 56,441	$ 9	$ 56,450	$ 54,290	$ 9	$ 2,151	$ 56,450
Non–performing	164	—	164	164	—	—	164
Total direct installment	$ 56,605	$ 9	$ 56,614	$ 54,454	$ 9	$ 2,151	$ 56,614
Indirect installment							
Performing	$ 499,781	$ —	$ 499,781	$ 499,781	$ —	$ —	$ 499,781
Non–performing	768	—	768	768	—	—	768
Total indirect installment	$ 500,549	$ —	$ 500,549	$ 500,549	$ —	$ —	$ 500,549
Home equity							
Performing	$ 400,048	$ 7,089	$ 407,137	$ 53,226	$ 7,089	$ 346,822	$ 407,137
Non–performing	1,512	1,943	3,455	1,512	1,943	—	3,455
Total home equity	$ 401,560	$ 9,032	$ 410,592	$ 54,738	$ 9,032	$ 346,822	$ 410,592
Total consumer	$ 958,714	$ 9,041	$ 967,755	$ 609,741	$ 9,041	$ 348,973	$ 967,755

Adoption of New Accounting Standards

Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2022–02, ***Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures***

The FASB has issued ASU 2022–02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* , in March 2022. These amendments eliminate the TDR recognition and measurement guidance and, instead, require that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. Additionally, these amendments require that an entity disclose current–period gross write–offs by year of origination for financing receivables and net investment in leases within the scope of Subtopic 326–20. The guidance is effective for entities that have adopted ASU 2016–13 for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. These amendments should be applied prospectively. If an entity elects to early adopt ASU 2022–02 in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes the interim period. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Company adopted this standard during the first quarter of 2023 and it did not have a material impact on the consolidated financial statements.

FASB ASU No. 2020–04, ***Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting***

The FASB has issued ASU 2020–04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* , which provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the LIBOR or other interbank offered rates on financial reporting. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The main provisions include:

- A change in a contract's reference interest rate would be accounted for as a continuation of that contract rather than as the creation of a new one for contracts, including loans, debt, leases, and other arrangements, that meet specific criteria.
- When updating its hedging strategies in response to reference rate reform, an entity would be allowed to preserve its hedge accounting.

The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued. Because the guidance is meant to help entities through the transition period, it will be in effect for a limited time and will not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, for which an entity has elected certain optional expedients that are retained through the end of the hedging relationship. The amendments in this ASU are effective March 12, 2020 through December 31, 2022.

ASU 2020–04 permits relief solely for reference rate reform actions and permits different elections over the effective date for legacy and new activity. Accordingly, the Company is evaluating and reassessing the elections on a quarterly basis. For current elections in effect regarding the assertion of the probability of forecasted transactions, the Company elects the expedient to assert the probability of the hedged interest payments and receipts regardless of any expected modification in terms related to reference rate reform.

With the issuance of ASU 2022–6, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848* , the sunset date for the adoption of ASU 2020–04 was extended from December 31, 2022 to December 31, 2024. The Company adopted the expedients included in this ASU in the third quarter of 2023 as it transferred its loans and other financial instruments to another reference rate.

Accounting Guidance Issued But Not Yet Adopted

FASB ASU No. 2023–02, *Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*

The FASB has issued ASU 2023–02, *Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.* This guidance allows reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. This guidance is effective for public business entities for fiscal years including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted in any interim period. The Company is assessing ASU 2023–02 and its impact on its accounting and disclosures.

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

Note 2 – Securities

The fair value of securities is as follows:

	September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 293,785	$ —	$ (27,935)	$ 265,850
State and municipal	425,096	—	(84,784)	340,312
Federal agency collateralized mortgage obligations	23,210	—	(1,897)	21,313
Federal agency mortgage-backed pools	200,728	—	(34,839)	165,889
Corporate notes	81,803	338	(10,337)	71,804
Total available for sale investment securities	$ 1,024,622	$ 338	$ (159,792)	$ 865,168
Held to maturity				
U.S. Treasury and federal agencies	$ 287,561	$ —	$ (53,553)	$ 234,008
State and municipal	1,101,933	15	(243,639)	858,309
Federal agency collateralized mortgage obligations	52,573	—	(9,896)	42,677
Federal agency mortgage-backed pools	328,410	—	(64,353)	264,057
Private labeled mortgage-backed pools	32,992	—	(5,694)	27,298
Corporate notes	163,014	—	(32,518)	130,496
Total held to maturity investment securities	$ 1,966,483	$ 15	$ (409,653)	$ 1,556,845

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 294,329	$ —	$ (27,150)	$ 267,179
State and municipal	505,006	140	(71,602)	433,544
Federal agency collateralized mortgage obligations	33,011	—	(1,796)	31,215
Federal agency mortgage-backed pools	220,963	—	(30,307)	190,656
Corporate notes	84,393	195	(9,624)	74,964
Total available for sale investment securities	$ 1,137,702	$ 335	$ (140,479)	$ 997,558
Held to maturity				
U.S. Treasury and federal agencies	$ 295,250	$ —	$ (49,237)	$ 246,013
State and municipal	1,127,669	374	(192,458)	935,585
Federal agency collateralized mortgage obligations	56,564	—	(8,865)	47,699
Federal agency mortgage-backed pools	343,953	—	(56,714)	287,239
Private labeled mortgage-backed pools	35,466	—	(5,493)	29,973
Corporate notes	163,846	—	(29,046)	134,800
Total held to maturity investment securities	$ 2,022,748	$ 374	$ (341,813)	$ 1,681,309

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

The Company elected to transfer 793 AFS securities with an aggregate fair value of $ 120.9 million to a classification of HTM on March 31, 2022. In accordance with FASB ASC 320–10–55–24, the transfer from AFS to HTM must be recorded at the fair value of the AFS securities at the time of transfer. The net unrealized holding loss of $814,000, net of tax, at the date of transfer was retained in accumulated other comprehensive income (loss), with the associated pre–tax amount retained in the carrying value of the HTM securities. Such amounts will be accreted to comprehensive income over the remaining life of the securities. The fair value of the transferred AFS securities became the book value of the HTM securities at March 31, 2022.

The amortized cost and fair value of securities available for sale and held to maturity at September 30, 2023 and December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2023	
	Amortized Cost	Fair Value
Available for sale		
Within one year	$ 5,449	$ 5,329
One to five years	364,641	330,882
Five to ten years	192,161	153,784
After ten years	238,433	187,971
	800,684	677,966
Federal agency collateralized mortgage obligations	23,210	21,313
Federal agency mortgage–backed pools	200,728	165,889
Total available for sale investment securities	$ 1,024,622	$ 865,168
Held to maturity		
Within one year	$ 35,434	$ 35,149
One to five years	228,119	212,226
Five to ten years	340,018	278,547
After ten years	948,937	696,891
	1,552,508	1,222,813
Federal agency collateralized mortgage obligations	52,573	42,677
Federal agency mortgage–backed pools	328,410	264,057
Private labeled mortgage–backed pools	32,992	27,298
Total held to maturity investment securities	$ 1,966,483	$ 1,556,845

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

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

	September 30, 2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities						
U.S. Treasury and federal agencies	$ 1,322	$ (12)	$ 498,536	$ (81,476)	$ 499,858	$ (81,488)
State and municipal	123,235	(7,558)	1,066,492	(320,865)	1,189,727	(328,423)
Federal agency collateralized mortgage obligations	—	—	63,990	(11,793)	63,990	(11,793)
Federal agency mortgage–backed pools	13	(1)	429,933	(99,191)	429,946	(99,192)
Private labeled mortgage–backed pools	—	—	27,298	(5,694)	27,298	(5,694)
Corporate notes	—	—	200,899	(42,855)	200,899	(42,855)
Total temporarily impaired securities	$ 124,570	$ (7,571)	$ 2,287,148	$ (561,874)	$ 2,411,718	$ (569,445)

	December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment Securities						
U.S. Treasury and federal agencies	$ 217,357	$ (16,692)	$ 295,585	$ (59,695)	$ 512,942	$ (76,387)
State and municipal	533,871	(45,881)	757,061	(218,179)	1,290,932	(264,060)
Federal agency collateralized mortgage obligations	40,301	(2,881)	38,613	(7,780)	78,914	(10,661)
Federal agency mortgage–backed pools	49,633	(3,211)	428,243	(83,810)	477,876	(87,021)
Private labeled mortgage–backed pools	—	—	29,973	(5,493)	29,973	(5,493)
Corporate notes	38,906	(6,787)	169,921	(31,883)	208,827	(38,670)
Total temporarily impaired securities	$ 880,068	$ (75,452)	$ 1,719,396	$ (406,840)	$ 2,599,464	$ (482,292)

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. As of September 30, 2023 and December 31, 2022, the Company had 2,651 and 2,828 securities, respectively, with market values below their cost basis. The total fair value of these investments at September 30, 2023 and December 31, 2022 was $2.4 billion and $2.6 billion, which is approximately 99.6% and 97.0%, respectively, of the Company's available for sale and held to maturity securities portfolio. These declines resulted primarily from fluctuations in market interest rates after purchase. Management believes the declines in fair value for these securities are temporary.

No allowance for credit losses for available for sale debt securities or held to maturity securities was recorded at September 30, 2023 or December 31, 2022. Accrued interest receivable on available for sale debt securities and held to maturity securities totaled $16.7 million at September 30, 2023 and $17.8 million at December 31, 2022 and is excluded from the estimate of credit losses.

The U.S. government sponsored entities and agencies and mortgage–backed securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major credit rating agencies, and have a long history of no credit losses. Therefore, for those securities, we do not record expected credit losses.

Based on an evaluation of available evidence, management believes the unrealized losses on state and municipal securities, private labeled mortgage–backed pools and corporate notes were due to changes in interest rates. Due to the contractual terms, the issuers of state and municipal securities are not allowed to settle for less than the amortized cost of the security. In addition, the Company does not intend to sell these securities prior to the recovery of the amortized cost, which may not occur until maturity.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Sales of securities available for sale				
Proceeds	$ —	$ —	$ 88,194	$ —
Gross gains	—	—	215	—
Gross losses	—	—	(695)	—

Note 3 – Loans

The table below identifies the Company’s loan portfolio segments and classes.

Portfolio Segment	Class of Financing Receivable
Commercial	Owner occupied real estate
	Non-owner occupied real estate
	Residential spec homes
	Development & spec land
	Commercial and industrial
Real estate	Residential mortgage
	Residential construction
Mortgage warehouse	Mortgage warehouse
Consumer	Direct installment
	Indirect installment
	Home equity

Portfolio segment is defined as a level at which an entity develops and documents a systematic methodology to determine its allowance for credit losses. Class of financing receivable is defined as a group of financing receivables determined on the basis of both of the following, 1) risk characteristics of the financing receivable, and 2) an entity’s method for monitoring and assessing credit risk. Generally, the Bank does not move loans from a revolving loan to a term loan other than construction loans. Residential construction loans are reviewed and rewritten prior to being originated as a term loan.

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

The following table presents total loans outstanding by portfolio class, as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Commercial		
Owner occupied real estate	$ 630,125	$ 594,562
Non–owner occupied real estate	1,244,371	1,187,077
Residential spec homes	12,414	10,838
Development & spec land	29,146	27,358
Commercial and industrial	673,188	647,587
Total commercial	2,589,244	2,467,422
Real estate		
Residential mortgage	649,996	612,551
Residential construction	25,403	40,741
Mortgage warehouse	65,923	69,529
Total real estate	741,322	722,821
Consumer		
Direct installment	54,399	56,614
Indirect installment	439,922	500,549
Home equity	534,115	410,592
Total consumer	1,028,436	967,755
Total loans	4,359,002	4,157,998
Allowance for credit losses	(49,699)	(50,464)
Net loans	$ 4,309,303	$ 4,107,534

Total loans include net deferred loan costs of $ 23.1 million at September 30, 2023 and $ 22.7 million at December 31, 2022, respectively.

The risk characteristics of each loan portfolio segment are as follows:

Commercial

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

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

Real Estate and Consumer

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

Mortgage Warehousing

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

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

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Non–performing Loans

The following table presents non–accrual loans and loans past due over 90 days still on accrual by class of loans at September 30, 2023:

	September 30, 2023			
	Non–accrual	Loans Past Due Over 90 Days Still Accruing	Total Non–performing Loans	Non–performing with no Allowance for Credit Losses
Commercial				
Owner occupied real estate	$ 2,213	$ —	$ 2,213	$ 2,213
Non–owner occupied real estate	3,573	—	3,573	1,275
Residential spec homes	—	—	—	—
Development & spec land	641	—	641	641
Commercial and industrial	492	50	542	243
Total commercial	6,919	50	6,969	4,372
Real estate				
Residential mortgage	7,644	133	7,777	7,777
Residential construction	—	—	—	—
Mortgage warehouse	—	—	—	—
Total real estate	7,644	133	7,777	7,777
Consumer				
Direct installment	132	—	132	132
Indirect installment	972	209	1,181	1,181
Home equity	3,389	—	3,389	3,389
Total consumer	4,493	209	4,702	4,702
Total	$ 19,056	$ 392	$ 19,448	$ 16,851

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The following table presents non–accrual loans, loans past due over 90 days still on accrual, and troubled debt restructurings ("TDRs") by class of loan at December 31, 2022:

	December 31, 2022					
	Non–accrual	**Loans Past Due Over 90 Days Still Accruing**	**Non–performing TDRs**	**Performing TDRs**	**Total Non–performing Loans**	**Non–performing with no Allowance for Credit Losses**
Commercial						
Owner occupied real estate	$ 3,423	$ —	$ —	$ 568	$ 3,991	$ 3,805
Non–owner occupied real estate	3,866	—	—	269	4,135	2,211
Residential spec homes	101	—	—	—	101	101
Development & spec land	815	—	—	—	815	65
Commercial and industrial	288	—	—	—	288	288
Total commercial	8,493	—	—	837	9,330	6,470
Real estate						
Residential mortgage	5,479	43	1,210	1,391	8,123	8,123
Residential construction	—	—	—	—	—	—
Mortgage warehouse	—	—	—	—	—	—
Total real estate	5,479	43	1,210	1,391	8,123	8,123
Consumer						
Direct installment	138	26	—	—	164	164
Indirect installment	745	23	—	—	768	768
Home equity	2,775	—	338	342	3,455	3,455
Total consumer	3,658	49	338	342	4,387	4,387
Total	$ 17,630	$ 92	$ 1,548	$ 2,570	$ 21,840	$ 18,980

There was no interest income recognized on non–accrual loans during the nine months ended September 30, 2023 and 2022, respectively, while the loans were in non–accrual status.

