OLD NATIONAL BANCORP /IN/
Form 10-Q
August 01, 2014
Table of Contents

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 June 30, 2014

¨ **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 **(State or other jurisdiction of incorporation or organization)**	**35-1539838** **(I.R.S. Employer Identification No.)**
One Main Street **Evansville, Indiana** **(Address of principal executive offices)**	**47708** **(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 105,851,000 shares outstanding at June 30, 2014.

Table of Contents

OLD NATIONAL BANCORP

FORM 10-Q

INDEX

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	June 30, 2014 (unaudited)	December 31, 2013	June 30, 2013 (unaudited)
Assets			
Cash and due from banks	**$ 215,806**	$ 190,606	$ 155,135
Money market and other interest-earning investments	**20,887**	16,117	61,690
Total cash and cash equivalents	**236,693**	206,723	216,825
Trading securities at fair value	**3,726**	3,566	3,331
Investment securities available-for-sale, at fair value:			
U.S. Treasury	**11,186**	13,113	14,366
U.S. Government-sponsored entities and agencies	**623,672**	435,588	374,956
Mortgage-backed securities	**1,220,293**	1,306,670	1,412,869
States and political subdivisions	**309,106**	268,795	643,887
Other securities	**371,800**	348,035	213,006
Total investment securities available-for-sale	**2,536,057**	2,372,201	2,659,084
Investment securities held-to-maturity, at amortized cost (fair value $899,007, $780,758 and $419,326, respectively)	**852,904**	762,734	401,066
Federal Home Loan Bank stock, at cost	**42,776**	40,584	40,584
Residential loans held for sale, at fair value	**11,398**	7,705	13,572
Finance leases held for sale			11,553
Loans:			
Commercial	**1,498,833**	1,373,415	1,397,882
Commercial real estate	**1,354,700**	1,160,890	1,197,997
Residential real estate	**1,425,179**	1,359,569	1,399,688
Consumer credit, net of unearned income	**1,089,008**	971,258	892,078
Covered loans, net of discount	**171,148**	217,832	288,577
Total loans	**5,538,868**	5,082,964	5,176,222
Allowance for loan losses	**(42,494)**	(41,741)	(43,890)
Allowance for loan losses covered loans	**(3,658)**	(5,404)	(5,428)
Net loans	**5,492,716**	5,035,819	5,126,904
FDIC indemnification asset	**51,431**	88,513	100,391
Premises and equipment, net	**118,014**	108,306	91,445
Accrued interest receivable	**54,630**	50,205	48,516
Goodwill	**408,474**	352,729	339,382
Other intangible assets	**30,799**	25,957	24,993
Company-owned life insurance	**299,509**	275,121	273,887
Assets held for sale	**9,043**	9,056	9,275

Other real estate owned and repossessed personal property	**6,729**	7,562	7,739
Other real estate owned covered	**11,155**	13,670	23,131
Other assets	**221,879**	221,293	249,393
Total assets	**$ 10,387,933**	$ 9,581,744	$ 9,641,071
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 2,129,705**	$ 2,026,490	$ 1,881,440
Interest-bearing:			
NOW	**1,912,183**	1,775,938	1,652,816
Savings	**2,100,173**	1,941,652	1,900,148
Money market	**428,013**	448,848	283,686
Time	**984,929**	1,017,975	1,122,003
Total deposits	**7,555,003**	7,210,903	6,840,093
Short-term borrowings	**467,578**	462,332	530,381
Other borrowings	**902,015**	556,388	884,347
Accrued expenses and other liabilities	**186,006**	189,481	219,272
Total liabilities	**9,110,602**	8,419,104	8,474,093
Shareholders Equity			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Common stock, $1 stated value, 150,000 shares authorized, 105,851, 99,859 and 100,881 shares issued and outstanding, respectively	**105,851**	99,859	100,881
Capital surplus	**975,354**	900,254	912,391
Retained earnings	**229,467**	206,993	178,727
Accumulated other comprehensive income (loss), net of tax	**(33,341)**	(44,466)	(25,021)
Total shareholders equity	**1,277,331**	1,162,640	1,166,978
Total liabilities and shareholders equity	**$ 10,387,933**	$ 9,581,744	$ 9,641,071

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

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Interest Income				
Loans including fees:				
Taxable	**$ 65,892**	$ 63,223	**$ 130,849**	$ 127,441
Nontaxable	**2,530**	2,380	**5,039**	4,559
Investment securities:				
Taxable	**15,447**	15,139	**31,216**	30,281
Nontaxable	**5,649**	4,933	**10,673**	9,483
Money market and other interest-earning investments	**10**	7	**16**	20
Total interest income	**89,528**	85,682	**177,793**	171,784
Interest Expense				
Deposits	**3,342**	5,016	**6,625**	10,284
Short-term borrowings	**83**	213	**150**	480
Other borrowings	**1,621**	1,262	**3,058**	2,779
Total interest expense	**5,046**	6,491	**9,833**	13,543
Net interest income	**84,482**	79,191	**167,960**	158,241
Provision for loan losses	**(400)**	(3,693)	**(363)**	(2,848)
Net interest income after provision for loan losses	**84,882**	82,884	**168,323**	161,089
Noninterest Income				
Wealth management fees	**7,504**	6,412	**13,296**	12,068
Service charges on deposit accounts	**11,821**	11,766	**22,955**	22,864
Debit card and ATM fees	**6,476**	5,942	**12,212**	11,740
Mortgage banking revenue	**1,262**	1,593	**1,892**	2,866
Insurance premiums and commissions	**9,811**	9,318	**21,773**	20,261
Investment product fees	**4,117**	4,074	**7,985**	7,657
Company-owned life insurance	**1,643**	1,614	**3,110**	3,258
Net securities gains	**1,689**	1,789	**2,248**	2,808
Total other-than-temporary impairment losses			**(100)**	
Loss recognized in other comprehensive income				
Impairment losses recognized in earnings			**(100)**	
Gain (loss) on derivatives	**71**	144	**250**	132
Recognition of deferred gain on sale leaseback transactions	**1,523**	1,791	**3,047**	3,375

