OLD NATIONAL BANCORP /IN/
Form 10-Q
May 01, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2015

¨ **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 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

INDIANA	**35-1539838**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Main Street Evansville, Indiana	**47708**
(Address of principal executive offices)	**(Zip Code)**

(812) 464-1294

(Registrant s telephone number, including area code)

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 the filing requirements for at least the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 116,983,000 shares outstanding at March 31, 2015.

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CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	**March 31, 2015 (unaudited)**	**December 31, 2014**	**March 31, 2014 (unaudited)**
Assets			
Cash and due from banks	**$ 195,970**	$ 207,871	$ 197,446
Money market and other interest-earning investments	**19,343**	32,092	17,078
Total cash and cash equivalents	**215,313**	239,963	214,524
Trading securities - at fair value	**3,964**	3,881	3,681
Investment securities - available-for-sale, at fair value:			
U.S. Treasury	**25,178**	15,166	15,697
U.S. government-sponsored entities and agencies	**709,379**	685,951	490,080
Mortgage-backed securities	**1,090,731**	1,241,662	1,246,408
States and political subdivisions	**340,630**	314,541	251,839
Other securities	**379,552**	370,511	343,742
Total investment securities - available-for-sale	**2,545,470**	2,627,831	2,347,766
Investment securities - held-to-maturity, at amortized cost (fair value $899,653, $903,935 and $812,914, respectively)	**836,038**	844,054	779,294
Federal Home Loan Bank/Federal Reserve stock, at cost	**75,068**	71,175	61,882
Loans held for sale, at fair value	**210,513**	213,490	6,169
Loans:			
Commercial	**1,668,275**	1,629,600	1,367,486
Commercial real estate	**1,813,579**	1,711,110	1,156,593
Residential real estate	**1,625,354**	1,519,156	1,356,233
Consumer credit, net of unearned income	**1,408,491**	1,310,627	997,808
Covered loans, net of discount	**136,840**	147,708	194,161
Total loans	**6,652,539**	6,318,201	5,072,281
Allowance for loan losses	**(46,675)**	(44,297)	(41,539)
Allowance for loan losses - covered loans	**(2,203)**	(3,552)	(6,014)
Net loans	**6,603,661**	6,270,352	5,024,728
FDIC indemnification asset	**20,024**	20,603	65,699
Premises and equipment, net	**132,101**	135,892	108,866
Accrued interest receivable	**62,503**	60,966	48,764
Goodwill	**587,904**	530,845	352,729
Other intangible assets	**43,738**	38,694	24,120
Company-owned life insurance	**335,976**	325,617	276,956
Assets held for sale	**14,636**	9,127	9,043
Other real estate owned and repossessed personal property	**8,482**	7,241	7,629

Other real estate owned - covered	**7,084**	9,121	12,918
Other assets	**248,832**	238,699	200,012
Total assets	**$ 11,951,307**	$ 11,647,551	$ 9,544,780
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 2,553,801**	$ 2,427,748	$ 2,047,664
Interest-bearing:			
NOW	**2,218,243**	2,176,879	1,789,167
Savings	**2,384,502**	2,222,557	2,014,574
Money market	**636,933**	574,462	445,953
Time	**1,134,041**	1,089,018	960,804
Total deposits	**8,927,520**	8,490,664	7,258,162
Short-term borrowings	**463,007**	551,309	410,128
Other borrowings	**870,580**	920,102	506,782
Accrued expenses and other liabilities	**206,929**	219,712	184,471
Total liabilities	**10,468,036**	10,181,787	8,359,543
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, $1.00 per share stated value, 150,000 shares authorized, 116,983, 116,847 and 100,084 shares issued and outstanding, respectively	**116,983**	116,847	100,084
Capital surplus	**1,121,594**	1,118,292	900,665
Retained earnings	**268,936**	262,180	222,418
Accumulated other comprehensive income (loss), net of tax	**(24,242)**	(31,555)	(37,930)
Total shareholders equity	**1,483,271**	1,465,764	1,185,237
Total liabilities and shareholders equity	**$ 11,951,307**	$ 11,647,551	$ 9,544,780

The accompanying notes to consolidated financial statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2015	2014
Interest Income		
Loans including fees:		
Taxable	**$ 74,959**	$ 64,957
Nontaxable	**2,943**	2,509
Investment securities:		
Taxable	**14,726**	15,769
Nontaxable	**5,960**	5,024
Money market and other interest-earning investments	**6**	6
Total interest income	**98,594**	88,265
Interest Expense		
Deposits	**3,563**	3,283
Short-term borrowings	**96**	67
Other borrowings	**3,942**	1,437
Total interest expense	**7,601**	4,787
Net interest income	**90,993**	83,478
Provision for loan losses	**1**	37
Net interest income after provision for loan losses	**90,992**	83,441
Noninterest Income		
Wealth management fees	**8,520**	5,792
Service charges on deposit accounts	**11,045**	11,134
Debit card and ATM fees	**6,732**	5,736
Mortgage banking revenue	**2,963**	630
Insurance premiums and commissions	**12,113**	11,962
Investment product fees	**4,403**	3,868
Company-owned life insurance	**2,152**	1,467
Net securities gains	**2,683**	559
Total other-than-temporary impairment losses		(100)
Loss recognized in other comprehensive income		
Impairment losses recognized in earnings		(100)
Recognition of deferred gain on sale leaseback transactions	**1,524**	1,524
Change in FDIC indemnification asset	**(968)**	(7,343)
Other income	**4,128**	5,334