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

The following table presents the payment status by class of loan, excluding non–accrual loans of $ 19.1 million at September 30, 2023:

	September 30, 2023					
	Current	30–59 Days Past Due	60–89 Days Past Due	90 Days or Greater Past Due	Total Past Due Loans	Total Loans
Commercial						
Owner occupied real estate	$ 631,843	$ —	$ —	$ —	$ —	$ 631,843
Non–owner occupied real estate	1,235,352	1,515	—	—	1,515	1,236,867
Residential spec homes	12,414	—	—	—	—	12,414
Development & spec land	28,505	—	—	—	—	28,505
Commercial and industrial	672,131	390	125	50	565	672,696
Total commercial	2,580,245	1,905	125	50	2,080	2,582,325
Real estate						
Residential mortgage	639,987	1,796	436	133	2,365	642,352
Residential construction	25,403	—	—	—	—	25,403
Mortgage warehouse	65,923	—	—	—	—	65,923
Total real estate	731,313	1,796	436	133	2,365	733,678
Consumer						
Direct installment	53,848	418	1	—	419	54,267
Indirect installment	432,498	5,543	700	209	6,452	438,950
Home equity	528,561	2,088	77	—	2,165	530,726
Total consumer	1,014,907	8,049	778	209	9,036	1,023,943
Total	$ 4,326,465	$ 11,750	$ 1,339	$ 392	$ 13,481	$ 4,339,946

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

The following table presents the payment status by class of loan, excluding non–accrual loans of $ 17.6 million and non–performing TDRs of $ 1.5 million at December 31, 2022:

	December 31, 2022					
	Current	30–59 Days Past Due	60–89 Days Past Due	90 Days or Greater Past Due	Total Past Due Loans	Total
Commercial						
Owner occupied real estate	$ 590,870	$ 269	$ —	$ —	$ 269	$ 591,139
Non–owner occupied real estate	1,183,195	16	—	—	16	1,183,211
Residential spec homes	10,737	—	—	—	—	10,737
Development & spec land	26,513	—	30	—	30	26,543
Commercial and industrial	646,792	507	—	—	507	647,299
Total commercial	2,458,107	792	30	—	822	2,458,929
Real estate						
Residential mortgage	603,630	1,980	209	43	2,232	605,862
Residential construction	40,741	—	—	—	—	40,741
Mortgage warehouse	69,529	—	—	—	—	69,529
Total real estate	713,900	1,980	209	43	2,232	716,132
Consumer						
Direct installment	56,266	168	16	26	210	56,476
Indirect installment	494,341	4,536	904	23	5,463	499,804
Home equity	405,405	1,413	661	—	2,074	407,479
Total consumer	956,012	6,117	1,581	49	7,747	963,759
Total	$ 4,128,019	$ 8,889	$ 1,820	$ 92	$ 10,801	$ 4,138,820

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

Modified Loans

The Company adopted ASU 2022–02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures,* during the first quarter of 2023. These amendments eliminated the TDR recognition and measurement guidance and, instead, require that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. During the first nine months of 2023, the Company did not modify any loans.

Prior to the adoption of ASU 2022–02, loans modified as TDRs generally consisted of allowing borrowers to defer scheduled principal payments and make interest only payments for a specified period of time at the stated interest rate of the original loan agreement or lower payments due to a modification of the loans' contractual terms. TDRs that continued to accrue interest were individually monitored on a monthly basis and evaluated for impairment annually and transferred to non–accrual status when it was probable that any remaining principal and interest payments due on the loan would not be collected in accordance with the contractual terms of the loan. TDRs that subsequently default were individually evaluated for impairment at the time of default.

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

The following table presents TDRs by class of loan at December 31, 2022:

	December 31, 2022		
	Non–accrual	Accruing	Total
Commercial			
Owner occupied real estate	$ —	$ 568	$ 568
Non–owner occupied real estate	—	269	269
Residential spec homes	—	—	—
Development & spec land	—	—	—
Commercial and industrial	—	—	—
Total commercial	—	837	837
Real estate			
Residential mortgage	1,210	1,391	2,601
Residential construction	—	—	—
Mortgage warehouse	—	—	—
Total real estate	1,210	1,391	2,601
Consumer			
Direct installment	—	—	—
Indirect installment	—	—	—
Home equity	338	342	680
Total consumer	338	342	680
Total	$ 1,548	$ 2,570	$ 4,118

Collateral Dependent Financial Assets

A collateral dependent financial loan relies solely on the operation or sale of the collateral for repayment. In evaluating the overall risk associated with the loan, the Company considers character, overall financial condition and resources, and payment record of the borrower; the prospects for support from any financially responsible guarantors; and the nature and degree of protection provided by the cash flow and value of any underlying collateral. However, as other sources of repayment become inadequate over time, the significance of the collateral's value increases and the loan may become collateral dependent.

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

The table below presents the amortized cost basis and allowance for credit losses ("ACL") allocated for collateral dependent loans in accordance with ASC 326, which are individually evaluated to determine expected credit losses.

	September 30, 2023				
	Real Estate	Accounts Receivable/Equipment	Other	Total	ACL Allocation
Commercial					
Owner occupied real estate	$ 2,743	$ —	$ —	$ 2,743	$ —
Non–owner occupied real estate	3,828	—	—	3,828	789
Development & spec land	641	—	—	641	—
Commercial and industrial	—	467	25	492	299
Total commercial	7,212	467	25	7,704	1,088
Total collateral dependent loans	$ 7,212	$ 467	$ 25	$ 7,704	$ 1,088

	December 31, 2022				
	Real Estate	Accounts Receivable/Equipment	Other	Total	ACL Allocation
Commercial					
Owner occupied real estate	$ 3,905	$ 95	$ —	$ 4,000	$ 215
Non–owner occupied real estate	4,135	—	—	4,135	988
Residential spec homes	101	—	—	101	—
Development & spec land	815	—	—	815	36
Commercial and industrial	—	248	31	279	—
Total commercial	8,956	343	31	9,330	1,239
Total collateral dependent loans	$ 8,956	$ 343	$ 31	$ 9,330	$ 1,239

Credit Quality Indicators

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

- For new and renewed commercial loans, the Bank's Credit Department, which acts independently of the loan officer, assigns the credit quality grade of the loans. Loan grades for loans with an aggregate credit exposure that exceeds the authorities in the respective regions (ranging from $3,000,000 to $6,000,000) are validated by the Loan Committee, which is chaired by the Chief Commercial Banking Officer ("CCBO").
- Commercial loan officers are responsible for reviewing their loan portfolios and reporting any adverse material change to the CCBO or Loan Committee. When circumstances warrant a change in the credit quality grade, loan officers are required to notify the CCBO and the Credit Department of the change in the loan grade. Downgrades are accepted immediately by the CCBO, however, lenders must present their factual information to either the Loan Committee or the CCBO when recommending an upgrade.
- The CCBO, or a designee, meets periodically with loan officers to discuss the status of past due loans and classified loans. These meetings are also designed to give the loan officers an opportunity to identify an existing loan that should be downgraded to a classified grade.

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

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

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

Risk Grade 1: Excellent (Pass)

Loans secured by liquid collateral, such as certificates of deposit, reputable bank letters of credit, or other cash equivalents or loans to any publicly held company with a current long–term debt rating of A or better and meeting defined key financial metric ranges.

Risk Grade 2: Good (Pass)

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

Risk Grade 3: Satisfactory (Pass)

Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with some weakness but offsetting features of other support are readily available; loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered and meeting defined key financial metric ranges. Loans may be graded Satisfactory when there is no recent information on which to base a current risk evaluation and the following conditions apply:

- At inception, the loan was properly underwritten, did not possess an unwanted level of credit risk, and the loan met the above criteria for a risk grade of Excellent, Good, or Satisfactory.
- At inception, the loan was secured with collateral possessing a loan value adequate to protect the Bank from loss.
- The loan has exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance.
- During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the borrower is in an industry known to be experiencing problems. If any of these credit weaknesses is observed, a lower risk grade may be warranted.

Risk Grade 4: Satisfactory/Monitored (Pass)

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

Risk Grade 4W: Management Watch (Pass)

Loans in this category are considered to be of acceptable quality and meet defined key financial metric ranges, but with above normal risk. Borrower displays potential indicators of weakness in the primary source of repayment resulting in a higher reliance on secondary sources of repayment. Balance sheet may exhibit weak liquidity and/or high leverage. There is inconsistent earnings performance without the ability to sustain adverse economic conditions. Borrower may be operating in a declining industry or the property type, as for a commercial real estate loan, may be high risk or in decline. These loans require an increased level of loan officer supervision and monitoring to assure that any deterioration is addressed in a timely fashion. Commercial construction loans are graded as 4W Management Watch until the projects are completed and stabilized.

Risk Grade 5: Special Mention

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

Risk Grade 6: Substandard

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

- Loans which possess a defined credit weakness. The likelihood that a loan will be paid from the primary source of repayment is uncertain. Financial deterioration is under way and very close attention is warranted to ensure that the loan is collected without loss.
- Loans are inadequately protected by the current net worth and paying capacity of the obligor.
- The primary source of repayment is gone, and the Bank is forced to rely on a secondary source of repayment, such as collateral liquidation or guarantees.
- Loans have a distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.
- Unusual courses of action are need to maintain a high probability of repayment.
- The borrower is not generating enough cash flow to repay loan principal; however, it continues to make interest payments.
- The lender is forced into a subordinated or unsecured position due to flaws in documentation.
- Loans have been restructured so that payment schedules, terms, and collateral represent concessions to the borrower when compared to the normal loan terms.
- The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.
- There is a significant deterioration in market conditions to which the borrower is highly vulnerable.
- The borrower meets defined key financial metric ranges.

Risk Grade 7: Doubtful

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

- Loans have all of the weaknesses of those classified as Substandard; however, based on existing conditions, these weaknesses make full collection of principal highly improbable.
- The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.
- The possibility of loss is high but because of certain important pending factors which may strengthen the loan, loss classification is deferred until the exact status of repayment is known.
- The borrower meets defined key financial metric ranges.

Risk Grade 8: Loss

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

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

The following tables present loans by credit grades and origination year at September 30, 2023.

September 30, 2023	2023	2022	2021	2020	2019	Prior	Revolving Term Loans	Revolving Loans	Total
Commercial									
Owner occupied real estate									
Pass	$ 53,302	$ 100,237	$ 76,376	$ 45,263	$ 43,194	$ 185,182	$ 89,316	$ 10,534	$ 603,404
Special Mention	—	494	2,300	—	1,869	4,427	—	—	9,090
Substandard	—	502	6,550	968	230	8,851	530	—	17,631
Doubtful	—	—	—	—	—	—	—	—	—
Total owner occupied real estate	**$ 53,302**	**$ 101,233**	**$ 85,226**	**$ 46,231**	**$ 45,293**	**$ 198,460**	**$ 89,846**	**$ 10,534**	**$ 630,125**
Gross charge–offs during period	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 3**	**$ 229**	**$ —**	**$ 232**
Non–owner occupied real estate									
Pass	$ 100,630	$ 221,897	$ 165,258	$ 105,564	$ 84,773	$ 308,926	$ 195,691	$ 9,153	$ 1,191,892
Special Mention	—	—	1,355	257	855	43,471	—	—	45,938
Substandard	—	—	—	200	—	6,341	—	—	6,541
Doubtful	—	—	—	—	—	—	—	—	—
Total non–owner occupied real estate	**$ 100,630**	**$ 221,897**	**$ 166,613**	**$ 106,021**	**$ 85,628**	**$ 358,738**	**$ 195,691**	**$ 9,153**	**$ 1,244,371**
Gross charge–offs during period	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 9**	**$ —**	**$ —**	**$ 9**
Residential spec homes									
Pass	$ —	$ —	$ 499	$ —	$ —	$ —	$ 5,282	$ 6,633	$ 12,414
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Doubtful	—	—	—	—	—	—	—	—	—
Total residential spec homes	**$ —**	**$ —**	**$ 499**	**$ —**	**$ —**	**$ —**	**$ 5,282**	**$ 6,633**	**$ 12,414**
Gross charge–offs during period	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Development & spec land									
Pass	$ 2,483	$ 1,483	$ 1,029	$ 405	$ 253	$ 3,077	$ 18,001	$ 192	$ 26,923
Special Mention	—	—	—	—	—	—	1,376	—	1,376
Substandard	—	—	—	—	—	107	740	—	847
Doubtful	—	—	—	—	—	—	—	—	—
Total development & spec land	**$ 2,483**	**$ 1,483**	**$ 1,029**	**$ 405**	**$ 253**	**$ 3,184**	**$ 20,117**	**$ 192**	**$ 29,146**
Gross charge–offs during period	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Commercial & industrial									
Pass	$ 84,871	$ 160,710	$ 99,659	$ 14,961	$ 22,595	$ 63,195	$ 52,741	$ 151,850	$ 650,582
Special Mention	898	736	303	1,637	141	1,027	2,239	5,560	12,541
Substandard	1,585	733	249	302	35	1,517	3,811	1,833	10,065
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial & industrial	**$ 87,354**	**$ 162,179**	**$ 100,211**	**$ 16,900**	**$ 22,771**	**$ 65,739**	**$ 58,791**	**$ 159,243**	**$ 673,188**
Gross charge–offs during period	**$ —**	**$ 32**	**$ —**	**$ 47**	**$ 25**	**$ 57**	**$ 119**	**$ —**	**$ 280**

HORIZON BANCORP, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(Table Dollar Amounts in Thousands, Except Per Share Data)

September 30, 2023	2023	2022	2021	2020	2019	Prior	Revolving Term Loans	Revolving Loans	Total
Real estate									
Residential mortgage									
Performing	$ 28,673	$ 146,772	$ 162,167	$ 87,164	$ 31,513	$ 185,930	$ —	$ —	$ 642,219
Non–performing	—	1,386	766	263	751	4,611	—	—	7,777
Total residential mortgage	**$ 28,673**	**$ 148,158**	**$ 162,933**	**$ 87,427**	**$ 32,264**	**$ 190,541**	**$ —**	**$ —**	**$ 649,996**
Gross charge–offs during period	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 19**	**$ —**	**$ —**	**$ 19**
Residential construction									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 25,403	$ —	$ 25,403
Non–performing	—	—	—	—	—	—	—	—	—
Total residential construction	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 25,403**	**$ —**	**$ 25,403**
Gross charge–offs during period	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Mortgage warehouse									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 65,923	$ 65,923
Non–performing	—	—	—	—	—	—	—	—	—
Total mortgage warehouse	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 65,923**	**$ 65,923**
Gross charge–offs during period	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

September 30, 2023	2023	2022	2021	2020	2019	Prior	Revolving Term Loans	Revolving Loans	Total
Consumer									
Direct installment									
Performing	$ 12,518	$ 14,672	$ 9,177	$ 4,853	$ 5,172	$ 5,622	$ 11	$ 2,242	$ 54,267
Non–performing	—	47	41	—	9	35	—	—	132
Total direct installment	**$ 12,518**	**$ 14,719**	**$ 9,218**	**$ 4,853**	**$ 5,181**	**$ 5,657**	**$ 11**	**$ 2,242**	**$ 54,399**
Gross charge–offs during period	**$ 10**	**$ 27**	**$ 4**	**$ 10**	**$ 2**	**$ 14**	**$ 6**	**$ —**	**$ 73**
Indirect installment									
Performing	$ 68,343	$ 208,336	$ 89,229	$ 41,267	$ 20,287	$ 11,279	$ —	$ —	$ 438,741
Non–performing	39	480	260	170	115	117	—	—	1,181
Total indirect installment	**$ 68,382**	**$ 208,816**	**$ 89,489**	**$ 41,437**	**$ 20,402**	**$ 11,396**	**$ —**	**$ —**	**$ 439,922**
Gross charge–offs during period	**$ 54**	**$ 942**	**$ 518**	**$ 115**	**$ 51**	**$ 48**	**$ —**	**$ —**	**$ 1,728**
Home equity									
Performing	$ 21,750	$ 22,633	$ 3,611	$ 2,617	$ 4,127	$ 10,841	$ 11,687	$ 453,460	$ 530,726
Non–performing	—	140	—	55	134	689	2,371	—	3,389
Total home equity	**$ 21,750**	**$ 22,773**	**$ 3,611**	**$ 2,672**	**$ 4,261**	**$ 11,530**	**$ 14,058**	**$ 453,460**	**$ 534,115**
Gross charge–offs during period	**$ —**	**$ 10**	**$ —**	**$ 103**	**$ —**	**$ 15**	**$ 12**	**$ —**	**$ 140**

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

The following tables present loans by credit grades and origination year at December 31, 2022.