Gain on branch divestitures deposit premium				2,244
Change in FDIC indemnification asset	**(10,470)**	(1,474)	**(17,813)**	(3,776)
Other income	**4,206**	3,275	**9,361**	7,062
Total noninterest income	**39,653**	46,244	**80,216**	92,559
Noninterest Expense				
Salaries and employee benefits	**55,050**	48,723	**106,430**	99,683
Occupancy	**12,712**	12,029	**23,654**	24,113
Equipment	**3,176**	2,775	**6,190**	5,673
Marketing	**2,434**	1,934	**4,619**	3,139
Data processing	**6,479**	5,659	**12,063**	10,891
Communication	**2,343**	2,703	**4,954**	5,269
Professional fees	**3,643**	2,834	**7,325**	6,503
Loan expense	**1,441**	1,969	**2,758**	3,585
Supplies	**824**	649	**1,477**	1,218
FDIC assessment	**1,445**	118	**2,886**	1,770
Other real estate owned expense	**1,255**	1,537	**2,013**	2,551
Amortization of intangibles	**2,003**	1,840	**3,840**	4,365
Other expense	**5,299**	4,146	**8,147**	8,339
Total noninterest expense	**98,104**	86,916	**186,356**	177,099
Income before income taxes	**26,431**	42,212	**62,183**	76,549
Income tax expense	**7,658**	13,734	**16,900**	24,126
Net income	**$ 18,773**	$ 28,478	**$ 45,283**	$ 52,423
Net income per common share basic	**$ 0.18**	$ 0.28	**$ 0.44**	$ 0.52
Net income per common share diluted	**0.18**	0.28	**0.44**	0.52
Weighted average number of common shares outstanding-basic	**103,904**	100,981	**101,862**	101,031
Weighted average number of common shares outstanding-diluted	**104,361**	101,352	**102,363**	101,448
Dividends per common share	**$ 0.11**	$ 0.10	**$ 0.22**	$ 0.20

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

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in thousands)	2014	2013	2014	2013
Net income	**$ 18,773**	$ 28,478	**$ 45,283**	$ 52,423
Other comprehensive income (loss)				
Change in securities available-for-sale:				
Unrealized holding gains (losses) for the period	**11,447**	(73,602)	**23,502**	(87,385)
Reclassification adjustment for securities gains realized in income	**(1,689)**	(1,789)	**(2,248)**	(2,808)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income			**100**	
Income tax effect	**(3,627)**	28,957	**(8,090)**	34,366
Unrealized gains on available-for-sale securities	**6,131**	(46,434)	**13,264**	(55,827)
Change in securities held-to-maturity:				
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**225**	(177)	**622**	(354)
Income tax effect	**(58)**	70	**(185)**	141
Changes from securities held-to-maturity	**167**	(107)	**437**	(213)
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges	**(3,146)**	874	**(5,083)**	874
Income tax effect	**1,195**	(349)	**1,932**	(349)
Changes from cash flow hedges	**(1,951)**	525	**(3,151)**	525
Defined benefit pension plans:				
Amortization of net loss recognized in income	**591**	842	**943**	1,702
Income tax effect	**(349)**	(665)	**(368)**	(1,009)
Changes from defined benefit pension plans	**242**	177	**575**	693
Other comprehensive income (loss), net of tax	**4,589**	(45,839)	**11,125**	(54,822)
Comprehensive income (loss)	**$ 23,362**	$ (17,361)	**$ 56,408**	$ (2,399)

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Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars and shares in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, December 31, 2012	$ 101,179	$ 916,918	$ 146,667	$ 29,801	$ 1,194,565
Net income			52,423		52,423
Other comprehensive income (loss)				(54,822)	(54,822)
Dividends common stock			(20,211)		(20,211)
Common stock issued	11	128			139
Common stock repurchased	(589)	(7,097)			(7,686)
Stock based compensation expense		2,136			2,136
Stock activity under incentive comp plans	280	306	(152)		434
Balance, June 30, 2013	$ 100,881	$ 912,391	$ 178,727	$ (25,021)	$ 1,166,978
Balance, December 31, 2013	**$ 99,859**	**$ 900,254**	**$ 206,993**	**$ (44,466)**	**$ 1,162,640**
Net income			**45,283**		**45,283**
Other comprehensive income (loss)				**11,125**	**11,125**
Acquisition Tower Financial	**5,626**	**73,101**			**78,727**
Dividends common stock			**(22,631)**		**(22,631)**
Common stock issued	**11**	**146**			**157**
Common stock repurchased	**(117)**	**(1,480)**			**(1,597)**
Stock based compensation expense		**2,506**			**2,506**
Stock activity under incentive comp plans	**472**	**827**	**(178)**		**1,121**
Balance, June 30, 2014	**$ 105,851**	**$ 975,354**	**$ 229,467**	**$ (33,341)**	**$ 1,277,331**