Total noninterest income	**55,295**	40,563
Noninterest Expense		
Salaries and employee benefits	**69,694**	51,380
Occupancy	**14,293**	10,942
Equipment	**3,904**	3,014
Marketing	**2,236**	2,185
Data processing	**6,590**	5,584
Communication	**2,744**	2,611
Professional fees	**3,132**	3,682
Loan expense	**1,326**	1,317
Supplies	**684**	653
FDIC assessment	**1,885**	1,441
Other real estate owned expense	**1,161**	758
Amortization of intangibles	**3,081**	1,837
Other expense	**5,426**	2,848
Total noninterest expense	**116,156**	88,252
Income before income taxes	**30,131**	35,752
Income tax expense	**9,225**	9,242
Net income	**$ 20,906**	$ 26,510
Net income per common share - basic	**$ 0.18**	$ 0.27
Net income per common share - diluted	**0.18**	0.26
Weighted average number of common shares outstanding - basic	**118,540**	99,797
Weighted average number of common shares outstanding - diluted	**119,076**	100,325
Dividends per common share	**$ 0.12**	$ 0.11

The accompanying notes to consolidated financial statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	Three Months Ended March 31,	
(dollars in thousands)	**2015**	**2014**
Net income	**$ 20,906**	$ 26,510
Other comprehensive income:		
Change in securities available-for-sale:		
Unrealized holding gains (losses) for the period	**18,306**	12,055
Reclassification adjustment for securities gains realized in income	**(2,683)**	(559)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income		100
Income tax effect	**(5,796)**	(4,463)
Unrealized gains on available-for-sale securities	**9,827**	7,133
Change in securities held-to-maturity:		
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**337**	397
Income tax effect	**66**	(127)
Changes from securities held-to-maturity	**403**	270
Cash flow hedges:		
Net unrealized derivative gains (losses) on cash flow hedges	**(5,628)**	(1,937)
Reclassification adjustment for (gains) losses realized in net income	**186**	
Income tax effect	**2,068**	737
Changes from cash flow hedges	**(3,374)**	(1,200)
Defined benefit pension plans:		
Amortization of net loss recognized in income	**738**	352
Income tax effect	**(281)**	(19)
Changes from defined benefit pension plans	**457**	333
Other comprehensive income, net of tax	**7,313**	6,536
Comprehensive income	**$ 28,219**	$ 33,046

The accompanying notes to consolidated financial statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2013	$ 99,859	$ 900,254	$ 206,993	$ (44,466)	$ 1,162,640
Net income			26,510		26,510
Other comprehensive income (loss)				6,536	6,536
Dividends - common stock			(10,997)		(10,997)
Common stock issued	5	73			78
Common stock repurchased	(116)	(1,460)			(1,576)
Stock based compensation expense		1,028			1,028
Stock activity under incentive compensation plans	336	770	(88)		1,018
Balance at March 31, 2014	$ 100,084	$ 900,665	$ 222,418	$ (37,930)	$ 1,185,237
Balance at December 31, 2014	**$ 116,847**	**$ 1,118,292**	**$ 262,180**	**$ (31,555)**	**$ 1,465,764**
Net income			**20,906**		**20,906**
Other comprehensive income (loss)				**7,313**	**7,313**
Acquisition - Founders Financial Corporation	**3,402**	**47,224**			**50,626**
Dividends - common stock			**(14,238)**		**(14,238)**
Common stock issued	**7**	**90**			**97**
Common stock repurchased	**(3,468)**	**(44,735)**			**(48,203)**
Stock based compensation expense		**1,204**			**1,204**
Stock activity under incentive compensation plans	**195**	**(481)**	**88**		**(198)**
Balance at March 31, 2015	**$ 116,983**	**$ 1,121,594**	**$ 268,936**	**$ (24,242)**	**$ 1,483,271**

The accompanying notes to consolidated financial statements are an integral part of these statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2015	2014
Cash Flows From Operating Activities		
Net income	**$ 20,906**	$ 26,510
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**4,140**	2,943
Amortization of other intangible assets	**3,081**	1,837
Net premium amortization on investment securities	**4,792**	2,998
Amortization of FDIC indemnification asset	**968**	7,343
Stock compensation expense	**1,204**	1,028
Provision for loan losses	**1**	37
Net securities gains	**(2,683)**	(559)
Impairment on available-for-sale securities		100
Recognition of deferred gain on sale leaseback transactions	**(1,524)**	(1,524)
Net gains on sales of other assets	**(52)**	(466)
Increase in cash surrender value of company-owned life insurance	**(2,062)**	(1,835)
Residential real estate loans originated for sale	**(78,224)**	(17,747)
Proceeds from sale of residential real estate loans	**73,968**	19,743
(Increase) decrease in interest receivable	**(277)**	1,441
Decrease in other real estate owned	**1,470**	685
(Increase) decrease in other assets	**(4,516)**	16,139
Decrease in accrued expenses and other liabilities	**(18,072)**	(3,134)
Total adjustments	**(17,786)**	29,029
Net cash flows provided by operating activities	**3,120**	55,539
Cash Flows From Investing Activities		
Net cash and cash equivalents of acquired banks	**(37,098)**	
Purchases of investment securities available-for-sale	**(129,563)**	(93,992)
Purchases of investment securities held-to-maturity		(25,185)
Purchases of Federal Reserve stock	**(2,083)**	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**132,471**	91,335
Proceeds from sales of investment securities available-for-sale	**170,265**	16,523
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**5,609**	7,350
Proceeds from sales of investment securities held-to-maturity	**855**	
Reimbursements under FDIC loss share agreements		15,989
Net principal collected from (loans made to) loan customers	**18,424**	11,054