December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Term Loans	Revolving Loans	Total
Commercial									
Owner occupied real estate									
Pass	$ 101,713	$ 78,352	$ 50,363	$ 49,584	$ 38,068	$ 166,813	$ 76,493	$ 5,163	$ 566,549
Special Mention	—	6,677	—	7	—	2,729	83	—	9,496
Substandard	1,016	253	983	834	3,116	9,439	2,876	—	18,517
Doubtful	—	—	—	—	—	—	—	—	—
Total owner occupied real estate	**$ 102,729**	**$ 85,282**	**$ 51,346**	**$ 50,425**	**$ 41,184**	**$ 178,981**	**$ 79,452**	**$ 5,163**	**$ 594,562**
Non–owner occupied real estate									
Pass	$ 183,862	$ 173,971	$ 134,394	$ 91,359	$ 57,345	$ 303,174	$ 182,681	$ 11,851	$ 1,138,637
Special Mention	—	1,415	265	883	39,239	617	—	—	42,419
Substandard	—	—	246	—	3,532	2,243	—	—	6,021
Doubtful	—	—	—	—	—	—	—	—	—
Total non–owner occupied real estate	**$ 183,862**	**$ 175,386**	**$ 134,905**	**$ 92,242**	**$ 100,116**	**$ 306,034**	**$ 182,681**	**$ 11,851**	**$ 1,187,077**
Residential spec homes									
Pass	$ —	$ 779	$ —	$ —	$ —	$ —	$ 4,333	$ 5,626	$ 10,738
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	100	—	100
Doubtful	—	—	—	—	—	—	—	—	—
Total residential spec homes	**$ —**	**$ 779**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 4,433**	**$ 5,626**	**$ 10,838**
Development & spec land									
Pass	$ 1,586	$ 1,230	$ 449	$ 270	$ 5	$ 9,717	$ 13,008	$ 22	$ 26,287
Special Mention	—	—	—	—	—	145	—	—	145
Substandard	—	—	—	—	—	178	748	—	926
Doubtful	—	—	—	—	—	—	—	—	—
Total development & spec land	**$ 1,586**	**$ 1,230**	**$ 449**	**$ 270**	**$ 5**	**$ 10,040**	**$ 13,756**	**$ 22**	**$ 27,358**
Commercial & industrial									
Pass	$ 174,482	$ 118,498	$ 20,939	$ 28,383	$ 28,061	$ 49,339	$ 49,276	$ 159,017	$ 627,995
Special Mention	718	368	31	53	706	1,551	—	1,208	4,635
Substandard	—	228	2,216	83	1,293	1,648	2,322	7,167	14,957
Doubtful	—	—	—	—	—	—	—	—	—
Total commercial & industrial	**$ 175,200**	**$ 119,094**	**$ 23,186**	**$ 28,519**	**$ 30,060**	**$ 52,538**	**$ 51,598**	**$ 167,392**	**$ 647,587**
Total commercial	**$ 463,377**	**$ 381,771**	**$ 209,886**	**$ 171,456**	**$ 171,365**	**$ 547,593**	**$ 331,920**	**$ 190,054**	**$ 2,467,422**

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

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December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Term Loans	Revolving Loans	Total
Real estate									
Residential mortgage									
Performing	$ 107,224	$ 157,387	$ 91,314	$ 33,768	$ 36,147	$ 178,588	$ —	$ —	$ 604,428
Non–performing	—	493	285	623	631	6,091	—	—	8,123
Total residential mortgage	**$ 107,224**	**$ 157,880**	**$ 91,599**	**$ 34,391**	**$ 36,778**	**$ 184,679**	**$ —**	**$ —**	**$ 612,551**
Residential construction									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ 40,741	$ —	$ 40,741
Non–performing	—	—	—	—	—	—	—	—	—
Total residential construction	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 40,741**	**$ —**	**$ 40,741**
Mortgage warehouse									
Performing	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 69,529	$ 69,529
Non–performing	—	—	—	—	—	—	—	—	—
Total mortgage warehouse	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 69,529**	**$ 69,529**
Total real estate	**$ 107,224**	**$ 157,880**	**$ 91,599**	**$ 34,391**	**$ 36,778**	**$ 184,679**	**$ 40,741**	**$ 69,529**	**$ 722,821**

December 31, 2022	2022	2021	2020	2019	2018	Prior	Revolving Term Loans	Revolving Loans	Total
Consumer									
Direct installment									
Performing	$ 18,935	$ 12,233	$ 7,182	$ 7,582	$ 3,939	$ 4,419	$ 9	$ 2,151	$ 56,450
Non–performing	—	50	13	65	25	11	—	—	164
Total direct installment	**$ 18,935**	**$ 12,283**	**$ 7,195**	**$ 7,647**	**$ 3,964**	**$ 4,430**	**$ 9**	**$ 2,151**	**$ 56,614**
Indirect installment									
Performing	$ 259,446	$ 118,961	$ 60,062	$ 34,576	$ 19,062	$ 7,674	$ —	$ —	$ 499,781
Non–performing	27	169	210	181	101	80	—	—	768
Total indirect installment	**$ 259,473**	**$ 119,130**	**$ 60,272**	**$ 34,757**	**$ 19,163**	**$ 7,754**	**$ —**	**$ —**	**$ 500,549**
Home equity									
Performing	$ 26,232	$ 3,820	$ 3,355	$ 4,964	$ 5,392	$ 9,463	$ 7,089	$ 346,822	$ 407,137
Non–performing	108	16	19	140	152	1,077	1,943	—	3,455
Total home equity	**$ 26,340**	**$ 3,836**	**$ 3,374**	**$ 5,104**	**$ 5,544**	**$ 10,540**	**$ 9,032**	**$ 346,822**	**$ 410,592**
Total consumer	**$ 304,748**	**$ 135,249**	**$ 70,841**	**$ 47,508**	**$ 28,671**	**$ 22,724**	**$ 9,041**	**$ 348,973**	**$ 967,755**

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

Note 4 – Allowance for Credit and Loan Losses

The following tables represent, by loan portfolio segment, a summary of changes in the ACL on loans for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30, 2023				
	Commercial	Real Estate	Mortgage Warehouse	Consumer	Total
Balance, beginning of period	$ 30,354	$ 3,648	$ 893	$ 15,081	$ 49,976
Credit loss expense (recovery)	(665)	(893)	(179)	2,257	520
PCD loan charge–offs	(75)	—	—	—	(75)
Charge–offs	(188)	(15)	—	(927)	(1,130)
Recoveries	46	54	—	308	408
Balance, end of period	$ 29,472	$ 2,794	$ 714	$ 16,719	$ 49,699

	Three Months Ended September 30, 2022				
	Commercial	Real Estate	Mortgage Warehouse	Consumer	Total
Balance, beginning of period	$ 34,802	$ 4,422	$ 1,067	$ 12,059	$ 52,350
Credit loss expense (recovery)	(703)	640	(43)	(495)	(601)
PCD loan charge–offs	(242)	—	—	—	(242)
Charge–offs	(103)	(27)	—	(592)	(722)
Recoveries	52	102	—	430	584
Balance, end of period	$ 33,806	$ 5,137	$ 1,024	$ 11,402	$ 51,369

	Nine Months Ended September 30, 2023				
	Commercial	Real Estate	Mortgage Warehouse	Consumer	Total
Balance, beginning of period	$ 32,445	$ 5,577	$ 1,020	$ 11,422	$ 50,464
Credit loss expense (recovery)	(2,380)	(2,838)	(306)	6,380	856
PCD loan charge–offs	(246)	—	—	—	(246)
Charge–offs	(521)	(19)	—	(1,941)	(2,481)
Recoveries	174	74	—	858	1,106
Balance, end of period	$ 29,472	$ 2,794	$ 714	$ 16,719	$ 49,699

	Nine Months Ended September 30, 2022				
	Commercial	Real Estate	Mortgage Warehouse	Consumer	Total
Balance, beginning of period	$ 40,775	$ 3,856	$ 1,059	$ 8,596	$ 54,286
Credit loss expense (recovery)	(6,343)	1,236	(35)	3,395	(1,747)
PCD loan charge–offs	(612)	—	—	—	(612)
Charge–offs	(240)	(85)	—	(1,605)	(1,930)
Recoveries	226	130	—	1,016	1,372
Balance, end of period	$ 33,806	$ 5,137	$ 1,024	$ 11,402	$ 51,369

The Company utilized the Cumulative Loss Rate method in determining expected future credit losses. The loss rate method measures the amount of loan charge–offs, net of recoveries, (“loan losses”) recognized over the life of a pool and compares those loan losses to the outstanding loan balance of that pool as of a specific point in time (“pool date”).

To estimate a CECL loss rate for the pool, management first identifies the loan losses recognized between the pool date and the reporting date for the pool and determines which loan losses were related to loans outstanding at the pool date. The loss rate method then divides the loan losses recognized on loans outstanding as of the pool date by the outstanding loan balance as of the pool date.

The Company’s expected loss estimate is anchored in historical credit loss experience, with an emphasis on all available portfolio data. The Company's historical look–back period includes January 2008 through the economic cycle, on a quarterly basis. When historical credit loss experience is not sufficient for a specific portfolio, the Company may supplement its own portfolio data with external models or data.

Qualitative reserves reflect management’s overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit–related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible.

The Company’s CECL estimate applies to a forecast that incorporates macroeconomic trends and other environmental factors. Management utilized National, Regional and Local Leading econometrics, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and quantitative adjustments were utilized to reflect the forecast and other relevant factors. The forecasted loss rate then reverts to the historical base rate on a straight–line methodology for the remaining life of loan for each pool.

The Company segments the loan portfolio into pools based on the following risk characteristics: financial asset type, loan purpose, collateral type, loan characteristics, credit characteristics, outstanding loan balances, contractual terms and prepayment assumptions, industry of the borrower and concentrations, and historical or expected credit loss patterns.

Note 5 – Loan Servicing

Loans serviced for others are not included in the accompanying condensed consolidated balance sheets. The unpaid principal balances of loans serviced for others totaled approximately $1.486 billion and $1.532 billion at September 30, 2023 and December 31, 2022.

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

Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value. For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates were used to stratify the originated mortgage servicing rights. Mortgage servicing rights are included in other assets on the balance sheets as of September 30, 2023 and December 31, 2022.

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Mortgage servicing rights				
Balance, beginning of period	$ 18,507	$ 18,761	$ 18,619	$ 17,780
Servicing rights capitalized	428	567	863	2,942
Amortization of servicing rights	(285)	(624)	(832)	(2,018)
Balance, end of period	18,650	18,704	18,650	18,704
Impairment allowance				
Balance, beginning of period	—	—	—	(2,594)
Additions	—	—	—	—
Reductions	—	—	—	2,594
Balance, end of period	—	—	—	—
Mortgage servicing rights, net	$ 18,650	$ 18,704	$ 18,650	$ 18,704
Fair value, beginning of period	$ 19,659	$ 18,761	$ 18,619	$ 15,186
Fair value, end of period	19,571	18,704	19,571	18,704

Note 6 – Goodwill

The carrying amount of goodwill was $155.2 million as of September 30, 2023 and December 31, 2022, respectively. There were no changes in the carrying amount of goodwill for the three and nine months ended September 30, 2023 and 2022. Goodwill is assessed for impairment annually, or more frequently if events occur or circumstances change that indicate an impairment may exist. When assessing goodwill for impairment, first, a qualitative assessment can be made to determine whether it is more likely than not that the estimated fair value of a reporting unit is less than its estimated carrying value. If the results of the qualitative assessment are not conclusive, a quantitative goodwill test is performed. Alternatively, a quantitative goodwill test can be performed without performing a qualitative assessment.

Goodwill was assessed for impairment using a quantitative analysis as of August 31, 2023 which resulted in no goodwill impairment charges for the nine months ended September 30, 2023.

Note 7 – Repurchase Agreements

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

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

The following tables show repurchase agreements accounted for as secured borrowings and the related securities, at fair value, pledged for repurchase agreements:

	September 30, 2023				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
Repurchase Agreements and repurchase-to-maturity transactions					
Federal agency collateralized mortgage obligations	$ 8,346	$ —	$ —	$ —	$ 8,346
Federal agency mortgage–backed pools	125,391	—	—	—	125,391
Private labeled mortgage–backed pools	8,757	—	—	—	8,757
Total borrowings	$ 142,494	$ —	$ —	$ —	$ 142,494

	December 31, 2022				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 Days	Total
Repurchase Agreements and repurchase-to-maturity transactions					
Federal agency collateralized mortgage obligations	$ 12,632	$ —	$ —	$ —	$ 12,632
Federal agency mortgage–backed pools	116,041	—	—	—	116,041
Private labeled mortgage–backed pools	9,198	—	—	—	9,198
Total borrowings	$ 137,871	$ —	$ —	$ —	$ 137,871

Securities sold under agreements to repurchase are secured by securities with a carrying amount of $ 154.8 million and $160.5 million at September 30, 2023 and December 31, 2022, respectively.