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

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Six Months Ended June 30, 2014	2013
Cash Flows From Operating Activities		
Net income	**$ 45,283**	$ 52,423
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**5,897**	5,092
Amortization and impairment of other intangible assets	**3,840**	4,365
Net premium amortization on investment securities	**6,525**	9,007
Amortization of FDIC indemnification asset	**17,813**	3,776
Stock compensation expense	**2,506**	2,136
Provision for loan losses	**(363)**	(2,848)
Net securities gains	**(2,248)**	(2,808)
Impairment on available-for-sale securities	**100**	
Gain on branch divestitures		(2,244)
Recognition of deferred gain on sale leaseback transactions	**(3,047)**	(3,375)
Gain on derivatives	**(250)**	(132)
Net gains on sales of other assets	**(1,204)**	(1,618)
Loss on retirement of debt		993
Increase in cash surrender value of company owned life insurance	**(3,107)**	(3,258)
Proceeds from sale of residential real estate loans	**48,540**	83,909
Residential real estate loans originated for sale	**(50,557)**	(82,586)
Increase in interest receivable	**(2,054)**	(1,537)
Decrease in other real estate owned	**3,821**	6,446
Decrease in other assets	**4,210**	16,543
Decrease in accrued expenses and other liabilities	**(4,166)**	(19,322)
Total adjustments	**26,256**	12,539
Net cash flows provided by operating activities	**71,539**	64,962
Cash Flows From Investing Activities		
Net cash and cash equivalents of acquired banks and branches	**24,701**	
Purchases of investment securities available-for-sale	**(257,481)**	(770,879)
Purchases of investment securities held-to-maturity	**(103,299)**	(15,624)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**178,156**	358,817
Proceeds from sales of investment securities available-for-sale	**76,295**	159,073
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**10,438**	15,318
Proceeds on branch divestitures		(144,236)
Proceeds from sale of loans		4,787
Purchases of Federal Home Loan Bank stock		(2,657)

Reimbursements under FDIC loss share agreements	**20,306**	13,098
Net principal collected from (loans made to) loan customers	**(85,480)**	1,435
Proceeds from sale of premises and equipment and other assets	**43**	3,036
Purchases of premises and equipment and other assets	**(7,442)**	(7,321)
Net cash flows used in investing activities	**(143,763)**	(385,153)
Cash Flows From Financing Activities		
Net decrease in deposits and short-term borrowings:		
Deposits	**(184,422)**	(288,725)
Short-term borrowings	**(13,652)**	(59,434)
Payments for maturities on other borrowings	**(181,019)**	(469)
Payments related to retirement of debt		(50,993)
Proceeds from issuance of other borrowings	**505,000**	700,000
Cash dividends paid on common stock	**(22,631)**	(20,211)
Common stock repurchased	**(1,597)**	(7,686)
Proceeds from exercise of stock options, including tax benefit	**358**	335
Common stock issued	**157**	139
Net cash flows provided by financing activities	**102,194**	272,956
Net increase (decrease) in cash and cash equivalents	**29,970**	(47,235)
Cash and cash equivalents at beginning of period	**206,723**	264,060
Cash and cash equivalents at end of period	**$ 236,693**	$ 216,825
Supplemental cash flow information:		
Total interest paid	**$ 10,044**	$ 13,951
Total taxes paid (net of refunds)	**$ 9,501**	$ 11,282

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

Table of Contents

OLD NATIONAL BANCORP

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. The allowance for loan losses, valuation of purchased loans, FDIC indemnification asset, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. 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 June 30, 2014 and 2013, and December 31, 2013, and the results of its operations for the three and six months ended June 30, 2014 and 2013. 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, 2013.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2014 presentation. Such reclassifications had no effect on net income or shareholders equity and were insignificant amounts.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

FASB ASC 405 In February 2013, the FASB issued an update (ASU No. 2013-04, Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date) impacting FASB ASC 405, Liabilities. This update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of the guidance is fixed at the reporting date as the sum of (1) the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and (2) any additional amount the reporting entity expects to pay on behalf of its co-obligors. This update also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. This update became effective for interim and annual periods beginning after December 15, 2013 and did not have a material impact on the consolidated financial statements.

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 become effective for annual periods and interim periods within those annual periods beginning after December 15, 2014 and should be applied 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.

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 (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 become effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. 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.

Table of Contents

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 become effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. 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 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. Qualitative and quantitative information is required about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. 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 become effective for the first interim or annual period beginning after December 15, 2014. 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 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.

Table of Contents

NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

2014 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 strengthens Old National s position as the third largest deposit holder 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 $5.7 million of transaction and integration costs associated with the acquisition were expensed as incurred.

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 Tower acquisition is allocated as follows (in thousands):

Cash and cash equivalents	$ 56,345
Investment securities	142,759
Loans	371,528
Premises and equipment	8,516
Accrued interest receivable	2,371
Other real estate owned	473
Company-owned life insurance	21,281
Other assets	15,658
Deposits	(527,995)
Short-term borrowings	(18,898)
Other borrowings	(21,113)
Accrued expenses and other liabilities	(4,681)
Net tangible assets acquired	46,244
Definite-lived intangible assets acquired	8,382
Goodwill	55,745
Total estimated fair value of consideration transferred	$ 110,371

Of the total purchase price, $46.2 million has been allocated to net tangible assets acquired and $8.4 million has been allocated to definite-lived intangible assets acquired. The remaining purchase price has been allocated to goodwill. The goodwill will not be deductible for tax purposes and is included in the Banking and Wealth Management segments, as described in Note 20 of these consolidated financial statement footnotes.