Proceeds from sale of premises and equipment and other assets	**4**	6
Purchases of premises and equipment and other assets	**(6,959)**	(3,515)
Net cash flows provided by investing activities	**151,925**	19,565
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Deposits	**60,200**	47,259
Short-term borrowings	**(100,794)**	(52,204)
Payments for maturities on other borrowings	**(227,017)**	(175,120)
Proceeds from issuance of other borrowings	**150,000**	125,000
Cash dividends paid on common stock	**(14,238)**	(10,997)
Common stock repurchased	**(48,203)**	(1,576)
Proceeds from exercise of stock options, including tax benefit	**260**	257
Common stock issued	**97**	78
Net cash flows used in financing activities	**(179,695)**	(67,303)
Net increase (decrease) in cash and cash equivalents	**(24,650)**	7,801
Cash and cash equivalents at beginning of period	**239,963**	206,723
Cash and cash equivalents at end of period	**$ 215,313**	$ 214,524
Supplemental cash flow information:		
Total interest paid	**$ 9,374**	$ 4,935
Total taxes paid (net of refunds)	**$ (49)**	$ 3,001

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of March 31, 2015 and 2014, and December 31, 2014, and the results of its operations for the three months ended March 31, 2015 and 2014. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2014.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the 2015 presentation. Such reclassifications had no effect on net income or shareholders equity and were insignificant amounts.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

FASB ASC 323 In January 2014, the FASB issued an update (ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects) impacting FASB ASC 323, Investments Equity Method and Joint Ventures. This update permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

FASB ASC 310 In January 2014, the FASB issued an update (ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure) impacting FASB ASC 310-40. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the property in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments also require disclosure of (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

FASB ASC 205 and 360 In April 2014, the FASB issued an update (ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity) impacting FASB ASC 205, Presentation of

Financial Statements, and FASB ASC 360, Property, Plant, and Equipment. The amendments in this update change the requirements for reporting discontinued operations. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity s operations and financial results. An entity will have to present, for each comparative period, the assets and liabilities of a disposal group that includes discontinued operations separately in the asset and liability sections of the statement of financial position. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

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FASB ASC 606 In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 860 In June 2014, the FASB issued an update (ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures) impacting FASB ASC 860, Transfers and Servicing. The amendments in this update change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require new disclosures. An entity is required to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. An entity must also provide additional information about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements. No change to our current disclosure was required.

FASB ASC 718 In June 2014, the FASB issued an update (ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period) impacting FASB ASC 860, Transfers and Servicing. Generally, an award with a performance target also requires an employee to render service until the performance target is achieved. In some cases, however, the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. An entity should apply guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the service has already been rendered. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 310 In August 2014, the FASB issued an update (ASU No. 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure) impacting FASB ASC 310-40, Receivables Troubled Debt Restructuring by Creditors. This update affects creditors that hold government-guaranteed mortgage loans. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure. (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim. (3) At the time of foreclosure, the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

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FASB ASC 835 In April 2015, the FASB issued an update (ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs) impacting FASB ASC 835-30, Interest-Imputation of Interest. This update is part of FASB s initiative to reduce complexity in accounting standards; otherwise known as the Simplification Initiative. The FASB Board received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards, which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. To simplify presentation of debt issuance costs, the amendments in the update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 350 In April 2015, the FASB issued an update (ASU No. 2015-05, Customer s Accounting for Fees Paid in a Cloud Computing Arrangement) impacting FASB ASC 350-40, Intangibles: Goodwill and Other: Internal-Use Software. This update is part of the FASB s Simplification Initiative. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change generally accepted accounting principles for a customer s accounting for service contracts. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted. We can elect to adopt the amendments either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

Tower Financial Corporation

On September 10, 2013, Old National announced that it had entered into an agreement to acquire Tower Financial Corporation (Tower) through a stock and cash merger. The acquisition contemplated by this agreement was completed effective April 25, 2014 (the Closing Date). Tower was an Indiana bank holding company with Tower Bank & Trust Company as its wholly-owned subsidiary. Headquartered in Fort Wayne, Indiana, Tower operated seven banking centers and had approximately $556 million in trust assets under management on the Closing Date. The merger strengthened Old National s position as one of the largest deposit holders in Indiana and Old National believes that it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable Old National to achieve economies of scale in these areas.

The total purchase price for Tower was $110.4 million, consisting of $31.7 million of cash and the issuance of 5.6 million shares of Old National Common Stock valued at $78.7 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, while $5.6 million of transaction and integration costs associated with the acquisition were expensed as incurred.

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As of December 31, 2014, the Company finalized its valuation of all assets and liabilities acquired, resulting in no material change to purchase accounting adjustments. A summary of the final purchase price allocation is as follows (in thousands):

Cash and cash equivalents	$ 56,345
Investment securities	140,567
Federal Home Loan Bank stock	2,192
Loans held for sale	474
Loans	371,054
Premises and equipment	8,516
Accrued interest receivable	2,371
Other real estate owned	473
Company-owned life insurance	21,281
Other assets	15,200
Deposits	(527,995)
Short-term borrowings	(18,898)
Other borrowings	(21,113)
Accrued expenses and other liabilities	(4,681)
Net tangible assets acquired	45,786
Definite-lived intangible assets acquired	8,382
Goodwill	56,203
Purchase price	$ 110,371

The portion of the purchase price allocated to goodwill will not be deductible for tax purposes and is included in the Banking segment, as described in Note 21 of these consolidated financial statement footnotes.

The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Banking segment, as described in Note 21 of these consolidated financial statement footnotes.

	Estimated Fair Value (in millions)	**Estimated Useful Lives (Years)**
Core deposit intangible	$ 4.6	7
Trust customer relationship intangible	$ 3.8	12

Acquired loan data for Tower can be found in the table below:

(in thousands)	Fair Value of Acquired Loans at Acquisition Date	Gross Contractual Amounts Receivable at Acquisition	Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to

				Date		be Collected
Acquired receivables subject to ASC 310-30	$	12,855	$	22,746	$	5,826
Acquired receivables not subject to ASC 310-30	$	358,199	$	450,865	$	42,302

United Bancorp, Inc.