Note 8 – Subordinated Notes

On June 24, 2020, Horizon issued $60.0 million in aggregate principal amount of 5.625% fixed–to–floating rate subordinated notes (the “Notes”). The Notes were offered in denominations of $1,000 and integral multiples of $1,000 in excess thereof. The Notes mature on July 1, 2030 (the “Maturity Date”). From and including the date of original issuance to, but excluding, July 1, 2025 or the date of earlier redemption (the “fixed rate period”), the Notes bear interest at an initial rate of 5.625% per annum, payable semi–annually in arrears on January 1 and July 1 of each year, commencing on January 1, 2021. The last interest payment date for the fixed rate period will be July 1, 2025. From and including July 1, 2025 to, but excluding, the Maturity Date or the date of earlier redemption (the “floating rate period”), the Notes bear interest at a floating rate per annum equal to the benchmark rate, which is expected to be Three–Month Term SOFR (the “Benchmark Rate”), plus 549 basis points, payable quarterly in arrears on January 1, April 1, July 1, and October 1 of each year, commencing on October 1, 2025. Notwithstanding the foregoing, in the event that the Benchmark Rate is less than zero, the Benchmark Rate shall be deemed to be zero.

Horizon may, at its option, beginning with the interest payment date of July 1, 2025 and on any interest payment date thereafter, redeem the Notes, in whole or in part. The Notes will not otherwise be redeemable by Horizon prior to maturity, unless certain events occur. The redemption price for any redemption is 100% of the principal amount of the Notes, plus accrued and unpaid interest thereon to, but excluding, the date of redemption. Any early redemption of the Notes will be subject to the receipt of the approval of the Board of Governors of the Federal Reserve System to the extent then required under applicable laws or regulations, including capital regulations.

The Notes are unsecured subordinated obligations, and rank pari passu, or equally, with all of Horizon's future unsecured subordinated debt and are junior to all existing and future senior debt. The Notes are structurally subordinated to all existing and future liabilities of Horizon's subsidiaries, including the deposit liabilities and claims of other creditors of Horizon Bank, and are effectively subordinated to Horizon’s existing and future secured indebtedness. There is no sinking fund for the Notes. The Notes are obligations of Horizon only and are not obligations of, and are not guaranteed by, any of Horizon’s subsidiaries.

Note 9 – Derivative Financial Instruments

Cash Flow Hedges

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flow due to interest rate fluctuations, the Company entered into an interest rate swap agreement for a portion of its floating rate debt on July 20, 2018. The agreement provides for the Company to receive interest from the counterparty at one month LIBOR and to pay interest to the counterparty at a fixed rate of 2.81% on a notional amount of $50.0 million at December 31, 2022. Under the agreement, the Company pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The Company terminated this interest rate swap agreement on May 23, 2023 and recorded a related gain of $1.5 million as a reduction of interest expense.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

Fair Value Hedges

Fair value hedges are intended to reduce the interest rate risk associated with the underlying hedged item. The Company enters into fixed rate loan agreements as part of its lending policy. To mitigate the risk of changes in fair value based on fluctuations in interest rates, the Company has entered into interest rate swap agreements on individual loans, converting the fixed rate loans to a variable rate. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in current earnings. At September 30, 2023, the Company’s fair value hedges were effective and are not expected to have a significant impact on the Company’s net income over the next 12 months.

The change in fair value of both the hedge instruments and the underlying loan agreements are recorded as gains or losses in non–interest income. The fair value hedges are considered to be highly effective and any hedge ineffectiveness was deemed not material.

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

Other Derivative Instruments

The Company enters into non–hedging derivatives in the form of mortgage loan forward sale commitments with investors and commitments to originate mortgage loans as part of its mortgage banking business. At September 30, 2023, the Company's fair value of these derivatives were recorded and over the next 12 months are not expected to have a significant impact on the Company's net income.

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

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

	Asset Derivatives September 30, 2023		Liability Derivatives September 30, 2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts – cash flow hedges	$ —	$ —	$ —	$ —
Total derivatives designated as hedging instruments	—	—	—	—
Derivatives not designated as hedging instruments				
Interest rate contracts – fair value hedges	524,995	50,519	524,995	50,519
Mortgage loan contracts	—	—	10,051	24
Commitments to originate mortgage loans	13,872	292	—	—
Total derivatives not designated as hedging instruments	538,867	50,811	535,046	50,543
Total derivatives	$ 538,867	$ 50,811	$ 535,046	$ 50,543

	Asset Derivatives December 31, 2022		Liability Derivatives December 31, 2022	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts – cash flow hedges	$ 50,000	$ 1,976	$ —	$ —
Total derivatives designated as hedging instruments	50,000	1,976	—	—
Derivatives not designated as hedging instruments				
Interest rate contracts – fair value hedges	514,551	42,619	514,551	42,619
Mortgage loan contracts	—	—	13,800	50
Commitments to originate mortgage loans	12,179	284	—	—
Total derivatives not designated as hedging instruments	526,730	42,903	528,351	42,669
Total derivatives	$ 576,730	$ 44,879	$ 528,351	$ 42,669

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

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

	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivative			
	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Derivatives in cash flow hedging relationship				
Interest rate contracts	$ —	$ 1,542	$ (1,561)	$ 4,535

The effect of the derivative designated as a hedging instrument on the condensed consolidated statements of income for the three and nine–month periods ended September 30 is as follows:

	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative			
		Three Months Ended		Nine Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Derivative designated as hedging instruments					
Interest rate contracts – cash flow hedges	Interest expense – Borrowings	$ —	$ (95)	$ 1,832	$ (710)
Total		$ —	$ (95)	$ 1,832	$ (710)

The effect of derivatives not designated as hedging instruments on the condensed consolidated statements of income for the three and nine–month periods ended September 30 is as follows:

	Location of gain (loss) recognized on derivative	Amount of Gain (Loss) Recognized on Derivative			
		Three Months Ended		Nine Months Ended	
		September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Derivatives not designated as hedging instruments					
Interest rate contracts – fair value hedge	Interest income – loans receivable	$ 340	$ (5)	$ 774	$ (169)
Interest rate contracts – fair value hedge	Interest income – investment securities	53	(13)	163	(125)
Mortgage loan contracts	Non–interest income – Gain on sale of loans	(6)	(178)	26	(92)
Commitments to originate mortgage loans	Non–interest income – Gain on sale of loans	182	(141)	118	(897)
Total		$ 569	$ (337)	$ 1,081	$ (1,283)

Note 10 – Disclosures about Fair Value of Assets and Liabilities

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

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

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

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

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying condensed consolidated financial statements, as well as the general classification of such instruments pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the period ended September 30, 2023. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available for sale securities

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

Hedged loans

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

Interest rate swap agreements

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

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

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

	September 30, 2023			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Treasury and federal agencies	$ 265,850	$ —	$ 265,850	$ —
State and municipal	340,312	—	340,312	—
Federal agency collateralized mortgage obligations	21,313	—	21,313	—
Federal agency mortgage–backed pools	165,889	—	165,889	—
Corporate notes	71,804	—	71,804	—
Total available for sale securities	865,168	—	865,168	—
Interest rate swap agreements asset	50,519	—	50,519	—
Commitments to originate mortgage loans	292	292	—	—
Interest rate swap agreements liability	(50,519)	—	(50,519)	—
Mortgage loan contracts	(24)	(24)	—	—

	December 31, 2022			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
U.S. Treasury and federal agencies	$ 267,179	$ —	$ 267,179	$ —
State and municipal	433,544	—	433,544	—
Federal agency collateralized mortgage obligations	31,215	—	31,215	—
Federal agency mortgage–backed pools	190,656	—	190,656	—
Corporate notes	74,964	—	74,964	—
Total available for sale securities	997,558	—	997,558	—
Interest rate swap agreements asset	44,595	—	44,595	—
Commitments to originate mortgage loans	284	—	284	—
Interest rate swap agreements liability	(42,619)	—	(42,619)	—
Mortgage loan contracts	(50)	—	(50)	—

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

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

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2023				
Collateral dependent loans	$ 6,616	$ —	$ —	$ 6,616
December 31, 2022				
Collateral dependent loans	$ 8,091	$ —	$ —	$ 8,091

Collateral Dependent Loans: For loans identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value.

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

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

	September 30, 2023			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral dependent loans	$ 6,616	Collateral based measurement	Discount to reflect current market conditions and ultimate collectibility	0.0%-100.0% (7.2%)

	December 31, 2022			
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral dependent loans	$ 8,091	Collateral based measurement	Discount to reflect current market conditions and ultimate collectibility	0.0%-100.0%(13.3%)

Note 11 – Fair Value of Financial Instruments

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

The estimated fair values of financial instruments, as shown below, are not intended to reflect the estimated liquidation or market value of Horizon taken as a whole. The disclosed fair value estimates are limited to Horizon’s significant financial instruments at September 30, 2023 and December 31, 2022. These include financial instruments recognized as assets and liabilities on the condensed consolidated balance sheets as well as certain off–balance sheet financial instruments. The estimated fair values shown below do not include any valuation of assets and liabilities, which are not financial instruments as defined by the FASB ASC fair value hierarchy.

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

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

Interest-earning time deposits – The fair values of the Company’s interest–earning time deposits are estimated using discounted cash flow analyses based on current rates for similar types of interest–earning time deposits.

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

Loans Held for Sale – The carrying amounts approximate fair value.

Net Loans – The fair value of net loans are estimated on an exit price basis incorporating discounts for credit, liquidity and marketability factors.

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

Interest Receivable/Payable – The carrying amounts approximate fair value.

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

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

Subordinated Notes – The fair value of subordinated notes is based on discounted cash flows based on current borrowing rates for similar types of instruments.

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

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

HORIZON BANCORP, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)
(Table Dollar Amounts in Thousands, Except Per Share Data)

The following tables present estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall.

	September 30, 2023			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and due from banks	$ 175,137	$ 175,137	$ —	$ —
Interest–earning time deposits	2,207	—	2,174	—
Investment securities, held to maturity	1,966,483	—	1,556,845	—
Loans held for sale	2,828	—	—	2,828
Loans (excluding loan level hedges), net	4,309,303	—	—	4,213,446
Stock in FHLB	34,509	—	34,509	—
Interest receivable	37,850	—	37,850	—
Liabilities				
Non–interest bearing deposits	$ 1,126,703	$ 1,126,703	$ —	$ —
Interest bearing deposits	4,573,394	—	4,237,120	—
Borrowings	1,356,510	—	1,345,114	—
Subordinated notes	59,007	—	53,401	—
Junior subordinated debentures issued to capital trusts	57,201	—	48,699	—
Interest payable	16,281	—	16,281	—

	December 31, 2022			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and due from banks	$ 123,505	$ 123,505	$ —	$ —
Interest–earning time deposits	2,812	—	2,778	—
Investment securities, held to maturity	2,022,748	—	1,681,309	—
Loans held for sale	5,807	—	—	5,807
Loans (excluding loan level hedges), net	4,107,534	—	—	3,852,458
Stock in FHLB	26,677	—	26,677	—
Interest receivable	35,294	—	35,294	—
Liabilities				
Non–interest bearing deposits	$ 1,277,768	$ 1,277,768	$ —	$ —
Interest bearing deposits	4,580,006	—	4,100,154	—
Borrowings	1,142,949	—	1,139,926	—
Subordinated notes	58,896	—	56,496	—
Junior subordinated debentures issued to capital trusts	57,027	—	51,327	—
Interest payable	5,380	—	5,380	—

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

Note 12 – Accumulated Other Comprehensive Income (Loss)

	September 30, 2023	December 31, 2022
Unrealized gain (loss) on securities available for sale	$ (159,454)	$ (140,144)
Unamortized gain (loss) on securities held to maturity, previously transferred from AFS	3,209	3,740
Unrealized gain (loss) on derivative instruments	—	1,976
Tax effect	32,811	28,230
Total accumulated other comprehensive income (loss)	$ (123,434)	$ (106,198)

Note 13 – Regulatory Capital

Horizon and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. These capital requirements implement changes arising from the Dodd–Frank Wall Street Reform and Consumer Protection Act and the U.S. Basel Committee on Banking Supervision's capital framework (known as "Basel III"). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators, which if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective actions, the Company and Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off–balance–sheet items as calculated under regulatory accounting practices. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Company and Bank are subject to minimum regulatory capital requirements as defined and calculated in accordance with the Basel III–based regulations. As allowed under Basel III rules, the Company made the decision to opt–out of including accumulated other comprehensive income in regulatory capital. The minimum regulatory capital requirements are set forth in the table below.

In addition, to be categorized as well capitalized, the Company and Bank must maintain Total risk–based, Tier I risk–based, common equity Tier I risk–based and Tier I leverage ratios as set forth in the table below. As of September 30, 2023 and December 31, 2022, the Company and Bank met all capital adequacy requirements to be considered well capitalized. There have been no conditions or events since the end of the third quarter of 2023 that management believes have changed the Bank's classification as well capitalized. There is no threshold for well capitalized status for bank holding companies.

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

Horizon and the Bank's actual and required capital ratios as of September 30, 2023 and December 31, 2022 were as follows:

	Actual		Required for Capital Adequacy Purposes[1]		Required For Capital Adequacy Purposes with Capital Buffer[1]		Well Capitalized Under Prompt Corrective Action Provisions[1]	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2023								
Total capital (to risk–weighted assets)[1]								
Consolidated	$ 819,855	14.39 %	$ 455,931	8.00 %	$ 598,409	10.50 %	N/A	N/A
Bank	744,803	13.11 %	454,401	8.00 %	596,401	10.50 %	$ 568,001	10.00 %
Tier 1 capital (to risk–weighted assets)[1]								
Consolidated	769,424	13.50 %	341,948	6.00 %	484,426	8.50 %	N/A	N/A
Bank	694,372	12.22 %	340,801	6.00 %	482,801	8.50 %	454,401	8.00 %
Common equity tier 1 capital (to risk–weighted assets)[1]								
Consolidated	649,071	11.39 %	256,461	4.50 %	398,939	7.00 %	N/A	N/A
Bank	694,372	12.22 %	255,600	4.50 %	397,601	7.00 %	369,201	6.50 %
Tier 1 capital (to average assets)[1]								
Consolidated	769,424	9.87 %	311,717	4.00 %	311,717	4.00 %	N/A	N/A
Bank	694,372	8.77 %	316,646	4.00 %	316,646	4.00 %	395,808	5.00 %
December 31, 2022								
Total capital (to risk–weighted assets)[1]								
Consolidated	$ 776,390	14.37 %	$ 432,172	8.00 %	$ 567,226	10.50 %	N/A	N/A
Bank	726,339	13.59 %	427,456	8.00 %	561,036	10.50 %	$ 534,320	10.00 %
Tier 1 capital (to risk–weighted assets)[1]								
Consolidated	729,835	13.51 %	324,129	6.00 %	459,183	8.50 %	N/A	N/A
Bank	679,784	12.72 %	320,592	6.00 %	454,172	8.50 %	427,456	8.00 %
Common equity tier 1 capital (to risk–weighted assets)[1]								
Consolidated	609,630	11.28 %	243,097	4.50 %	378,151	7.00 %	N/A	N/A
Bank	679,784	12.72 %	240,444	4.50 %	374,024	7.00 %	347,308	6.50 %
Tier 1 capital (to average assets)[1]								
Consolidated	729,835	10.03 %	291,122	4.00 %	291,122	4.00 %	N/A	N/A
Bank	679,784	8.89 %	305,996	4.00 %	305,999	4.00 %	382,495	5.00 %

[1] As defined by regulatory agencies

Note 14 – General Litigation

As of April 20, 2023, a putative class action lawsuit entitled Chad Key, et al. v. Horizon Bancorp, Inc., et al., Case No. 1:23-cv-02961 ("Securities Action") was filed against the Company and two of its officers in the U.S. District Court for the Eastern District of New York. The Securities Action asserts claims under §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 alleging, among other things, the Company made materially false and misleading statements and failed to disclose material adverse facts which allegedly resulted in harm to a putative class of purchasers of our securities from March 9, 2022 and March 10, 2023.