Table of Contents

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 and Wealth Management segments, as described in Note 20 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

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 as of June 30, 2014, United had total loans of approximately $665 million, $770 milion of deposits and approximately $688 million in trust assets under management. The merger doubles Old National s presence in Michigan to 36 total branches 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 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 will be accounted for under the acquisition method of accounting. Accordingly, the Company is in the process of conducting assessments of net assets acquired and determining the fair values of these identifiable assets acquired and liabilities assumed as of the acquisition date. Transaction and integration costs of $2.7 million associated with the acquisition were expensed during the second quarter and remaining integration costs will be expensed in future quarters as incurred.

Summary of Unaudited Pro-forma Information

The unaudited pro-forma information below for the periods ended June 30, 2014 and 2013 gives effect to the Tower and United acquisitions as if the acquisitions had occurred on January 1, 2013. The pro-forma financial information is not necessarily indicative of the results of operations if the acquisitions had been effective as of this date.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2014	2013	2014	2013
Revenue (1)	$ 139,166	$ 146,422	$ 288,301	$ 292,780
Net income	$ 25,623	$ 28,009	$ 59,635	$ 53,886

(1) Net interest income plus noninterest income.

2014 supplemental pro-forma earnings were adjusted to exclude $6.4 million and $8.6 million of acquisition-related costs incurred during the three and six months ended June 30, 2014, respectively. 2013 supplemental pro-forma earnings were adjusted to include these charges.

Pending Acquisitions

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. LSB is a savings and loan holding company with Lafayette Savings Bank as its wholly-owned subsidiary. LSB is the largest bank headquartered in Lafayette and operates five full-service banking centers. At June 3, 2014, LSB had total assets of approximately $369 million and $315 million of deposit liabilities. Pursuant to the merger agreement, shareholders of LSB will receive 2.269 shares of Old National common stock and $10.63 in cash for each share of LSB common stock. As of June 3, 2014, the transaction was valued at approximately $66.7 million. The transaction is subject to approval by regulatory authorities and LSB s shareholders, as well as the satisfaction of customary closing conditions.

Table of Contents

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. Founders is a bank holding company with Founders Bank & Trust as its wholly-owned subsidiary. Founders Bank & Trust operates four full-service banking centers in Kent County. At June 30, 2014, Founders had total assets of approximately $466 million and $378 million of deposit liabilities. Pursuant to the merger agreement, shareholders of Founders will receive 3.25 shares of Old National common stock and $38.00 in cash for each share of Founders common stock. Based upon the July 25, 2014, closing price of $13.87 per share of Old National common stock, the transaction is valued at approximately $88.2 million. The transaction is subject to approval by regulatory authorities and Founders shareholders, as well as the satisfaction of customary closing conditions.

2013 Acquisitions

Bank of America

On January 9, 2013, Old National announced that it had entered into a purchase and assumption agreement to acquire 24 bank branches of Bank of America. Four of the branches are located in northern Indiana and 20 branches are located in southwest Michigan. The Company paid a deposit premium of 2.94%. The acquisition has doubled Old National s presence in the South Bend/Elkhart area and provided a logical market extension into southwest Michigan. The premium paid for our entrance into a new market drove the goodwill recorded in this transaction. The transaction closed on July 12, 2013.

During the three months ended June 30, 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 equivalents	$ 562,906
Loans	5,638
Premises and equipment	12,559
Accrued interest receivable	15
Other assets	331
Deposits	(565,106)
Accrued expenses and other liabilities	(246)
Net tangible assets acquired	16,097
Definite-lived intangible assets acquired	3,462
Goodwill	13,347
Purchase price	$ 32,906

The acquired identifiable intangible asset is core deposit intangible and the estimated fair value is approximately $3.5 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 20 of these consolidated financial statement footnotes. The goodwill recorded in the transaction will be deductible for tax purposes and is included in the Banking segment.

2013 Divestitures

On August 16, 2012, Old National announced plans to sell the deposits of nine banking centers located in southern Illinois and western Kentucky. As such, these deposits were considered held for sale as of December 31, 2012. During the first quarter of 2013 these deposits were sold. Deposits at the time of sale were approximately $150.0 million and the Company received a deposit premium of $2.2 million.

Table of Contents

On September 5, 2013, Old National entered into branch purchase and assumption agreements to sell three banking centers in the fourth quarter of 2013. The banking centers were sold during the fourth quarter and deposits at the time of sale were approximately $28.2 million and we received a deposit premium of $650 thousand.

As part of our efforts to provide an efficient and effective branch banking network, Old National also consolidated 23 banking centers into existing branch locations during 2013.

Table of Contents

NOTE 4 NET INCOME PER SHARE

The following table reconciles basic and diluted net income per share for the three and six months ended June 30:

(dollars and shares in thousands, except per share data)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013
Basic Earnings Per Share		
Net income	**$ 18,773**	$ 28,478
Weighted average common shares outstanding	**103,904**	100,981
Basic Earnings Per Share	**$ 0.18**	$ 0.28
Diluted Earnings Per Share		
Net income	**$ 18,773**	$ 28,478
Weighted average common shares outstanding	**103,904**	100,981
Effect of dilutive securities:		
Restricted stock (1)	**424**	363
Stock options (2)	**33**	8
Weighted average shares outstanding	**104,361**	101,352
Diluted Earnings Per Share	**$ 0.18**	$ 0.28