On January 8, 2014, Old National announced that it had entered into an agreement to acquire United Bancorp, Inc. (United) through a stock and cash merger. The acquisition contemplated by this agreement was completed effective July 31, 2014 (the Closing Date). United was a Michigan bank holding company with United Bank & Trust as its wholly-owned subsidiary. Headquartered in Ann Arbor, Michigan, United operated eighteen banking centers and had approximately $688 million in trust assets under management as of June 30, 2014. The merger doubles Old National s presence in Michigan to 36 total branches and Old National believes that it will be able to

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achieve cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable Old National to achieve economies of scale in these areas.

The total purchase price for United was $157.8 million, consisting of $34.0 million of cash, the issuance of 9.1 million shares of Old National Common Stock valued at $122.0 million, and the assumption of United s options and stock appreciation rights, valued at $1.8 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. To date, transaction and integration costs of $7.3 million associated with the acquisition have been expensed and remaining integration costs will be expensed in future quarters as incurred.

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

Cash and cash equivalents	$ 16,447
Investment securities	154,885
Federal Home Loan Bank stock	2,880
Loans held for sale	1,073
Loans	632,016
Premises and equipment	7,741
Accrued interest receivable	2,614
Other real estate owned	1,676
Company-owned life insurance	14,857
Other assets	16,822
Deposits	(763,681)
Short-term borrowings	(10,420)
Other borrowings	(12,515)
Accrued expenses and other liabilities	(8,337)
Net tangible assets acquired	56,058
Definite-lived intangible assets acquired	10,763
Loan servicing rights	8,983
Goodwill	81,952
Purchase price	$ 157,756

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

The portion of the purchase price allocated to goodwill will not be deductible for tax purposes and is included in the Banking segment, as described in Note 21 of these consolidated financial statement footnotes.

The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Banking segment, as described in Note 21 of these consolidated financial statement footnotes.

	Estimated Fair Value (in millions)	Estimated Useful Lives (Years)
Core deposit intangible	$ 5.9	7
Trust customer relationship intangible	$ 4.9	12

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Acquired loan data for United can be found in the table below:

(in thousands)	Fair Value of Acquired Loans at Acquisition Date	Gross Contractual Amounts Receivable at Acquisition Date	Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected
Acquired receivables subject to ASC 310-30	$ 8,391	$ 15,483	$ 5,487
Acquired receivables not subject to ASC 310-30	$ 623,625	$ 798,967	$ 89,430

LSB Financial Corp.

On June 3, 2014, Old National announced that it had entered into an agreement to acquire LSB Financial Corp. (LSB) through a stock and cash merger. The acquisition was completed effective November 1, 2014 (the Closing Date). LSB was a savings and loan holding company with Lafayette Savings Bank as its wholly-owned subsidiary. LSB was the largest bank headquartered in Lafayette, Indiana and operated five full-service banking centers. The merger strengthened Old National s position as one of the largest deposit holders in Indiana and Old National believes that it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable Old National to achieve economies of scale in these areas.

The total purchase price for LSB was $69.6 million, consisting of $17.8 million of cash and the issuance of 3.6 million shares of Old National Common Stock valued at $51.8 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. To date, transaction and integration costs of $2.9 million associated with the acquisition have been expensed and remaining integration costs will be expensed in future quarters as incurred.

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

Cash and cash equivalents	$ 7,589
Investment securities	63,684
Federal Home Loan Bank stock	3,185
Loans held for sale	1,035
Loans	236,607
Premises and equipment	6,492
Accrued interest receivable	1,044
Other real estate owned	30
Company-owned life insurance	7,438
Other assets	11,031

Deposits	(292,068)
Other borrowings	(15,203)
Accrued expenses and other liabilities	(4,582)
Net tangible assets acquired	26,282
Definite-lived intangible assets acquired	2,618
Loan servicing rights	990
Goodwill	39,705
Purchase price	$ 69,595

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments

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will be included in the purchase price allocation retrospectively. During the first quarter of 2015, immaterial adjustments were made to the purchase price allocations that affected the amounts allocated to goodwill, loans and other assets.

The portion of the purchase price allocated to goodwill will not be deductible for tax purposes and is included in the Banking segment, as described in Note 21 of these consolidated financial statement footnotes.

The acquired identifiable intangible asset is core deposit intangible and the estimated fair value is $2.6 million. The core deposit intangible asset will be amortized over an estimated useful life of 7 years and is included in the Banking segment, as described in Note 21 of these consolidated financial statement footnotes.

Acquired loan data for LSB can be found in the table below:

(in thousands)	Fair Value of Acquired Loans at Acquisition Date	Gross Contractual Amounts Receivable at Acquisition Date	Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected
Acquired receivables subject to ASC 310-30	$ 11,986	$ 24,493	$ 9,903
Acquired receivables not subject to ASC 310-30	$ 224,621	$ 340,832	$ 57,884

Founders Financial Corporation

On July 28, 2014, Old National announced that it had entered into an agreement to acquire Grand Rapids, Michigan-based Founders Financial Corporation (Founders) through a stock and cash merger. The acquisition was completed effective January 1, 2015 (the Closing Date). Founders was a bank holding company with Founders Bank & Trust as its wholly-owned subsidiary and operated four full-service banking centers in Kent County. Old National believes that it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable Old National to achieve economies of scale in these areas.

The total purchase price for Founders was $91.7 million, consisting of $41.0 million of cash and the issuance of 3.4 million shares of Old National Common Stock valued at $50.6 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. To date, transaction and integration costs of $3.7 million associated with the acquisition have been expensed and remaining integration costs will be expensed in future quarters as incurred.

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

Cash and cash equivalents	$ 3,978
Investment securities	75,383
Federal Home Loan Bank stock	1,810
Loans held for sale	3,473
Loans	339,569
Premises and equipment	3,604
Accrued interest receivable	1,260
Other real estate owned	674
Company-owned life insurance	8,297
Other assets	8,866
Deposits	(376,656)
Other borrowings	(39,380)
Accrued expenses and other liabilities	(1,579)
Net tangible assets acquired	29,299
Definite-lived intangible assets acquired	5,515
Loan servicing rights	664
Goodwill	56,224
Purchase price	$ 91,702

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively.