As of (1) August 28, 2023, a lawsuit related to the Securities Action was filed by Sally Hundley, derivatively on behalf of the Company, against the Company, as nominal defendant, and 2 of the Company's officers and 10 of its directors and (2) August 31, 2023, a lawsuit also related to the Securities Action was filed by Aziz Chowdhury, derivatively on behalf of the Company, against the Company, as nominal defendant, and 2 of the Company's officers and 10 of its directors (the “Derivatives Actions”) in the U.S. District Court for the Eastern District of New York. The Derivative Actions allege, among other things, breach of the officers and directors' fiduciary duties. The Derivative Actions have been consolidated and stayed pending resolution of any motion to dismiss in the Securities Action.

Based on our initial review of these actions, management believes that the Company has strong defenses to the claims and intends to vigorously defend against them. As of September 30, 2023, no liabilities related to the above matters were recorded because we have concluded such liabilities are not probable and the amounts of such liabilities are not reasonably estimable.

In addition to the matters described above, from time to time, 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 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward–Looking Statements

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

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

- current financial conditions within the banking industry, including the effects of recent failures of other financial institutions, liquidity levels, and responses by the Federal Reserve, Department of the Treasury, and the Federal Deposit Insurance Corporation to address these issues;
- changes in the level and volatility of interest rates, spreads on earning assets and interest bearing liabilities, and interest rate sensitivity;
- the ability of the Company to remediate its material weaknesses in its internal control over financial reporting;
- continuing increases in inflation;
- loss of key Horizon personnel;
- economic conditions and their impact on Horizon and its customers, including local and global economic recovery from the pandemic;
- the increasing use of Bitcoin and other crypto currencies and/or stable coin and the possible impact these alternative currencies may have on deposit disintermediation and income derived from payment systems;
- the effect of interest rates on net interest rate margin and their impact on mortgage loan volumes and the outflow of deposits;
- increases in disintermediation, as new technologies allow consumers to complete financial transactions without the assistance of banks, which may have been accelerated by the COVID–19 pandemic;
- potential loss of fee income, including interchange fees, as new and emerging alternative payment platforms (e.g., Apple Pay or Bitcoin) take a greater market share of the payment systems;
- estimates of fair value of certain of Horizon's assets and liabilities;
- volatility and disruption in financial markets;
- prepayment speeds, loan originations, credit losses and market values, collateral securing loans and other assets;
- sources of liquidity;
- potential risk of environmental liability related to lending and acquisition activities;
- changes in the competitive environment in Horizon's market areas and among other financial service providers;
- legislation and/or regulation affecting the financial services industry as a whole, and Horizon and its subsidiaries in particular;

- 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;
- litigation, regulatory enforcement, tax, and legal compliance risk and costs, as applicable generally and specifically to the financial and fiduciary (generally and as an ESOP fiduciary) environment, especially if materially different from the amount we expect to incur or have accrued for, and any disruptions caused by the same;
- the effects and costs of governmental investigations or related actions by third parties;
- rapid technological developments and changes;
- the risks presented by cyber terrorism and data security breaches;
- the rising costs of effective cybersecurity;
- containing costs and expenses;
- the ability of the U.S. federal government to manage federal debt limits;
- the potential influence on the U.S. financial markets and economy from the effects of climate change and social justice initiatives;
- the potential influence on the U.S. financial markets and economy from material changes outside the U.S. or in overseas relations, including changes in the U.S. trade relations related to imposition of tariffs, Brexit and the phase out of the London Interbank Offered Rate ("LIBOR") according to regulatory guidance;
- 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; and
- acts of terrorism, war and global conflicts, such as the Russia and Ukraine conflict, and the potential impact they may have on supply chains, the availability of commodities, commodity prices, inflationary pressure and the overall U.S. and global financial markets.

The foregoing list of important factors is not exclusive, and you are cautioned not to place undue reliance on these forward–looking statements, which speak only as of the date of this document or, in the case of documents incorporated by reference, the dates of those documents. We do not undertake to update any forward–looking statements, whether written or oral, that may be made from time to time by us or on our behalf. For a detailed discussion of the risks and uncertainties that may cause our actual results or performance to differ materially from the results or performance expressed or implied by forward–looking statements, see "Risk Factors" in Item 1A of Part I of our 2022 Annual Report on Form 10–K, in Item 1A of Part II of this Quarterly Report on Form 10–Q, and in the subsequent reports we file with the SEC.

Overview

Horizon Bancorp, Inc. ("Horizon" or the "Company") is a registered bank holding company incorporated in Indiana and headquartered in Michigan City, Indiana. Horizon provides a broad range of banking services in northern and central Indiana and southern and central Michigan through its bank subsidiary, Horizon Bank ("Horizon Bank" or the "Bank"), and other affiliated entities and Horizon Risk Management, Inc. Horizon operates as a single segment, which is commercial banking. Horizon's common stock is traded on the NASDAQ Global Select Market under the symbol HBNC. Horizon Bank was founded in 1873 as a national association, and it remained a national association until its conversion to an Indiana commercial bank effective June 23, 2017. 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.

Over the last 20 years, Horizon has expanded its geographic reach and experienced financial growth through a combination of both organic expansion and mergers and acquisitions. Horizon's initial operations focused on northwest Indiana, but since then, the Company has developed a presence in new markets in southern and central Michigan and northeastern and central Indiana.

Third Quarter 2023 Highlights

- Net income was $16.2 million or $0.37 per diluted share. This compared to $18.8 million or $0.43 in the second quarter of 2023, which included an after–tax benefit of approximately $1.1 million, or $0.02 per share on a non–recurring swap termination fee.
- Loans totaled $4.36 billion at period end, increasing by 8.2% annualized during the quarter and 6.4% annualized since December 31, 2022. Commercial loan growth totaled $83.0 million, increasing by 13.1% annualized during the quarter and 6.6% annualized since December 31, 2022.
- Deposits remained resilient, totaling $5.7 billion at period end, compared to $5.7 billion on June 30, 2023. Brokered deposits and wholesale borrowing levels were consistent with second quarter balances.
- Net interest income was $42.1 million. This compared to $46.2 million in the linked quarter, which benefited from the aforementioned non–recurring swap termination fee by $1.5 million.
- Non–interest income expanded to $11.8 million from $11.0 million in the linked quarter, primarily due to higher mortgage–related revenue.
- Well–managed non–interest expense was $36.2 million, or 1.81% of average assets annualized. Results slightly improved from the second quarter, even with an additional $460,000 in FDIC insurance expense.
- Maintained sound asset quality, with 30 to 89 days delinquent loans representing 0.30% of total loans and non–performing loans representing 0.45% of total loans at period end, as well as net charge–offs representing 0.02% of average loans during the quarter.
- Horizon's dividend performance included a 5.99% yield as of September 30, 2023, with cash maintained at the holding company level representing approximately eight quarters of dividend payments and fixed costs.

Financial Summary

	For the Three Months Ended		
Net Interest Income and Net Interest Margin	**September 30, 2023**	**June 30, 2023**	**September 30, 2022**
Net interest income	$ 42,090	$ 46,160	$ 51,861
Net interest margin	2.41 %	2.69 %	3.04 %
Adjusted net interest margin (See “Use of Non–GAAP Financial Measures”)	2.38 %	2.57 %	2.99 %

	For the Three Months Ended		
Asset Yields and Funding Costs	**September 30, 2023**	**June 30, 2023**	**September 30, 2022**
Interest earning assets	4.48 %	4.39 %	3.58 %
Interest bearing liabilities	2.52 %	2.10 %	0.69 %

Non–interest Income and Mortgage Banking Income	For the Three Months Ended September 30, 2023	June 30, 2023	September 30, 2022
Total non–interest income	$ 11,830	$ 10,997	$ 10,188
Gain on sale of mortgage loans	1,582	1,005	1,441
Mortgage servicing income net of impairment or recovery	631	640	355

Non–interest Expense	For the Three Months Ended September 30, 2023	June 30, 2023	September 30, 2022
Total non–interest expense	$ 36,168	$ 36,262	$ 36,816
Annualized non–interest expense to average assets	1.81 %	1.86 %	1.91 %

Credit Quality	At or for the Three Months Ended September 30, 2023	June 30, 2023	September 30, 2022
Allowance for credit losses to total loans	1.14 %	1.17 %	1.27 %
Non–performing loans to total loans	0.45 %	0.52 %	0.47 %
Percent of net charge–offs to average loans outstanding for the period	0.02 %	0.01 %	0.00 %

Allowance for Credit Losses	September 30, 2023	Net Reserve 3Q23	2Q23	1Q23	December 31, 2022
Commercial	$ 29,472	$ (882)	$ (802)	$ (1,289)	$ 32,445
Retail Mortgage	2,794	(854)	(799)	(1,130)	5,577
Warehouse	714	(179)	95	(222)	1,020
Consumer	16,719	1,638	1,956	1,703	11,422
Allowance for Credit Losses (“ACL”)	$ 49,699	$ (277)	$ 450	(938)	$ 50,464
ACL/Total Loans	1.14 %				1.21 %

Critical Accounting Policies

The notes to the consolidated financial statements included in Item 8 of the Company’s 2022 Annual Report on Form 10–K contain a summary of the Company’s significant accounting policies. Certain of these policies are important to the portrayal of the Company’s financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Management has identified as critical accounting policies the allowance for credit losses, goodwill and intangible assets, mortgage servicing rights, hedge accounting and valuation measurements.

Allowance for Credit Losses

The allowance for credit losses represents management’s best estimate of current expected credit losses over the life of the portfolio of loan and leases. Estimating credit losses requires judgment in determining loan specific attributes impacting the borrower’s ability to repay contractual obligations. Other factors such as economic forecasts used to determine a reasonable and supportable forecast, prepayment assumptions, the value of underlying collateral, and changes in size composition and risks within the portfolio are also considered.

The allowance for credit losses is assessed at each balance sheet date and adjustments are recorded in the provision for credit losses. The allowance is estimated based on loan level characteristics using historical loss rates, a reasonable and supportable economic forecast. Loan losses are estimated using the fair value of collateral for collateral–dependent loans, or when the borrower is experiencing financial difficulty such that repayment of the loan is expected to be made through the operation or sale of the collateral. Loan balances considered uncollectible are charged–off against the ACL. Recoveries of amounts previously charged–off are credited to the ACL. Assets purchased with credit deterioration (“PCD”) assets represent assets that are acquired with evidence of more than insignificant credit quality deterioration since origination at the acquisition date. At acquisition, the allowance for credit losses on PCD assets is booked directly the ACL. Any subsequent changes in the ACL on PCD assets is recorded through the provision for credit losses. Management believes that the ACL is adequate to absorb the expected life of loan credit losses on the portfolio of loans and leases as of the balance sheet date. Actual losses incurred may differ materially from our estimates.

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 September 30, 2023, Horizon had core deposit intangibles of $14.5 million subject to amortization and $155.2 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.

At each reporting date between annual goodwill impairment tests, Horizon considers potential indicators of impairment. Given the current economic uncertainty and volatility surrounding the interest rate environment, Horizon assessed whether the events and circumstances resulted in it being more likely than not that the fair value of any reporting unit was less than its carrying value. Impairment indicators considered comprised the condition of the economy and banking industry; government intervention and regulatory updates; the impact of recent events to financial performance and cost factors of the reporting unit; performance of the Company's stock and other relevant events. Horizon further considered the amount by which fair value exceeded book value in the most recent quantitative analysis and stress testing performed. At the conclusion of the most recent qualitative assessment, the Company determined that as of September 30, 2023, it was more likely than not that the fair value exceeded its carrying values. Horizon will continue to monitor developments regarding the current banking environment, market capitalization, overall economic conditions and any other triggering events or circumstances that may indicate an impairment of goodwill in the future.

Mortgage Servicing Rights

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

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

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.

Financial Condition

On September 30, 2023, Horizon's total assets were $8.0 billion, an increase of approximately $86.9 million compared to December 31, 2022. The increase in total assets was primarily growth in net loans of $201.8 million and an increase in cash and due from banks of $51.6 million. These increases were offset by decreases in investments available for sale of $132.4 million primarily due to principal repayments and sales during the first nine months of 2023 and a decrease in investments held to maturity of $56.3 million due to principal repayments.

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

	September 30, 2023		December 31, 2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale				
U.S. Treasury and federal agencies	$ 293,785	$ 265,850	$ 294,329	$ 267,179
State and municipal	425,096	340,312	505,006	433,544
Federal agency collateralized mortgage obligations	23,210	21,313	33,011	31,215
Federal agency mortgage–backed pools	200,728	165,889	220,963	190,656
Corporate notes	81,803	71,804	84,393	74,964
Total available for sale investment securities	$ 1,024,622	$ 865,168	$ 1,137,702	$ 997,558
Held to maturity				
U.S. Treasury and federal agencies	$ 287,561	$ 234,008	$ 295,250	$ 246,013
State and municipal	1,101,933	858,309	1,127,669	935,585
Federal agency collateralized mortgage obligations	52,573	42,677	56,564	47,699
Federal agency mortgage–backed pools	328,410	264,057	343,953	287,239
Private labeled mortgage–backed pools	32,992	27,298	35,466	29,973
Corporate notes	163,014	130,496	163,846	134,800
Total held to maturity investment securities	$ 1,966,483	$ 1,556,845	$ 2,022,748	$ 1,681,309

Investment securities available for sale decreased $132.4 million since December 31, 2022 to $865.2 million as of September 30, 2023 primarily due to principal repayments and the sale of certain securities and investment securities held to maturity decreased $56.3 million since December 31, 2022 to $2.0 billion as of September 30, 2023. This decrease in investments held to maturity was due to cash flows received during the first nine months of 2023.