(dollars and shares in thousands, except per share data)	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Basic Earnings Per Share		
Net income	**$ 45,283**	$ 52,423
Weighted average common shares outstanding	**101,862**	101,031
Basic Earnings Per Share	**$ 0.44**	$ 0.52
Diluted Earnings Per Share		
Net income	**$ 45,283**	$ 52,423
Weighted average common shares outstanding	**101,862**	101,031
Effect of dilutive securities:		
Restricted stock (1)	**471**	406
Stock options (2)	**30**	11
Weighted average shares outstanding	**102,363**	101,448
Diluted Earnings Per Share	**$ 0.44**	$ 0.52

(1) No shares of restricted stock awards or restricted stock units were excluded in the computation of net income per diluted share for the second quarter ended June 30, 2014 and 2013, respectively, because the effect would be antidilutive. No shares of restricted stock and restricted stock units were excluded in the computation of net

income per diluted share for the six months ended June 30, 2014 and 2013, respectively, because the effect would be antidilutive.

(2) Options to purchase 832 shares and 1,294 shares outstanding at June 30, 2014 and 2013, respectively, were excluded in the computation of net income per diluted share for the second quarter ended June 30, 2014 and 2013, respectively, 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. Options to purchase 832 and 1,202 shares outstanding at June 30, 2014 and 2013, respectively, were excluded in the computation of net income per diluted share for the six months ended June 30, 2014 and 2013, respectively, 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.

Table of Contents

NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) (AOCI) net of tax for the three and six months ended June 30, 2014 and summarizes the significant amounts reclassified out of each component of AOCI:

Changes in Accumulated Other Comprehensive Income (Loss) by Component

For the Three Months Ended June 30, 2014 (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
Balance at April 1, 2014	$ (13,975)	$ (16,497)	$ (1,390)	$ (6,068)	$ (37,930)
Other comprehensive income (loss) before reclassifications	7,192		(1,951)		5,241
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(1,061)	167		242	(652)
Net current-period other comprehensive income (loss)	6,131	167	(1,951)	242	4,589
Balance at June 30, 2014	$ (7,844)	$ (16,330)	$ (3,341)	$ (5,826)	$ (33,341)

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

Changes in Accumulated Other Comprehensive Income (Loss) by Component

For the Six Months Ended June 30, 2014 (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
Balance at January 1, 2014	$ (21,108)	$ (16,767)	$ (190)	$ (6,401)	$ (44,466)
Other comprehensive income (loss) before reclassifications	14,607		(3,151)		11,456
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(1,343)	437		575	(331)

Net current-period other comprehensive income (loss)		13,264		437		(3,151)	575	11,125
Balance at June 30, 2014	$	(7,844)	$	(16,330)	$	(3,341)	$ (5,826)	$ (33,341)

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

Table of Contents

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

For the Three Months Ended June 30, 2014 (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	$	1,689	Net securities gains
			Impairment losses
		1,689	Total before tax
		(628)	Tax (expense) or benefit
	$	1,061	Net of tax
Unrealized gains and losses onheld-to-maturity securities	$	(225)	Interest income/(expense)
		58	Tax (expense) or benefit
	$	(167)	Net of tax
Amortization of defined benefit pension items			
Acturial gains/(losses)	$	(591)	(b)
		349	Tax (expense) or benefit
	$	(242)	Net of tax
Total reclassifications for the period	$	652	Net of tax

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

(b) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost. See Note 14 for additional details on our pension plans.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

For the Six Months Ended June 30, 2014 (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	$	2,248	Net securities gains
		(100)	Impairment losses
		2,148	Total before tax
		(805)	Tax (expense) or benefit
	$	1,343	Net of tax
Unrealized gains and losses onheld-to-maturity securities	$	(622)	Interest income/(expense)
		185	Tax (expense) or benefit
	$	(437)	Net of tax
Amortization of defined benefit pension items Acturial gains/(losses)	$	(943)	(b)
		368	Tax (expense) or benefit
	$	(575)	Net of tax
Total reclassifications for the period	$	331	Net of tax

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

(b) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost. See Note 14 for additional details on our pension plans.

Table of Contents

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) (AOCI) net of tax for the three and six months ended June 30, 2013 and summarizes the significant amounts reclassified out of each component of AOCI:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component For the Three Months Ended June 30, 2013 (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
Balance at April 1, 2013	$ 29,661	$ 3,163	$	$ (12,006)	$ 20,818
Other comprehensive income (loss) before reclassifications	(45,343)		525		(44,818)
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(1,091)	(107)		177	(1,021)
Net current-period other comprehensive income (loss)	(46,434)	(107)	525	177	(45,839)
Balance at June 30, 2013	$ (16,773)	$ 3,056	$ 525	$ (11,829)	$ (25,021)

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

	Changes in Accumulated Other Comprehensive Income by Component For the Six Months Ended June 30, 2013 (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
Balance at January 1, 2013	$ 39,054	$ 3,269	$	$ (12,522)	$ 29,801
Other comprehensive income (loss) before reclassifications	(54,089)		525		(53,564)
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(1,738)	(213)		693	(1,258)

Net current-period other comprehensive income (loss)	(55,827)	(213)	525	693	(54,822)
Balance at June 30, 2013	$ (16,773)	$ 3,056	$ 525	$ (11,829)	$ (25,021)

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

Table of Contents

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

For the Three Months Ended June 30, 2013

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	$	1,789	Net securities gains
			Impairment losses
		1,789	Total before tax
		(698)	Tax (expense) or benefit
	$	1,091	Net of tax
Unrealized gains and losses on held-to-maturity securities	$	177	Interest income/(expense)
		(70)	Tax (expense) or benefit
	$	107	Net of tax
Amortization of defined benefit pension items			
Acturial gains/(losses)	$	(842)	(b)
		665	Tax (expense) or benefit
	$	(177)	Net of tax
Total reclassifications for the period	$	1,021	Net of tax

(a) Amounts in parentheses indicate debits to profit/loss.
(b) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost. See Note 14 for additional details on our pension plans.