The portion of the purchase price allocated to goodwill will not be deductible for tax purposes and is included in the Banking segment, as described in Note 21 of these consolidated financial statement footnotes.

The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Banking segment, as described in Note 21 of these consolidated financial statement footnotes.

	Estimated Fair Value (in millions)	Estimated Useful Lives (Years)
Core deposit intangible	$ 3.0	7
Trust customer relationship intangible	$ 2.5	12

Acquired loan data for Founders can be found in the table below:

(in thousands)	Fair Value of Acquired Loans at Acquisition Date	Gross Contractual Amounts Receivable at Acquisition Date	Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected
Acquired receivables subject to ASC 310-30	$ 6,607	$ 11,103	$ 2,684
Acquired receivables not subject to ASC 310-30	$ 332,962	$ 439,031	$ 61,113

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Mutual Underwriters Insurance

Effective February 1, 2015, Old National acquired certain assets from Mutual Underwriters Insurance (Mutual Underwriters). The total purchase price of the assets was $3.7 million, consisting of $2.6 million of customer business relationship intangibles and $1.1 million of goodwill, both of which are included in our Insurance segment. The customer business relationship intangibles will be amortized using an accelerated method over an estimated useful life of 10 years.

Divestitures

On January 30, 2015, Old National announced plans to sell its southern Illinois franchise (twelve branches), four branches in eastern Indiana and one in Ohio as part of its ongoing efficiency improvements. Old National entered into branch purchase and assumption agreements with the following banks: (i) MainSource Bank to purchase deposits and banking centers in eastern Indiana and Ohio; and (ii) First Mid-Illinois Bank and Trust to purchase the deposits and banking center facilities in southern Illinois. At March 31, 2015, $186.2 million of loans associated with these transactions were classified as held for sale. Deposits of approximately $620.2 million will also be included in the sales. In addition, the Company announced plans to consolidate or close 19 branches throughout the Old National franchise based on an ongoing assessment of our service and delivery network and on our goal to continue to move our franchise into stronger growth markets. It is currently expected that these transactions will be completed prior to September 30, 2015.

NOTE 4 - NET INCOME PER SHARE

The following table reconciles basic and diluted net income per share for the three months ended March 31:

	Three Months Ended March 31,	
(dollars and shares in thousands, except per share data)	**2015**	**2014**
Basic Earnings Per Share		
Net income	**$ 20,906**	$ 26,510
Weighted average common shares outstanding	**118,540**	99,797
Basic Earnings Per Share	**$ 0.18**	$ 0.27
Diluted Earnings Per Share		
Net income	**$ 20,906**	$ 26,510
Weighted average common shares outstanding	**118,540**	99,797
Effect of dilutive securities:		
Restricted stock	**438**	501
Stock options (1)	**98**	27
Weighted average shares outstanding	**119,076**	100,325
Diluted Earnings Per Share	**$ 0.18**	$ 0.26

(1) Options to purchase 924 shares and 832 shares outstanding at March 31, 2015 and 2014, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

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NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes within each classification of accumulated other comprehensive income (loss) (AOCI) net of tax for the three months ended March 31, 2015 and 2014:

	Changes in AOCI by Component (a)				
(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
2015					
Balance at January 1, 2015	**$ (748)**	**$ (15,776)**	**$ (5,935)**	**$ (9,096)**	**$ (31,555)**
Other comprehensive income (loss) before reclassifications	**11,515**		**(3,489)**		**8,026**
Amounts reclassified from accumulated other comprehensive income (loss) (b)	**(1,688)**	**403**	**115**	**457**	**(713)**
Net current-period other comprehensive income (loss)	**9,827**	**403**	**(3,374)**	**457**	**7,313**
Balance at March 31, 2015	**$ 9,079**	**$ (15,373)**	**$ (9,309)**	**$ (8,639)**	**$ (24,242)**
2014					
Balance at January 1, 2014	$ (21,108)	$ (16,767)	$ (190)	$ (6,401)	$ (44,466)
Other comprehensive income (loss) before reclassifications	7,415		(1,200)		6,215
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(282)	270		333	321
Net current-period other comprehensive income (loss)	7,133	270	(1,200)	333	6,536
Balance at March 31, 2014	$ (13,975)	$ (16,497)	$ (1,390)	$ (6,068)	$ (37,930)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.
(b) See tables below for details about reclassifications.

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The following tables summarize the significant amounts reclassified out of each component of AOCI for the three months ended March 31, 2015 and 2014:

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

Three Months Ended March 31, 2015 (a)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities		
	$ 2,683	Net securities gains
		Impairment losses
	2,683	Total before tax
	(995)	Tax (expense) or benefit
	$ 1,688	Net of tax
Unrealized gains and losses on held-to-maturity securities		
	$ (337)	Interest income/(expense)
	(66)	Tax (expense) or benefit
	$ (403)	Net of tax
Gains and losses on cash flow hedges		
Interest rate contracts	$ (186)	Interest income/(expense)
	71	Tax (expense) or benefit
	$ (115)	Net of tax
Amortization of defined benefit pension items		
Actuarial gains/(losses)	$ (738)	Salaries and employee benefits
	281	Tax (expense) or benefit
	$ (457)	Net of tax
Total reclassifications for the period	$ 713	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.