Net loans increased $201.8 million since December 31, 2022 to $4.4 billion as of September 30, 2023. Commercial loans increased $121.8 million, consumer loans increased $60.7 million and residential mortgage loans increased $22.1 million, offset by a decrease in mortgage warehouse loans of $3.6 million since December 31, 2022.

Total deposits decreased $157.7 million since December 31, 2022 to $5.7 billion as of September 30, 2023, primarily due to a reduction in consumer and commercial balances of $65.5 million and a $105.3 million, respectively, offset by an increase in balances by municipal and other public depositors of approximately $13.1 million during the first nine months of 2023.

Total borrowings increased to $1.4 billion as of September 30, 2023 from $1.1 billion as of December 31, 2022, primarily due to the decrease in total deposits.

Stockholders’ equity totaled $693.4 million at September 30, 2023 compared to $677.4 million at December 31, 2022. The increase in stockholders’ equity during the period was primarily due to the generation of net income, offset by an increase in accumulated other comprehensive loss of $17.2 million as unrealized losses on available for sale securities increased to $159.5 million and the amount of dividends paid during the quarter. Book value per common share at September 30, 2023 decreased to $15.89 compared to $16.25 at December 31, 2022.

Results of Operations

Overview

Consolidated net income for the three–month period ended September 30, 2023 was $16.2 million, or $0.37 diluted earnings per share, compared to $23.8 million, or $0.55 diluted earnings per share for the same period in 2022. The decrease in net income for the three–month period ended September 30, 2023 when compared to the same prior year period reflects a decrease in net interest income of $9.8 million, an increase in credit loss expense of $864,000, offset by an increase in non–interest income of $1.6 million, a decrease in non–interest expense of $648,000 and a decrease in income tax expense of $729,000.

Consolidated net income for the nine–month period ended September 30, 2023 was $53.2 million, or $1.21 diluted earnings per share, compared to $72.2 million, or $1.65 diluted earnings per share for the same period in 2022. The decrease in net income for the nine–month period ended September 30, 2023 when compared to the same prior year period reflects a decrease in net interest income of $17.2 million, an increase in credit loss expense of $2.9 million and a decrease in non–interest income of $4.3 million, offset by a decrease in non–interest expense of $536,000 and a decrease in income tax expense of $4.9 million.

Net Interest Income

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

Net interest income during the three months ended September 30, 2023 was $42.1 million, a decrease of $9.8 million from the $51.9 million earned during the same period in 2022. Yields on the Company's interest earning assets increased by 90 basis points to 4.48% for the three months ended September 30, 2023 from 3.58% for the three months ended September 30, 2022. Interest income increased $18.6 million from $61.5 million for the three months ended September 30, 2022 to $80.1 million for the same period in 2023. The increase in interest income was due to higher yields earned on interest earning assets and an increase in average balances of interest earning assets of $230.4 million during the three months ended September 30, 2023. Interest income from acquisition–related purchase accounting adjustments was $435,000 for the three months ended September 30, 2023 compared to $906,000 for the same period in 2022.

Rates paid on interest bearing liabilities increased by 184 basis points for the three–month period ended September 30, 2023 compared to the same period in 2022. Interest expense increased $28.4 million when compared to the three–month period ended September 30, 2022 to $38.0 million for the same period in 2023. This increase was due to higher rates paid on interest bearing liabilities. The cost of average interest bearing deposits increased 180 basis points while the cost of average borrowings increased 167 basis points. Average balances of interest bearing deposits increased $60.0 million and average balances of borrowings increased $366.6 million for the three-month period ended September 30, 2023 when compared to the same period in 2022.

The net interest margin decreased 63 basis points from 3.04% for the three–month period ended September 30, 2022 to 2.41% for the same period in 2023. The decrease in the margin for the three–month period ended September 30, 2023 compared to the same period in 2022 was due to an increase in the cost of interest bearing liabilities, offset by an increase in the yield on interest earning assets. Excluding the interest income recognized from the acquisition–related purchase accounting adjustments ("adjusted net interest margin"), the margin would have been 2.38% for the three-month period ended September 30, 2023 compared to 2.99% for the same period in 2022. (See the "Non–GAAP Reconciliation of Net Interest Margin" table below.)

HORIZON BANCORP, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition
And Results of Operations
For the Three and Nine Months ended September 30, 2023 and 2022

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

Average Balance Sheets

(Dollar Amount in Thousands, Unaudited)

	Three Months Ended September 30, 2023			Three Months Ended September 30, 2022		
	Average Balance	**Interest**	**Average Rate**	**Average Balance**	**Interest**	**Average Rate**
Assets						
Interest earning assets						
Federal funds sold	$ 92,305	$ 1,247	5.36 %	$ 4,201	$ 24	2.27 %
Interest earning deposits	8,018	85	4.21 %	9,994	41	1.63 %
Investment securities – taxable	1,684,590	8,788	2.07 %	1,728,197	8,436	1.94 %
Investment securities – non–taxable (1)	1,220,998	7,002	2.88 %	1,384,249	7,478	2.71 %
Loans receivable (2) (3)	4,280,700	63,003	5.86 %	3,929,567	45,517	4.61 %
Total interest earning assets	7,286,611	80,125	4.48 %	7,056,208	61,496	3.58 %
Non–interest earning assets						
Cash and due from banks	100,331			99,221		
Allowance for credit losses	(49,705)			(52,303)		
Other assets	587,514			531,976		
Total average assets	$ 7,924,751			$ 7,635,102		
Liabilities and Stockholders' Equity						
Interest bearing liabilities						
Interest bearing deposits	$ 4,538,698	$ 24,704	2.16 %	$ 4,478,741	$ 4,116	0.36 %
Borrowings	1,180,452	10,399	3.50 %	813,873	3,756	1.83 %
Repurchase agreements	136,784	825	2.39 %	141,283	139	0.39 %
Subordinated notes	58,983	880	5.92 %	58,836	880	5.93 %
Junior subordinated debentures issued to capital trusts	57,166	1,227	8.52 %	56,928	744	5.19 %
Total interest bearing liabilities	5,972,083	38,035	2.52 %	5,549,661	9,635	0.69 %
Non–interest bearing liabilities						
Demand deposits	1,159,241			1,351,857		
Accrued interest payable and other liabilities	77,942			53,208		
Stockholders' equity	715,485			680,376		
Total average liabilities and stockholders' equity	$ 7,924,751			$ 7,635,102		
Net interest income/spread		$ 42,090	1.96 %		$ 51,861	2.89 %
Net interest income as a percent of average interest earning assets (1)			2.41 %			3.04 %

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

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

(3) Non–accruing loans for the purpose of the computation above are included in the daily average loan amounts outstanding. Loan totals are shown net of unearned income and deferred loan fees. The average rate is presented on a tax equivalent basis.

Net interest income during the nine months ended September 30, 2023 was $133.5 million, a decrease of $17.2 million from the $150.7 million earned during the same period in 2022. Yields on the Company’s interest earning assets increased by 98 basis points to 4.35% for the nine months ended September 30, 2023 from 3.37% for the nine months ended September 30, 2022. Interest income increased $59.9 million from $168.8 million for the nine months ended September 30, 2022 to $228.8 million for the same period in 2023. The increase in interest income was due to higher yields earned on interest earning assets and an increase in average balances of interest earning assets of $294.2 million during the nine months ended September 30, 2023. Interest income from acquisition–related purchase accounting adjustments was $1.5 million for the nine months ended September 30, 2023 compared to $3.0 million for the same period in 2022.

Rates paid on interest bearing liabilities increased by 171 basis points for the nine–month period ended September 30, 2023 compared to the same period in 2022. Interest expense increased $77.2 million when compared to the nine–month period ended September 30, 2022 to $95.3 million for the same period in 2023. This increase was due to higher rates paid on interest bearing liabilities. The cost of average interest bearing deposits increased 152 basis points while the cost of average borrowings increased 208 basis points. Average balances of interest bearing deposits decreased $4.6 million and average balances of borrowings increased $492.5 million for the nine–month period ended September 30, 2023 when compared to the same period in 2022.

The net interest margin decreased 34 basis points from 3.02% for the nine–month period ended September 30, 2022 to 2.59% for the same period in 2023. The decrease in the margin for the nine–month period ended September 30, 2023 compared to the same period in 2022 was due to an increase in the cost of interest bearing liabilities, offset by an increase in the yield on interest earning assets. Excluding the interest income recognized from the acquisition–related purchase accounting adjustments and the gain on swap termination recorded in interest expense (“adjusted net interest margin”), the margin would have been 2.53% for the nine–month period ended September 30, 2023 compared to 2.96% for the same period in 2022. (See the “Non–GAAP Reconciliation of Net Interest Margin” table below.)

The following are the average balance sheets for the nine months ended (dollars in thousands):

Average Balance Sheets

(Dollar Amount in Thousands, Unaudited)

	Nine Months Ended September 30, 2023			Nine Months Ended September 30, 2022		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets						
Interest earning assets						
Federal funds sold	$ 43,976	$ 1,706	5.19 %	$ 82,667	$ 131	0.21 %
Interest earning deposits	8,597	254	3.95 %	15,404	93	0.81 %
Investment securities – taxable	1,706,083	26,253	2.06 %	1,715,478	24,499	1.91 %
Investment securities – non–taxable [1]	1,258,345	21,617	2.91 %	1,346,173	21,482	2.70 %
Loans receivable [2] [3]	4,216,817	178,961	5.70 %	3,779,921	122,641	4.36 %
Total interest earning assets	7,233,818	228,791	4.35 %	6,939,643	168,846	3.37 %
Non–interest earning assets						
Cash and due from banks	102,264			100,067		
Allowance for credit losses	(49,839)			(53,038)		
Other assets	579,203			486,862		
Total average assets	$ 7,865,446			$ 7,473,534		
Liabilities and Stockholders' Equity						
Interest bearing liabilities						
Interest bearing deposits	$ 4,494,821	$ 58,481	1.74 %	$ 4,499,441	$ 7,289	0.22 %
Borrowings	1,137,289	28,702	3.37 %	644,803	6,209	1.29 %
Repurchase agreements	138,706	2,011	1.94 %	140,837	216	0.21 %
Subordinated notes	58,947	2,641	5.99 %	58,800	2,641	6.01 %
Junior subordinated debentures issued to capital trusts	57,108	3,469	8.12 %	56,869	1,755	4.13 %
Total interest bearing liabilities	5,886,871	95,304	2.16 %	5,400,750	18,110	0.45 %
Non–interest bearing liabilities						
Demand deposits	1,200,133			1,336,912		
Accrued interest payable and other liabilities	71,280			44,343		
Stockholders' equity	707,162			691,529		
Total average liabilities and stockholders' equity	$ 7,865,446			$ 7,473,534		
Net interest income/spread		$ 133,487	2.19 %		$ 150,736	2.92 %
Net interest income as a percent of average interest earning assets [1]			2.59 %			3.02 %

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

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

(3) Non–accruing loans for the purpose of the computation above are included in the daily average loan amounts outstanding. Loan totals are shown net of unearned income and deferred loan fees. The average rate is presented on a tax equivalent basis.

Rate/Volume Analysis

The following table illustrates the impact of changes in the volume of interest earning assets and interest bearing liabilities and interest rates on net interest income for the periods indicated.

	Three Months Ended September 30, 2023 vs. Three Months Ended September 30, 2022			Nine Months Ended September 30, 2023 vs. Nine Months Ended September 30, 2022		
	Total Change	Change Due to Volume	Change Due to Rate	Total Change	Change Due to Volume	Change Due to Rate
Interest Income						
Federal funds sold	$ 1,223	$ 4,556	$ (3,333)	$ 1,575	$ (118)	$ 1,693
Interest earning deposits	44	(38)	82	161	(77)	238
Investment securities – taxable	352	(862)	1,214	1,754	(180)	1,934
Investment securities – non–taxable	(476)	(4,605)	4,129	135	(2,455)	2,590
Loans receivable	17,486	17,276	210	56,320	20,648	35,672
Total interest income	$ 18,629	$ 16,327	$ 2,302	$ 59,945	$ 17,818	$ 42,127
Interest Expense						
Interest bearing deposits	$ 20,588	$ 219	$ 20,369	$ 51,192	$ (10)	$ 51,202
Borrowings	6,643	6,308	335	22,493	9,648	12,845
Repurchase agreements	686	(9)	695	1,795	(4)	1,799
Subordinated notes	—	9	(9)	—	9	(9)
Junior subordinated debentures issued to capital trusts	483	10	473	1,714	10	1,704
Total interest expense	28,400	6,537	21,863	77,194	9,653	67,541
Net Interest Income	$ (9,771)	$ 9,790	$ (19,561)	$ (17,249)	$ 8,165	$ (25,414)

Credit Loss Expense

Horizon assesses the adequacy of its Allowance for Credit Losses ("ACL") by regularly reviewing the performance of its loan portfolio. During the three–month period ended September 30, 2023, credit loss expense for loans totaled $520,000 compared to $601,000 for the same period in 2022. During the three–month period ended September 30, 2023, commercial loan net charge–offs were $142,000, residential mortgage loan net recoveries were $39,000 and consumer loan net charge–offs were $619,000.

During the nine–month period ended September 30, 2023, credit loss expense for loans totaled $856,000 compared to a credit loss recovery of $1.7 million for the same period of 2022. During the nine–month period ended September 30, 2023, commercial loan net charge–offs were $347,000, residential mortgage loan net recoveries were $55,000 and consumer loan net charge–offs were $1.1 million.

The ACL balance at September 30, 2023 was $49.7 million, or 1.14% of total loans compared to an ACL balance of $50.5 million at December 31, 2022 or 1.21% of total loans. The decrease in the ACL to total loans ratio was primarily due to favorable asset quality with non–performing loans at 0.45% of total loans at period end and net charge–offs to average loans represented 0.02% for the third quarter of 2023.

As of September 30, 2023, non–performing loans totaled $19.4 million, reflecting a $2.4 million decrease from $21.8 million in non–performing loans as of December 31, 2022. Non–performing commercial loans decreased by $2.4 million, non–performing real estate loans decreased by $346,000 and non–performing consumer loans increased by $315,000 at September 30, 2023 compared to December 31, 2022.

Other Real Estate Owned ("OREO") and repossessed assets totaled $1.4 million at September 30, 2023 compared to $1.8 million at December 31, 2022.