Reclassifications out of Accumulated Other Comprehensive Income (Loss)
For the Six Months Ended June 30, 2013

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
	$	2,808	Net securities gains

Unrealized gains and losses on available-for-sale securities			
			Impairment losses
		2,808	Total before tax
		(1,070)	Tax (expense) or benefit
	$	1,738	Net of tax
Unrealized gains and losses on held-to-maturity securities	$	354	Interest income/(expense)
		(141)	Tax (expense) or benefit
	$	213	Net of tax
Amortization of defined benefit pension items			
Acturial gains/(losses)	$	(1,702)	(b)
		1,009	Tax (expense) or benefit
	$	(693)	Net of tax
Total reclassifications for the period	$	1,258	Net of tax

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

(b) This accumulated other comprehensive income (loss) component is included in the computation of net periodic pension cost. See Note 14 for additional details on our pension plans.

Table of Contents

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 June 30, 2014 and December 31, 2013 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2014				
Available-for-sale				
U.S. Treasury	**$ 11,025**	**$ 161**	**$**	**$ 11,186**
U.S. Government-sponsored entities and agencies	**635,127**	**952**	**(12,407)**	**623,672**
Mortgage-backed securities - Agency	**1,209,049**	**16,813**	**(21,481)**	**1,204,381**
Mortgage-backed securities - Non-agency	**15,462**	**450**		**15,912**
States and political subdivisions	**296,809**	**13,363**	**(1,066)**	**309,106**
Pooled trust preferred securities	**18,041**		**(11,619)**	**6,422**
Other securities	**363,273**	**5,483**	**(3,378)**	**365,378**
Total available-for-sale securities	**$ 2,548,786**	**$ 37,222**	**$ (49,951)**	**$ 2,536,057**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 168,936**	**$ 8,181**	**$**	**$ 177,117**
Mortgage-backed securities - Agency	**28,930**	**1,334**		**30,264**
States and political subdivisions	**655,038**	**37,362**	**(774)**	**691,626**
Total held-to-maturity securities	**$ 852,904**	**$ 46,877**	**$ (774)**	**$ 899,007**
December 31, 2013				
Available-for-sale				
U.S. Treasury	$ 12,995	$ 118	$	$ 13,113
U.S. Government-sponsored entities and agencies	456,123	464	(20,999)	435,588
Mortgage-backed securities - Agency	1,300,135	15,690	(26,567)	1,289,258
Mortgage-backed securities - Non-agency	17,036	376		17,412
States and political subdivisions	260,398	10,112	(1,715)	268,795
Pooled trust preferred securities	19,215		(11,178)	8,037
Other securities	340,381	5,140	(5,523)	339,998
Total available-for-sale securities	$ 2,406,283	$ 31,900	$ (65,982)	$ 2,372,201
Held-to-maturity				
U.S. Government-sponsored entities and agencies	$ 170,621	$ 7,749	$	$ 178,370
Mortgage-backed securities - Agency	35,443	906	(1)	36,348
States and political subdivisions	556,670	10,949	(1,579)	566,040
Total held-to-maturity securities	$ 762,734	$ 19,604	$ (1,580)	$ 780,758

Table of Contents

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	June 30, 2014 Amortized Cost	Fair Value	Weighted Average Yield
Available-for-sale			
Within one year	$ 22,438	$ 22,487	2.41 %
One to five years	397,946	404,642	2.31
Five to ten years	577,480	572,166	2.31
Beyond ten years	1,550,922	1,536,762	2.40
Total	$ 2,548,786	$ 2,536,057	2.37 %
Held-to-maturity			
Within one year	$ 1,514	$ 1,535	3.13 %
One to five years	22,585	23,755	3.90
Five to ten years	173,189	179,969	3.25
Beyond ten years	655,616	693,748	5.47
Total	$ 852,904	$ 899,007	4.97 %

Table of Contents

The following table summarizes the investment securities with unrealized losses at June 30, 2014 and December 31, 2013 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
June 30, 2014						
Available-for-Sale						
U.S. Government-sponsored entities and agencies	**$ 117,845**	**$ (637)**	**$ 319,330**	**$ (11,770)**	**$ 437,175**	**$ (12,407)**
Mortgage-backed securities - Agency	**98,561**	**(548)**	**502,894**	**(20,933)**	**601,455**	**(21,481)**
States and political subdivisions	**44,466**	**(189)**	**19,794**	**(877)**	**64,260**	**(1,066)**
Pooled trust preferred securities			**6,422**	**(11,619)**	**6,422**	**(11,619)**
Other securities	**129,367**	**(694)**	**44,621**	**(2,684)**	**173,988**	**(3,378)**
Total available-for-sale	**$ 390,239**	**$ (2,068)**	**$ 893,061**	**$ (47,883)**	**$ 1,283,300**	**$ (49,951)**
Held-to-Maturity						
States and political subdivisions	**$ 61,425**	**$ (650)**	**$ 11,611**	**$ (124)**	**$ 73,036**	**$ (774)**
Total held-to-maturity	**$ 61,425**	**$ (650)**	**$ 11,611**	**$ (124)**	**$ 73,036**	**$ (774)**
December 31, 2013						
Available-for-Sale						
U.S. Treasury	$ 1,900	$	$	$	$ 1,900	$
U.S. Government-sponsored entities and agencies	357,793	(17,547)	38,988	(3,452)	396,781	(20,999)
Mortgage-backed securities - Agency	668,018	(23,455)	41,200	(3,112)	709,218	(26,567)
States and political subdivisions	45,077	(1,620)	2,812	(95)	47,889	(1,715)
Pooled trust preferred securities			8,037	(11,178)	8,037	(11,178)
Other securities	209,915	(2,706)	24,082	(2,817)	233,997	(5,523)
Total available-for-sale	$ 1,282,703	$ (45,328)	$ 115,119	$ (20,654)	$ 1,397,822	$ (65,982)
Held-to-Maturity						
Mortgage-backed securities - Agency	$ 21,370	$ (1)	$	$	$ 21,370	$ (1)
States and political subdivisions	70,162	(1,579)			70,162	(1,579)
Total held-to-maturity	$ 91,532	$ (1,580)	$	$	$ 91,532	$ (1,580)