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Reclassifications out of Accumulated Other Comprehensive Income (Loss)

Details about Accumulated Other Comprehensive Income (Loss) Components	Three Months Ended March 31, 2014 (a) Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities		
	$ 559	Net securities gains
	(100)	Impairment losses
	459	Total before tax
	(177)	Tax (expense) or benefit
	$ 282	Net of tax
Unrealized gains and losses on held-to-maturity securities		
	$ (397)	Interest income/(expense)
	127	Tax (expense) or benefit
	$ (270)	Net of tax
Gains and losses on cash flow hedges		
Interest rate contracts	$	Interest income/(expense)
		Tax (expense) or benefit
	$	Net of tax
Amortization of defined benefit pension items		
Actuarial gains/(losses)	$ (352)	Salaries and employee benefits
	19	Tax (expense) or benefit
	$ (333)	Net of tax
Total reclassifications for the period	$ (321)	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.

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NOTE 6 - INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at March 31, 2015 and December 31, 2014 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2015				
Available-for-Sale				
U.S. Treasury	**$ 24,876**	**$ 302**	**$**	**$ 25,178**
U.S. government-sponsored entities and agencies	**707,414**	**4,082**	**(2,117)**	**709,379**
Mortgage-backed securities - Agency	**1,078,115**	**19,086**	**(6,470)**	**1,090,731**
States and political subdivisions	**330,357**	**11,201**	**(928)**	**340,630**
Pooled trust preferred securities	**17,706**		**(11,153)**	**6,553**
Other securities	**372,676**	**3,799**	**(3,476)**	**372,999**
Total available-for-sale securities	**$ 2,531,144**	**$ 38,470**	**$ (24,144)**	**$ 2,545,470**
Held-to-Maturity				
U.S. government-sponsored entities and agencies	**$ 166,343**	**$ 6,293**	**$**	**$ 172,636**
Mortgage-backed securities - Agency	**21,548**	**922**		**22,470**
States and political subdivisions	**648,147**	**56,404**	**(4)**	**704,547**
Total held-to-maturity securities	**$ 836,038**	**$ 63,619**	**$ (4)**	**$ 899,653**
December 31, 2014				
Available-for-Sale				
U.S. Treasury	$ 14,978	$ 196	$ (8)	$ 15,166
U.S. government-sponsored entities and agencies	692,704	1,533	(8,286)	685,951
Mortgage-backed securities - Agency	1,233,811	18,219	(10,368)	1,241,662
States and political subdivisions	304,435	11,023	(917)	314,541
Pooled trust preferred securities	17,965		(11,358)	6,607
Other securities	365,235	2,338	(3,669)	363,904
Total available-for-sale securities	$ 2,629,128	$ 33,309	$ (34,606)	$ 2,627,831
Held-to-Maturity				
U.S. government-sponsored entities and agencies	$ 167,207	$ 6,279	$	$ 173,486
Mortgage-backed securities - Agency	23,648	926		24,574
States and political subdivisions	653,199	52,753	(77)	705,875
Total held-to-maturity securities	$ 844,054	$ 59,958	$ (77)	$ 903,935

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Proceeds from sales or calls of available-for-sale investment securities, the resulting realized gains and realized losses, and other securities gains or losses were as follows for the three months ended March 31:

(dollars in thousands)	Three Months Ended March 31, 2015	2014
Proceeds from sales of available-for-sale securities	**$ 170,265**	$ 16,523
Proceeds from calls of available-for-sale securities	**51,594**	23,375
Total	**$ 221,859**	$ 39,898
Realized gains on sales of available-for-sale securities	**$ 2,481**	$ 658
Realized gains on calls of available-for-sale securities	**168**	
Realized losses on sales of available-for-sale securities	**(25)**	
Realized losses on calls of available-for-sale securities	**(3)**	(267)
Other securities gains (1)	**62**	168
Net securities gains	**$ 2,683**	$ 559

(1) Other securities gains includes net realized gains or losses associated with trading securities and mutual funds. Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $4.0 million at March 31, 2015 and $3.9 million at December 31, 2014.

All of the mortgage-backed securities in the investment portfolio are residential mortgage-backed securities. The amortized cost and fair value of the investment securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Weighted average yield is based on amortized cost.

(dollars in thousands) Maturity	March 31, 2015 Amortized Cost	Fair Value	Weighted Average Yield
Available-for-Sale			
Within one year	**$ 41,201**	**$ 41,405**	**1.50%**
One to five years	**449,141**	**453,090**	**1.72**
Five to ten years	**609,521**	**616,780**	**2.24**
Beyond ten years	**1,431,281**	**1,434,195**	**2.39**
Total	**$ 2,531,144**	**$ 2,545,470**	**2.22%**

Held-to-Maturity						
Within one year	**$**	**77**	**$**	**78**	**3.64**%	
One to five years		**29,107**		**30,597**	**4.15**	
Five to ten years		**187,953**		**196,645**	**3.43**	
Beyond ten years		**618,901**		**672,333**	**5.52**	
Total	**$**	**836,038**	**$**	**899,653**	**5.00**%	

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The following table summarizes the investment securities with unrealized losses at March 31, 2015 and December 31, 2014 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2015						
Available-for-Sale						
U.S. Treasury	**$ 12,900**	**$**	**$**	**$**	**$ 12,900**	**$**
U.S. government-sponsored entities and agencies	**15,895**	**(22)**	**204,953**	**(2,095)**	**220,848**	**(2,117)**
Mortgage-backed securities - Agency	**58,455**	**(401)**	**294,928**	**(6,069)**	**353,383**	**(6,470)**
States and political subdivisions	**35,751**	**(350)**	**6,561**	**(578)**	**42,312**	**(928)**
Pooled trust preferred securities			**6,553**	**(11,153)**	**6,553**	**(11,153)**
Other securities	**77,851**	**(830)**	**91,760**	**(2,646)**	**169,611**	**(3,476)**
Total available-for-sale	**$ 200,852**	**$ (1,603)**	**$ 604,755**	**$ (22,541)**	**$ 805,607**	**$ (24,144)**
Held-to-Maturity						
States and political subdivisions	**$ 2,134**	**$ (4)**	**$**	**$**	**$ 2,134**	**$ (4)**
Total held-to-maturity	**$ 2,134**	**$ (4)**	**$**	**$**	**$ 2,134**	**$ (4)**
December 31, 2014						
Available-for-Sale						
U.S. Treasury	$ 9,524	$ (8)	$	$	$ 9,524	$ (8)
U.S. government-sponsored entities and agencies	180,488	(563)	257,914	(7,723)	438,402	(8,286)
Mortgage-backed securities - Agency	31,304	(122)	386,788	(10,246)	418,092	(10,368)
States and political subdivisions	41,481	(288)	9,534	(629)	51,015	(917)
Pooled trust preferred securities			6,607	(11,358)	6,607	(11,358)
Other securities	115,973	(906)	95,344	(2,763)	211,317	(3,669)
Total available-for-sale	$ 378,770	$ (1,887)	$ 756,187	$ (32,719)	$ 1,134,957	$ (34,606)
Held-to-Maturity						
States and political subdivisions	$ 6,171	$ (77)	$	$	$ 6,171	$ (77)
Total held-to-maturity	$ 6,171	$ (77)	$	$	$ 6,171	$ (77)