Non–interest Income

The following is a summary of changes in non–interest income for the three months ended September 30, 2023 and 2022 (table dollar amounts in thousands):

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Amount Change	Percent Change
Non–interest Income				
Service charges on deposit accounts	**$ 3,086**	$ 3,023	$ 63	2.1 %
Wire transfer fees	**120**	148	(28)	(18.9)%
Interchange fees	**3,186**	3,089	97	3.1 %
Fiduciary activities	**1,206**	1,203	3	0.2 %
Gain on sale of mortgage loans	**1,582**	1,441	141	9.8 %
Mortgage servicing net of impairment	**631**	355	276	77.7 %
Increase in cash surrender value of bank owned life insurance	**1,055**	814	241	29.6 %
Other income	**964**	115	849	738.3 %
Total non–interest income	**$ 11,830**	$ 10,188	$ 1,642	16.1 %

Total non–interest income was $1.6 million higher during the third quarter of 2023 compared to the same period in 2022. Other income was $849,000 higher during the third quarter of 2023 compared to the same period of 2022 due to the sale of other assets. Residential mortgage loan activity during the third quarter of 2023 generated $1.6 million of income from the gain on sale of mortgage loans, up from $1.4 million for the same period in 2022. The cash surrender value of bank owned life insurance increased $241,000 during the third quarter of 2023 compared to the same period in 2022, primarily due to the purchase of $50.0 million in additional life insurance during the third quarter of 2022. Mortgage servicing income, net of impairment or recovery, increased $276,000 during the third quarter of 2023 compared to the same period in 2022.

The following is a summary of changes in non–interest income for the nine months ended September 30, 2023 and 2022 (table dollar amounts in thousands):

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Amount Change	Percent Change
Non–interest Income				
Service charges on deposit accounts	**$ 9,135**	$ 8,651	$ 484	5.6 %
Wire transfer fees	**345**	477	(132)	(27.7)%
Interchange fees	**9,637**	9,451	186	2.0 %
Fiduciary activities	**3,728**	4,111	(383)	(9.3)%
Gain on sale of investment securities	**(480)**	—	(480)	#DIV/0!
Gain on sale of mortgage loans	**3,372**	5,969	(2,597)	(43.5)%
Mortgage servicing net of impairment	**1,984**	4,163	(2,179)	(52.3)%
Increase in cash surrender value of bank owned life insurance	**3,051**	1,843	1,208	65.5 %
Death benefit on bank owned life insurance	**—**	644	(644)	(100.0)%
Other income	**1,675**	1,468	207	14.1 %
Total non–interest income	**$ 32,447**	$ 36,777	$ (4,330)	(11.8)%

Total non–interest income was $4.3 million lower during the nine months ended September 30, 2023 compared to the same period in 2022. The sale of $88.2 million of available for sale investments generated a $480,000 net loss during the first nine months of 2023. Residential mortgage loan activity generated $3.4 million of income from the gain on sale of mortgage loans, down from $6.0 million for the same period in 2022 due to a lower volume of loans sold and a decrease in the percentage gain on loans sold. Mortgage servicing income, net of impairment or recovery, decreased $2.2 million during the first nine months of 2023 compared to the same period in 2022 due to an impairment recovery of $2.6 million recorded during the first quarter of 2022. Fiduciary activities income was $383,000 lower during the first nine months of 2023 compared to the same period in 2022. The cash surrender value of bank owned life insurance increased $1.2 million during the nine months ended September 30, 2023 compared to the same period in 2022, primarily due to the purchase of $50.0 million in additional life insurance during the third quarter of 2022.

Non–interest Expense

The following is a summary of changes in non–interest expense for the three months ended September 30, 2023 and 2022 (table dollar amounts in thousands):

	Three Months Ended			
	September 30, 2023	September 30, 2022	QTD $ Change	QTD % Change
Non–interest Expense				
Salaries and employee benefits	$ 20,058	$ 20,613	$ (555)	(2.7)%
Net occupancy expenses	3,283	3,293	(10)	(0.3)%
Data processing	2,999	2,539	460	18.1 %
Professional fees	707	552	155	28.1 %
Outside services and consultants	2,316	2,855	(539)	(18.9)%
Loan expense	1,120	1,392	(272)	(19.5)%
FDIC deposit insurance	1,300	670	630	94.0 %
Core deposit intangible amortization	903	926	(23)	(2.5)%
Other losses	188	398	(210)	(52.8)%
Other expenses	3,294	3,578	(284)	(7.9)%
Total non–interest expense	$ 36,168	$ 36,816	$ (648)	(1.8)%
Annualized Non–interest Exp. to Avg. Assets	1.81 %	1.91 %		

Total non–interest expense was $648,000 lower during the third quarter of 2023 when compared to the third quarter of 2022 primarily due to decreases in salaries and employee benefits expense of $555,000, outside services and consultants expense of $539,000, other expenses of $284,000, loan expense of $272,000 and other losses of $210,000, offset by increases in FDIC deposit insurance of $630,000 and data processing of $460,000. Annualized non–interest expense to average assets decreased to 1.81% for the three months ended September 30, 2023 compared to 1.91% for the same period in 2022 as expense reductions from branch acquisitions were realized and investments in technology are being leveraged, resulting in this improvement.

The following is a summary of changes in non–interest expense for the nine months ended September 30, 2023 and 2022 (table dollar amounts in thousands):

	Nine Months Ended			
	September 30, 2023	September 30, 2022	YTD $ Change	YTD % Change
Non–interest Expense				
Salaries and employee benefits	$ 58,932	$ 60,305	$ (1,373)	(2.3)%
Net occupancy expenses	10,095	10,044	51	0.5 %
Data processing	8,684	7,683	1,001	13.0 %
Professional fees	1,873	1,149	724	63.0 %
Outside services and consultants	7,548	7,865	(317)	(4.0)%
Loan expense	3,635	4,130	(495)	(12.0)%
FDIC deposit insurance	2,680	2,170	510	23.5 %
Core deposit intangible amortization	2,709	2,777	(68)	(2.4)%
Other losses	543	928	(385)	(41.5)%
Other expenses	10,255	10,439	(184)	(1.8)%
Total non–interest expense	$ 106,954	$ 107,490	$ (536)	(0.5)%
Annualized Non–interest Exp. to Avg. Assets	1.82 %	1.99 %		

Total non–interest expense was $536,000 lower during the first nine months of 2023 when compared to the same period of 2022 primarily due to decreases in salaries and employee benefits expense of $1.4 million, loan expense of $495,000 and other losses of $385,000, offset by increases of $1.0 million in data processing expense, $724,000 in professional fees and $510,000 in FDIC deposit insurance. Annualized non–interest expense to average assets decreased to 1.82% during the first nine months of 2023 compared to 1.99% for the same period in 2022 as expense reductions from branch consolidations were realized and investments in technology are being leveraged, resulting in this improvement.

Income Taxes

Income tax expense totaled $1.3 million for the third quarter of 2023, a decrease of $729,000 when compared to the third quarter of 2022 due to a decrease in income before taxes of $8.3 million.

Income tax expense totaled $4.6 million for the first nine months of 2023, a decrease of $4.9 million when compared to the same period of 2022 due to a decrease in income before taxes of $24.0 million.

Liquidity

The Bank maintains a stable base of core deposits provided by long–standing relationships with individuals and local businesses. These deposits are the principal source of liquidity for Horizon. Other sources of liquidity for Horizon include earnings, loan repayment, investment security sales and maturities, proceeds from the sale of residential mortgage loans, unpledged investment securities and borrowing relationships with correspondent banks, including the FHLB. At September 30, 2023, in addition to liquidity available from the normal operating, funding, and investing activities of Horizon, the Bank had approximately $1.65 billion in unused credit lines with various money center banks, including the FHLB and the FRB Discount Window compared to $438.0 million at December 31, 2022. The Bank had approximately $622.9 million of unpledged investment securities at September 30, 2023 compared to $2.1 billion at December 31, 2022.

Capital Resources

The capital resources of Horizon and the Bank exceeded regulatory capital ratios for "well capitalized" banks at September 30, 2023. Stockholders' equity totaled $693.4 million as of September 30, 2023, compared to $677.4 million as of December 31, 2022. For the nine months ended September 30, 2023, the ratio of average stockholders' equity to average assets was 9.03% compared to 9.07% for the twelve months ended December 31, 2022. The increase in stockholders' equity during the period was due to net income generated during the period, offset by a decrease in accumulated other comprehensive income of $17.2 million and the amount of dividends paid.

Horizon declared common stock dividends in the amount of $0.48 per share during the first nine months of 2023 and $0.47 per share for the same period in 2022. The dividend payout ratio (dividends as a percent of basic earnings per share) was 39.3% and 28.3% for the first nine months of 2023 and 2022, respectively. For additional information regarding dividends, see Horizon's 2022 Annual Report on Form 10–K.

Use of Non–GAAP Financial Measures

Certain information set forth in this quarterly report on Form 10–Q refers to financial measures determined by methods other than in accordance with GAAP. Specifically, we have included non–GAAP financial measures relating to net income, diluted earnings per share, pre–tax pre–provision net income, net interest margin, tangible stockholders' equity, tangible book value per share, efficiency ratio, the return on average assets, the return on average common equity, and the return on average tangible equity. In each case, we have identified special circumstances that we consider to be adjustments and have excluded them, to show the impact of such events as acquisition–related purchase accounting adjustments and swap termination fees, among others we have identified in our reconciliations. Horizon believes that these non–GAAP financial measures are helpful to investors and provide a greater understanding of our business and financial results without giving effect to the purchase accounting impacts and other adjustments. These measures are not necessarily comparable to similar measures that may be presented by other companies and should not be considered in isolation or as a substitute for the related GAAP measure. See the tables and other information below and contained elsewhere in this Report on Form 10–Q for reconciliations of the non–GAAP figures identified herein and their most comparable GAAP measures.

Non–GAAP Reconciliation of Net Income

(Dollars in Thousands, Unaudited)

	Three Months Ended					Nine Months Ended	
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023	September 30, 2022
Net income as reported	$ 16,205	$ 18,763	$ 18,228	$ 21,165	$ 23,821	$ 53,196	$ 72,243
Gain on swap termination	—	(1,453)	—	—	—	(1,453)	—
Tax effect	—	305	—	—	—	305	—
Net income excluding gain on swap termination	16,205	17,615	18,228	21,165	23,821	52,048	72,243
(Gain)/loss on sale of investment securities	—	(20)	500	—	—	480	—
Tax effect	—	4	(105)	—	—	(101)	—
Net income excluding (gain)/loss on sale of investment securities	16,205	17,599	18,623	21,165	23,821	52,427	72,243
Death benefit on bank owned life insurance ("BOLI")	—	—	—	—	—	—	(644)
Net income excluding death benefit on BOLI	16,205	17,599	18,623	21,165	23,821	52,427	71,599
Adjusted net income	$ 16,205	$ 17,599	$ 18,623	$ 21,165	$ 23,821	$ 52,427	$ 71,599

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Non–GAAP Reconciliation of Diluted Earnings per Share

(Unaudited)

	Three Months Ended					Nine Months Ended	
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023	September 30, 2022
Diluted earnings per share ("EPS") as reported	$ 0.37	$ 0.43	$ 0.42	$ 0.48	$ 0.55	$ 1.21	$ 1.65
Gain on swap termination	—	(0.03)	—	—	—	(0.03)	—
Tax effect	—	0.01	—	—	—	0.01	—
Diluted EPS excluding gain on swap termination	0.37	0.41	0.42	0.48	0.55	1.19	1.65
(Gain)/loss on sale of investment securities	—	—	0.01	—	—	0.01	—
Tax effect	—	—	—	—	—	—	—
Diluted EPS excluding (gain)/loss on investment securities	0.37	0.41	0.43	0.48	0.55	1.20	1.65
Death benefit on BOLI	—	—	—	—	—	—	(0.01)
Diluted EPS excluding death benefit on BOLI	0.37	0.41	0.43	0.48	0.55	1.20	1.64
Adjusted Diluted EPS	$ 0.37	$ 0.41	$ 0.43	$ 0.48	$ 0.55	$ 1.20	$ 1.64

Non–GAAP Reconciliation of Pre–Tax, Pre–Provision Net Income

(Dollars in Thousands, Unaudited)

	Three Months Ended					Nine Months Ended	
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023	September 30, 2022
Pre–tax income	$ 17,489	$ 20,215	$ 20,091	$ 23,814	$ 25,834	$ 57,795	$ 81,770
Credit loss expense (recovery)	263	680	242	(69)	(601)	1,185	(1,747)
Pre–tax, pre–provision net income	$ 17,752	$ 20,895	$ 20,333	$ 23,745	$ 25,233	$ 58,980	$ 80,023
Pre–tax, pre–provision net income	$ 17,752	$ 20,895	$ 20,333	$ 23,745	$ 25,233	$ 58,980	$ 80,023
Gain on swap termination	—	(1,453)	—	—	—	(1,453)	—
(Gain)/loss on sale of investment securities	—	(20)	500	—	—	480	—
Death benefit on bank owned life insurance	—	—	—	—	—	—	(644)
Adjusted pre–tax, pre–provision net income	$ 17,752	$ 19,422	$ 20,833	$ 23,745	$ 25,233	$ 58,007	$ 79,379

Non–GAAP Reconciliation of Net Interest Margin

(Dollars in Thousands, Unaudited)

	Three Months Ended					Nine Months Ended	
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023	September 30, 2022
Net interest income as reported	$ 42,090	$ 46,160	$ 45,237	$ 48,782	$ 51,861	$ 133,487	$ 150,736
Average interest earning assets	7,286,611	7,212,640	7,201,266	7,091,980	7,056,208	7,233,818	6,939,643
Net interest income as a percentage of average interest earning assets ("Net Interest Margin")	2.41 %	2.69 %	2.67 %	2.85 %	3.04 %	2.59 %	3.02 %
Net interest income as reported	$ 42,090	$ 46,160	$ 45,237	$ 48,782	$ 51,861	$ 133,487	$ 150,736
Acquisition–related purchase accounting adjustments ("PAUs")	(435)	(651)	(367)	(431)	(906)	(1,453)	(3,045)
Gain on swap termination	—	(1,453)	—	—	—	(1,453)	—
Adjusted net interest income	$ 41,655	$ 44,056	$ 44,870	$ 48,351	$ 50,955	$ 130,581	$ 147,691
Adjusted net interest margin	2.38 %	2.57 %	2.65 %	2.83 %	2.99 %	2.53 %	2.96 %

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

(Dollars in Thousands Except per Share Data, Unaudited)

	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022
Total stockholders' equity	$ 693,369	$ 709,243	$ 702,559	$ 677,375	$ 644,993
Less: Intangible assets	169,741	170,644	171,547	172,450	173,375
Total tangible stockholders' equity	$ 523,628	$ 538,599	$ 531,012	$ 504,925	$ 471,618
Common shares outstanding	43,648,501	43,645,216	43,621,422	43,574,151	43,574,151
Book value per common share	$ 15.89	$ 16.25	$ 16.11	$ 15.55	$ 14.80
Tangible book value per common share	$ 12.00	$ 12.34	$ 12.17	$ 11.59	$ 10.82