Proceeds from sales and calls of securities available for sale were $100.8 million and $307.4 million for the six months ended June 30, 2014 and 2013, respectively. Gains of $2.3 million and $2.5 million were realized on these sales during 2014 and 2013, respectively and offsetting losses of $0.3 million were realized on these sales during

2014. Also included in net securities gains for the first six months of 2014 is $136 thousand of gains associated with the trading securities, $67 thousand of gains from mutual funds and a $100 thousand other-than-temporary impairment charge related to credit loss on one limited partnership investment, described below. Impacting earnings in the first six months of 2013 was $204 thousand of gains associated with the trading securities and $195 thousand of gains from mutual funds. There were no other-than-temporary impairment charges related to credit loss in the first six months of 2013.

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 $3.7 million at June 30, 2014 and $3.6 million at December 31, 2013.

During the third quarter of 2013, state and political subdivision securities with a fair value of $357.8 million were transferred from the available-for-sale portfolio to the held-to-maturity portfolio. The $31.0 million unrealized holding loss at the date of transfer shall continue to be reported as a separate component of shareholders equity and will be amortized over the remaining life of the securities as an adjustment of yield. The corresponding discount on these securities will offset this adjustment to yield as it is amortized. We moved these securities to our held-to-maturity portfolio to better align with the percentage of these securities held by our peers and to protect our tangible common equity against rising interest rates.

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.

There was $100 thousand of other-than-temporary-impairment recorded in the first six months of 2014. There was no other-than-temporary-impairment recorded in the first six months of 2013.

As of June 30, 2014, Old National s securities portfolio consisted of 1,563 securities, 279 of which were in an unrealized loss position. The unrealized losses attributable to our U.S government-sponsored entities and agencies and agency mortgage-backed securities are the result of fluctuations in interest rates. Our pooled trust preferred securities are discussed below.

Table of Contents

Pooled Trust Preferred Securities

At June 30, 2014, our securities portfolio contained three pooled trust preferred securities with a fair value of $6.4 million and unrealized losses of $11.6 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 $3.8 million at June 30, 2014. This security was rated A3 at inception, but at June 30, 2014, this security is rated D. The issuers in this security are primarily banks, but some of the pools do include a limited number of insurance companies. 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 six months ended June 30, 2014, our model indicated no other-than-temporary-impairment losses on this security. At June 30, 2014, 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 $6.2 million and unrealized losses of $7.8 million at June 30, 2014 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. Our analysis indicated no other-than-temporary-impairment on these securities.

For the six months ended June 30, 2013, the three securities subject to FASB ASC 325-10 accounted for $5.6 million of the unrealized losses in the pooled trust preferred securities category. Our analysis indicated no other-than-temporary-impairment losses on these securities. During the first quarter of 2013 one of these securities was sold. We recorded a gain of $224 thousand associated with this sale.

Two of our pooled trust preferred securities with a fair value of $6.0 million and unrealized losses of $8.3 million at June 30, 2013 were not subject to FASB ASC 325-10. These securities were evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

The table below summarizes the relevant characteristics of our three pooled trust preferred securities as well as six single issuer trust preferred securities which are included with other securities in Note 6 to the consolidated financial statements. 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.

Table of Contents

Trust preferred securities June 30, 2014 (Dollars in Thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2014	# 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	$ 4,012	$ 223	$ (3,789)	$	24/42	37.6%	8.1%	0.0%
Pretsl XXVII LTD	B	Caa3	4,596	1,701	(2,895)		35/47	20.5%	5.7%	39.4%
Trapeza Ser 13A	A2A	B+	9,433	4,498	(4,935)		46/61	22.0%	0.4%	54.7%
			18,041	6,422	(11,619)					
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BB+	960	1,018	58					
First Empire Cap (M&T)		BB+	2,914	3,053	139					
Fleet Cap Tr V (BOA)		BB+	3,377	2,975	(402)					
JP Morgan Chase Cap XIII		BBB	4,739	4,325	(414)					
NB-Global		BB+	743	850	107					
Chase Cap II		BBB	786	860	74					
			13,519	13,081	(438)					
Total			$ 31,560	$ 19,503	$ (12,057)	$				

(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. A limited partnership held by Old National falls under these restrictions and will have to be divested by July 2015, unless a request of up to two 1-year extensions is approved. 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.