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available-for-sale or held-to-maturity are generally evaluated for OTTI under FASB

ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-10 (EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets*).

In determining OTTI under the FASB ASC 320 (SFAS No. 115) model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. The second segment of the portfolio uses the OTTI guidance provided by FASB ASC 325-10 (EITF 99-20) that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the FASB ASC 325-10 model, we compare the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When other-than-temporary-impairment occurs under either model, the amount of the other-than-temporary-impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the other-than-temporary-impairment shall be recognized in earnings equal to the entire difference between the investment s amortized cost basis and its fair value at the balance sheet date. Otherwise, the other-than-temporary-impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total other-than-temporary-impairment related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total other-than-temporary-impairment related to other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the other-than-temporary-impairment recognized in earnings shall become the new amortized cost basis of the investment.

We did not record other-than-temporary-impairments during the three months ended March 31, 2015. Other-than-temporary-impairments totaled $100 thousand during the three months ended March 31, 2014.

As of March 31, 2015, Old National s securities portfolio consisted of 1,788 securities, 120 of which were in an unrealized loss position. The unrealized losses attributable to our U.S. government-sponsored entities and agencies, our agency mortgage-backed securities, and our other securities are the result of fluctuations in interest rates. Our pooled trust preferred securities are discussed below.

Pooled Trust Preferred Securities

At March 31, 2015, our securities portfolio contained three pooled trust preferred securities with a fair value of $6.6 million and unrealized losses of $11.2 million. One of the pooled trust preferred securities in our portfolio falls within the scope of FASB ASC 325-10 (EITF 99-20) and has a fair value of $0.2 million with an unrealized loss of $3.5 million at March 31, 2015. This security was rated A3 at inception, but at March 31, 2015, this security is rated D. The issuers in this security are banks. We use the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress this CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the three months ended March 31, 2015 and 2014, our model indicated no other-than-temporary-impairment losses on this security. At March 31, 2015, we have no intent to sell any securities that are in an unrealized loss position nor is it expected that we would be required to sell any securities.

Two of our pooled trust preferred securities with a fair value of $6.4 million and unrealized losses of $7.6 million at March 31, 2015 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. For the three months ended March 31, 2015 and 2014, our analysis indicated no other-than-temporary-impairment on these securities.

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The table below summarizes the relevant characteristics of our pooled trust preferred securities as well as our single issuer trust preferred securities that are included in the other securities category in this footnote. Each of the pooled trust preferred securities support a more senior tranche of security holders.

As depicted in the table below, all three securities have experienced credit defaults. However, two of these securities have excess subordination and are not other-than-temporarily-impaired as a result of their class hierarchy which provides more loss protection.

Trust preferred securities March 31, 2015 (dollars in thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2015	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a Percent of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
Pooled trust preferred securities:										
Reg Div Funding 2004	B-2	D	$ 3,769	$ 221	$ (3,548)	$	24/42	34.2%	8.9%	0.0%
Pretsl XXVII LTD	B	B	4,491	2,520	(1,971)		34/46	22.7%	5.2%	41.1%
Trapeza Ser 13A	A2A	B+	9,446	3,812	(5,634)		48/59	15.0%	2.7%	51.9%
			17,706	6,553	(11,153)					
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BB+	961	1,009	48					
First Empire Cap (M&T)		BB+	2,917	3,027	110					
Fleet Cap Tr V (BOA)		BB	3,383	2,888	(495)					
JP Morgan Chase Cap XIII		BBB-	4,748	4,175	(573)					
NB-Global		BB	755	825	70					
Chase Cap II		BBB-	797	850	53					
			13,561	12,774	(787)					
Total			$ 31,267	$ 19,327	$ (11,940)	$				

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.

On July 19, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act contains provisions (the Volcker Rule) prohibiting certain investments which can be held by a bank holding company. In December 2014, the Federal Reserve granted a one year extension on divestiture to July 2016. An additional one year extension is expected to be approved, which would extend the conformance period to July 2017. A limited partnership held by Old National falls under these restrictions and has to be divested by July 2015. The estimated sales proceeds for this security would be less than the amortized cost of the security, and an other-than-temporary-impairment charge of $100 thousand was recorded for this security in the first quarter of 2014.

The following table details the remaining securities with other-than-temporary-impairment, their credit rating at March 31, 2015, and the related life-to-date credit losses recognized in earnings:

				Amount of other-than-temporary impairment recognized in earnings		
		Lowest		Three Months Ended		
		Credit	Amortized	March 31,		Life-to
(dollars in thousands)	Vintage	Rating (1)	Cost	2015	2014	date
Reg Div Funding	2004	D	$ 3,769	$	$	$ 5,685
Limited partnership			730		100	100
Total			$ 4,499	$	$ 100	$ 5,785

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.