Non–GAAP Calculation and Reconciliation of Efficiency Ratio and Adjusted Efficiency Ratio

(Dollars in Thousands, Unaudited)

	Three Months Ended					Nine Months Ended	
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023	September 30, 2022
Non–interest expense as reported	$ 36,168	$ 36,262	$ 34,524	$ 35,711	$ 36,816	$ 106,954	$ 107,490
Net interest income as reported	42,090	46,160	45,237	48,782	51,861	133,487	150,736
Non–interest income as reported	$ 11,830	$ 10,997	$ 9,620	$ 10,674	$ 10,188	$ 32,447	$ 36,777
Non–interest expense/(Net interest income + Non–interest income) ("Efficiency Ratio")	67.08 %	63.44 %	62.93 %	60.06 %	59.33 %	64.46 %	57.32 %
Non–interest expense as reported	$ 36,168	$ 36,262	$ 34,524	$ 35,711	$ 36,816	$ 106,954	$ 107,490
Net interest income as reported	42,090	46,160	45,237	48,782	51,861	133,487	150,736
Gain on swap termination	—	(1,453)	—	—	—	(1,453)	—
Net interest income excluding gain on swap termination	42,090	44,707	45,237	48,782	51,861	132,034	150,736
Non–interest income as reported	11,830	10,997	9,620	10,674	10,188	32,447	36,777
(Gain)/loss on sale of investment securities	—	(20)	500	—	—	480	—
Death benefit on bank owned life insurance ("BOLI")	—	—	—	—	—	—	(644)
Non–interest income excluding (gain)/loss on sale of investment securities and death benefit on BOLI	$ 11,830	$ 10,977	$ 10,120	$ 10,674	$ 10,188	$ 32,927	$ 36,133
Adjusted efficiency ratio	67.08 %	65.12 %	62.37 %	60.06 %	59.33 %	64.84 %	57.52 %

Non–GAAP Reconciliation of Return on Average Assets

(Dollars in Thousands, Unaudited)

	Three Months Ended					Nine Months Ended	
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023	September 30, 2022
Average assets	$ 7,924,751	$ 7,840,026	$ 7,831,106	$ 7,718,366	$ 7,635,102	$ 7,865,446	$ 7,473,534
Return on average assets ("ROAA") as reported	0.81 %	0.96 %	0.94 %	1.09 %	1.24 %	0.90 %	1.29 %
Gain on swap termination	—	(0.07)	—	—	—	(0.02)	—
Tax effect	—	0.02	—	—	—	0.01	—
ROAA excluding gain on swap termination	0.81	0.91	0.94	1.09	1.24	0.89	1.29
(Gain)/loss on sale of investment securities	—	—	0.03	—	—	0.01	—
Tax effect	—	—	(0.01)	—	—	—	—
ROAA excluding (gain)/loss on sale of investment securities	0.81	0.91	0.96	1.09	1.24	0.90	1.29
Death benefit on bank owned life insurance ("BOLI")	—	—	—	—	—	—	(0.01)
ROAA excluding death benefit on BOLI	0.81	0.91	0.96	1.09	1.24	0.90	1.28
Adjusted ROAA	0.81 %	0.91 %	0.96 %	1.09 %	1.24 %	0.90 %	1.28 %

HORIZON BANCORP, INC. AND SUBSIDIARIES
Management's Discussion and Analysis of Financial Condition
And Results of Operations
For the Three and Nine Months ended September 30, 2023 and 2022

Non–GAAP Reconciliation of Return on Average Common Equity

(Dollars in Thousands, Unaudited)

	Three Months Ended					Nine Months Ended	
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023	September 30, 2022
Average common equity	$ 715,485	$ 710,953	$ 693,472	$ 660,188	$ 680,376	$ 707,162	$ 691,529
Return on average common equity ("ROACE") as reported	8.99 %	10.59 %	10.66 %	12.72 %	13.89 %	10.06 %	13.97 %
Gain on swap termination	—	(0.82)	—	—	—	(0.27)	—
Tax effect	—	0.17	—	—	—	0.06	—
ROACE excluding gain on swap termination	8.99	9.94	10.66	12.72	13.89	9.85	13.97
(Gain)/loss on sale of investment securities	—	(0.01)	0.29	—	—	0.09	—
Tax effect	—	—	(0.06)	—	—	(0.02)	—
ROACE excluding (gain)/loss on sale of investment securities	8.99	9.93	10.89	12.72	13.89	9.92	13.97
Death benefit on bank owned life insurance ("BOLI")	—	—	—	—	—	—	(0.12)
ROACE excluding death benefit on BOLI	8.99	9.93	10.89	12.72	13.89	9.92	13.85
Adjusted ROACE	8.99 %	9.93 %	10.89 %	12.72 %	13.89 %	9.92 %	13.85 %

Non–GAAP Reconciliation of Return on Average Tangible Equity

(Dollars in Thousands, Unaudited)

	Three Months Ended					Nine Months Ended	
	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	September 30, 2023	September 30, 2022
Average common equity	$ 715,485	$ 710,953	$ 693,472	$ 660,188	$ 680,376	$ 707,162	$ 691,529
Less: Average intangible assets	170,301	171,177	172,139	173,050	173,546	171,199	174,323
Average tangible equity	$ 545,184	$ 539,776	$ 521,333	$ 487,138	$ 506,830	$ 535,963	$ 517,206
Return on average common equity ("ROATE")	11.79 %	13.94 %	14.18 %	17.24 %	18.65 %	13.27 %	18.68 %
Gain on swap termination	—	(1.08)	—	—	—	(0.36)	—
Tax effect	—	0.23	—	—	—	0.08	—
ROATE excluding gain on swap termination	11.79	13.09	14.18	17.24	18.65	12.99	18.68
(Gain)/loss on sale of investment securities	—	(0.01)	0.39	—	—	0.12	—
Tax effect	—	—	(0.08)	—	—	(0.03)	—
ROATE excluding (gain)/loss on sale of investment securities	11.79	13.08	14.49	17.24	18.65	13.08	18.68
Death benefit on bank owned life insurance ("BOLI")	—	—	—	—	—	—	(0.17)
ROATE excluding death benefit on BOLI	11.79	13.08	14.49	17.24	18.65	13.08	18.51
Adjusted ROATE	11.79 %	13.08 %	14.49 %	17.24 %	18.65 %	13.08 %	18.51 %

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We refer you to Horizon's 2022 Annual Report on Form 10–K for analysis of its interest rate sensitivity. Horizon believes there have been no significant changes in its interest rate sensitivity since it was reported in its 2022 Annual Report on Form 10–K.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based on an evaluation of disclosure controls and procedures as of September 30, 2023, Horizon’s Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of Horizon’s disclosure controls (as defined in Exchange Act Rule 13a–15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)). Based on such evaluation, such officers have concluded that, as of the evaluation date, Horizon's disclosure controls and procedures were not effective to ensure that the information required to be disclosed by Horizon in the reports Horizon files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including that such information is accumulated and communicated to Horizon's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. The conclusion that Horizon's disclosure controls and procedures were not effective was due to the presence of material weaknesses in Horizon's internal control over financial reporting, as that term is defined in Rules 13a–15(f) and 15d–15(f) under the Exchange Act, as previously disclosed in Part II, Item 9A of Horizon's Annual Report on Form 10–K for the year ended December 31, 2022 (the “2022 Annual Report on Form 10–K”). In light of the material weaknesses identified by management, Horizon has performed additional analyses and procedures in order to conclude that its condensed financial statements as of and for the three and nine months ended September 30, 2023 are fairly presented, in all material respects, in accordance with GAAP, as further described below.

Description of Material Weaknesses and Management's Remediation Initiatives

As previously disclosed in “Part II, Item 9A. Controls and Procedures” of Horizon's 2022 Annual Report on Form 10–K, management identified material weaknesses in internal control over financial reporting with respect to insufficient controls over the reporting, classification, and disclosure of loans, investments and individual cash flow line items and lack of sufficient controls around the financial reporting process that allows for the timely release of financial statements. As of the date of this report, Horizon's remediation efforts are in place related to each of the material weaknesses that Horizon has identified in its internal control over financial reporting as additional procedures and controls have been established to fully address these material weaknesses. Horizon has not been able to complete all actions necessary and test the remediated controls in a manner that would enable it to conclude that such controls are effective. Horizon is committed to implementing the necessary controls to remediate the material weaknesses described below, as and when resources permit.

As part of Horizon's efforts to remediate the material weaknesses described above, Horizon has hired additional resources within our accounting and finance department for financial statement preparation and review, Horizon has provided additional training to implement and monitor our policies and procedures, and enhanced controls and procedures have been designed and implemented. The material weaknesses will not be considered remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We estimate that the remediation of these material weaknesses will be completed prior to the end of fiscal 2023. Therefore, Horizon's Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2023, Horizon's disclosure controls and procedures were not effective. Despite the foregoing, Horizon's management has concluded the financial statements fairly present in all material respects, Horizon's financial position, results of operations and cash flows as of the dates, and for the periods presented in this Form 10–Q, in conformity with GAAP.

Changes in Internal Control Over Financial Reporting

Horizon’s management, including its Chief Executive Officer and Chief Financial Officer, also have concluded that during the fiscal quarter ended September 30, 2023, there have been no changes in Horizon’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, Horizon’s internal control over financial reporting, other than the remediation activities described above and discussed in further detail in “Part II, Item 9A. Controls and Procedures” of Horizon's 2022 Annual Report on Form 10–K.

ITEM 1. LEGAL PROCEEDINGS

As of April 20, 2023, a putative class action lawsuit entitled Chad Key, et al. v. Horizon Bancorp, Inc., et al., Case No. 1:23-cv-02961 ("Securities Action") was filed against the Company and two of its officers in the U.S. District Court for the Eastern District of New York. The Securities Action asserts claims under §§ 10(b) and 20(a) of the Securities Exchange Act of 1934 alleging, among other things, the Company made materially false and misleading statements and failed to disclose material adverse facts which allegedly resulted in harm to a putative class of purchasers of our securities from March 9, 2022 and March 10, 2023.

As of (1) August 28, 2023, a lawsuit related to the Securities Action was filed by Sally Hundley, derivatively on behalf of the Company, against the Company, as nominal defendant, and 2 of the Company's officers and 10 of its directors and (2) August 31, 2023, a lawsuit also related to the Securities Action was filed by Aziz Chowdhury, derivatively on behalf of the Company, against the Company, as nominal defendant, and 2 of the Company's officers and 10 of its directors (the "Derivatives Actions") in the U.S. District Court for the Eastern District of New York. The Derivative Actions allege, among other things, breach of the officers and directors' fiduciary duties. The Derivative Actions have been consolidated and stayed pending resolution of any motion to dismiss in the Securities Action.

Based on our initial review of these actions, management believes that the Company has strong defenses to the claims and intends to vigorously defend against them. As of September 30, 2023, no liabilities related to the above matters were recorded because we have concluded such liabilities are not probable and the amounts of such liabilities are not reasonably estimable.

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

ITEM 1A. RISK FACTORS

The disclosures below supplement the risk factors previously disclosed under Part I, Item 1A of the Company's 2022 Annual Report on Form 10–K.

Recent negative developments affecting the banking industry, and resulting media coverage, have eroded customer confidence in the banking system and could have a material effect on our operations and/or stock price.

The recent high–profile bank failures including Silicon Valley Bank, Signature Bank and First Republic Bank have generated significant market volatility among publicly traded bank holding companies and, in particular, regional banks. These market developments have negatively impacted customer confidence in the safety and soundness of financial institutions, as well as have caused significant disruption, volatility and reduced valuations of equity and other securities of banks in the capital markets. These events occurred during a period of rapidly rising interest rates which, among other things, has resulted in unrealized losses in longer duration securities and loans held by banks, more competition for bank deposits and may increase the risk of a potential recession. These market developments have caused general uncertainty and concern regarding the liquidity adequacy of the banking industry and in particular, regional banks like Horizon. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short–term fixed income securities, all of which could materially adversely impact our liquidity, loan funding capacity, net interest margin, capital and results of operations. In connection with high–profile bank failures, uncertainty and concern has been, and may be in the future, compounded by advances in technology that increase the speed at which deposits can be moved, as well as the speed and reach of media attention, including social media, and its ability to disseminate concerns or rumors, in each case potentially exacerbating liquidity concerns. While the Department of the Treasury, the Federal Reserve, and the FDIC have made statements ensuring that depositors of these recently failed banks would have access to their deposits, including previously uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in regional banks and the banking system more broadly.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Unregistered Sales of Equity Securities: Not Applicable

(b) Use of Proceeds: Not Applicable

(c) Repurchase of Our Equity Securities: Not Applicable

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER INFORMATION

Rule 10b5–1 Trading Plans

During the three months ended September 30, 2023, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b–5c or any "non–Rule 10b5–1 trading arrangement," as that term is used in the Securities and Exchange Commission regulations.

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit No.	Description	Location
31.1	Certification of Thomas M. Prame	Attached
31.2	Certification of Mark E. Secor	Attached
32	Certification of Chief Executive and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Attached
101	Inline Interactive Data Files	Attached
104	The cover page from the Company's Quarterly Report on Form 10–Q for the quarter ended September 30, 2023, has been formatted in Inline XBRL	Within the Inline XBRL document

SIGNATURES

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

	HORIZON BANCORP, INC.
November 9, 2023	/s/ Thomas M. Prame
Date	Thomas M. Prame
	Chief Executive Officer
November 9, 2023	/s/ Mark E. Secor
Date	Mark E. Secor
	Chief Financial Officer

EXHIBIT 31.1

CERTIFICATION OF THOMAS M. PRAME

I, Thomas M. Prame, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Horizon Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrants's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 9, 2023	/s/ Thomas M. Prame
Date	Thomas M. Prame
	Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF MARK E. SECOR

I, Mark E. Secor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Horizon Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrants's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 9, 2023	/s/ Mark E. Secor
Date	Mark E. Secor
	Chief Financial Officer

EXHIBIT 32

HORIZON BANCORP, INC.
Certification of Periodic Financial Report

Pursuant to 18 U.S.C. Section 1350

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Horizon Bancorp, Inc. (the "Company") certifies that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2023 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in that Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 9, 2023	/s/ Thomas M. Prame
Date	Thomas M. Prame
	Chief Executive Officer
November 9, 2023	/s/ Mark E. Secor
Date	Mark E. Secor
	Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Horizon Bancorp, Inc. and will be retained by Horizon Bancorp, Inc. and furnished to the Securities Exchange Commission or its staff upon request.