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NOTE 7 - LOANS HELD FOR SALE

Loans held for sale were $210.5 million at March 31, 2015, compared to $213.5 million at December 31, 2014. Included in loans held for sale at March 31, 2015 were $186.2 million of loans identified to be sold in connection with the southern Illinois and eastern Indiana banking centers, and $24.3 million of mortgage loans held for immediate sale in the secondary market. Residential loans that Old National has originated with a commitment to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). Old National had residential loans held for sale of $15.6 million at December 31, 2014. Prior to mid-2014, residential loans originated by Old National were primarily sold on a servicing released basis. Beginning with the inception of an in-house servicing unit in the third quarter of 2014, conventional mortgage production is now sold on a servicing retained basis. Certain loans, such as government guaranteed mortgage loans continue to be sold on servicing released basis.

The following table summarizes loans held for sale that were reclassified from loans held for investment at March 31, 2015 and December 31, 2014:

(dollars in thousands)	March 31, 2015	December 31, 2014
Commercial	**$ 37,528**	$ 45,500
Commercial real estate	**27,081**	30,690
Residential real estate	**68,892**	71,680
Consumer credit	**52,668**	50,058
Total	**$ 186,169**	$ 197,928

The loans held for sale were reclassified at the lower of cost or fair value during the fourth quarter of 2014. Old National intends to sell these loans in two separate transactions and anticipates that both will be complete prior to September 30, 2015.

NOTE 8 LOANS AND ALLOWANCE FOR CREDIT LOSSES

Old National s finance receivables consist primarily of loans made to consumers and commercial clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. Most of Old National s lending activity occurs within our principal geographic markets of Indiana, southeastern Illinois, western Kentucky and southwestern Michigan. Old National has no concentration of commercial loans in any single industry exceeding 10% of its portfolio.

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The composition of loans by lending classification was as follows:

(dollars in thousands)	March 31, 2015	December 31, 2014
Commercial (1)	**$ 1,668,275**	$ 1,629,600
Commercial real estate:		
Construction	**150,711**	134,552
Other	**1,662,868**	1,576,558
Residential real estate	**1,625,354**	1,519,156
Consumer credit:		
Heloc	**374,079**	360,320
Auto	**897,190**	846,969
Other	**137,222**	103,338
Covered loans	**136,840**	147,708
Total loans	**6,652,539**	6,318,201
Allowance for loan losses	**(46,675)**	(44,297)
Allowance for loan losses - covered loans	**(2,203)**	(3,552)
Net loans	**$ 6,603,661**	$ 6,270,352

(1) Includes direct finance leases of $18.9 million at March 31, 2015 and $19.3 million at December 31, 2014.

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

<u>Commercial</u>

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.

<u>Commercial real estate</u>

These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher 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 adversely affected by conditions in the real estate markets or in the general economy. The properties securing Old National s commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, Old National 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.

Included with commercial real estate are construction loans, which are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from Old National until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

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Residential

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, Old National typically establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. 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 residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Consumer

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 residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Covered Loans

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements whereby Old National is indemnified against 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million. As of March 31, 2015, we do not expect losses to exceed $275.0 million. See Note 9 to the consolidated financial statements for further details on our covered loans.

Allowance for loan losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the consolidated loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, assessments of the impact of current and anticipated economic conditions on the portfolio and historical loss experience. The allowance is increased through a provision charged to operating expense. Loans deemed to be uncollectible are charged to the allowance. Recoveries of loans previously charged-off are added to the allowance.

Effective January 1, 2015, we began using a probability of default (PD)/loss given default (LGD) model as a tool to determine the adequacy of the allowance for loan losses for performing commercial and commercial real estate loans. The PD is forecast using a transition matrix to determine the likelihood of a customer s asset quality rating (AQR) migrating from its current AQR to any other status within the time horizon. Transition rates are measured using Old National s own historical experience. The model assumes that recent historical transition rates will continue into the future. The LGD is defined as credit loss incurred when an obligor of the bank defaults. The sum of all net charge-offs for a particular portfolio segment are divided by all loans that have defaulted over a given period of time. The expected loss derived from the model considers the PD, LGD, and exposure at default. Additionally, qualitative factors, such as changes in lending policies or procedures, and economic business conditions are also considered.

We adopted the probability of default and loss given default model for commercial loans because we believe this approach has a tendency to react more quickly to credit cycle shifts (both positive and negative). The overall results of switching from migration analysis to the probability of default and loss given default model for our performing commercial and commercial real estate loans in the first quarter of 2015 were not material.

Prior to January 1, 2015, we used migration analysis as a tool to determine the adequacy of the allowance for loan losses for performing commercial and commercial real estate loans. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination. Judgment is used to select and weight the historical periods which are most representative of the current environment.

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We calculated migration analysis using several different scenarios based on varying assumptions to evaluate the widest range of possible outcomes. The migration-derived historical commercial loan loss rates were applied to the current commercial loan pools to arrive at an estimate of probable losses for the loans existing at the time of analysis. The amounts determined by migration analysis were adjusted for management s best estimate of the effects of current economic conditions, loan quality trends, results from internal and external review examinations, loan volume trends, credit concentrations and various other factors.

We continue to use historic loss ratios adjusted for expectations of future economic conditions to determine the appropriate level of allowance for consumer and residential real estate loans.

No allowance was brought forward on any of the acquired loans as any credit deterioration evident in the loans was included in the determination of the fair value of the loans at the acquisition date. Purchased credit impaired (PCI) loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. Impairment on PCI loans would be recognized in the current period as provision expense.

Old National s activity in the allowance for loan losses for the three months ended March 31, 2015 and 2014 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2015						
Allowance for loan losses:						
Balance at January 1, 2015	**$ 20,670**	**$ 17,348**	**$ 6,869**	**$ 2,962**	**$**	**$ 47,849**
Charge-offs	&					