Table of Contents

The following table details all securities with other-than-temporary-impairment, their credit rating at June 30, 2014, and the related life-to-date credit losses recognized in earnings:

				Amount of other-than-temporary impairment recognized in earnings						
		Lowest Credit		Six Months ended June 30,	Year ended December 31,					Life-to
(dollars in thousands)	Vintage	Rating (1)	Amortized Cost	2014	2013	2012	2011	2010	2009	date
Non-agency mortgage-backed securities:										
BAFC Ser 4	2007	CCC	$ 8,682	$	$	$ 299	$	$ 79	$ 63	$ 441
CWALT Ser 73CB (2)	2005					151		207	83	441
CWALT Ser 73CB (2)	2005					35		427	182	644
CWHL 2006-10 (2)	2006							309	762	1,071
CWHL 2005-20 (2)	2005							39	72	111
FHASI Ser 4 (2)	2007						340	629	223	1,192
HALO Ser 1R (2)	2006					133	16			149
RFMSI Ser S9 (2)	2006							923	1,880	2,803
RFMSI Ser S10	2006	D	2,268			178	165	76	249	668
RALI QS2 (2)	2006							278	739	1,017
RAST A9 (2)	2004					142				142
RFMSI S1(2)	2006							30	176	206
			10,950			938	521	2,997	4,429	8,885
Pooled trust preferred securities:										
TROPC (2)	2003						888	444	3,517	4,849
MM Community Funding IX (2)	2003				1,000			165	2,612	3,777
Reg Div Funding	2004	D	4,012			165		321	5,199	5,685
Pretsl XII (2)	2003								1,897	1,897
Pretsl XV (2)	2004								3,374	3,374
Reg Div Funding (3)	2005					311			3,767	4,078
			4,012		1,000	476	888	930	20,366	23,660
Limited partnership			685	100						100
Total other-than-temporary-impairment recognized in earnings				$ 100	$ 1,000	$ 1,414	$ 1,409	$ 3,927	$ 24,795	$ 32,645

(1) Lowest rating for the security provided by any nationally recognized credit rating agency.
(2) Securities sold or redeemed.
(3) Security written down to zero.

NOTE 7 LOANS HELD FOR SALE

Residential loans that Old National has committed 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*). At June 30, 2014 and December 31, 2013, Old National had residential loans held for sale of $11.4 million and $7.7 million, respectively.

There were no commercial or commercial real estate loans held for investment reclassified to loans held for sale during the first six months of 2014.

During the third quarter of 2013, residential real estate loans held for investment of $96.9 million were reclassified to loans held for sale at the lower of cost or fair value and sold for $96.9 million, resulting in no gain or loss. These longer duration loans were sold to reduce interest rate risk in the loan portfolio. At June 30, 2014, there were no loans held for sale under this arrangement.

Table of Contents

At June 30, 2013, Old National had taxable finance leases held for sale of $11.6 million. These leases were transferred from the commercial loan category at fair value and a loss of $0.2 million was recognized. The portfolio of leases held for sale had an average maturity of 2.7 years and interest rates ranging from 3.57% to 10.22%. The leases held for sale were to a variety of borrowers, with various types of equipment securing the leases, and all of the leases were current. The leases held for sale were sold in the third quarter of 2013 with no additional loss. As of June 30, 2014, Old National does not intend to sell its nontaxable finance leases.

During the first six months of 2013, commercial and commercial real estate loans held for investment of $3.6 million, including $0.4 million of purchased impaired loans, were reclassified to loans held for sale at the lower of cost or fair value and sold for $4.8 million, resulting in a charge-off of $0.2 million, recoveries of $0.4 million and other noninterest income of $1.0 million. At June 30, 2013, there were no loans held for sale under this arrangement.

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.

The composition of loans by lending classification was as follows:

(dollars in thousands)	**June 30, 2014**	December 31, 2013
Commercial (1)	**$ 1,498,833**	$ 1,373,415
Commercial real estate:		
Construction	**135,139**	88,630
Other	**1,219,561**	1,072,260
Residential real estate	**1,425,179**	1,359,569
Consumer credit:		
Heloc	**281,823**	251,102
Auto	**696,009**	620,473
Other	**111,176**	99,683
Covered loans	**171,148**	217,832
Total loans	**5,538,868**	5,082,964
Allowance for loan losses	**(42,494)**	(41,741)
Allowance for loan losses - covered loans	**(3,658)**	(5,404)
Net loans	**$ 5,492,716**	$ 5,035,819

(1) Includes direct finance leases of $23.4 million at June 30, 2014 and $27.8 million at December 31, 2013.
Portfolio loans, or loans Old National intends to hold for investment purposes, are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for

loan losses. Interest income is accrued on the principal balances of loans outstanding.

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.

Table of Contents

Commercial real estate

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.

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

On July 29, 2011, Old National acquired the banking operations of Integra in an FDIC assisted transaction. As part of the purchase and assumption agreement, Old National and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), OREO and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 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 June 30, 2014, we do not expect losses to exceed $275.0 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has previously reimbursed Old National under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

Table of Contents

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 loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, historical loss experience, and assessments of the impact of current economic conditions on the portfolio.

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.

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 June 30, 2014 and 2013 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2014						
Allowance for loan losses:						
Beginning balance	**$ 19,506**	**$ 19,310**	**$ 5,378**	**$ 3,359**	**$**	**$ 47,553**
Charge-offs	**(926)**	**(1,039)**	**(958)**	**(220)**		**(3,143)**
Recoveries	**794**	**480**	**841**	**27**		**2,142**
Provision	**(548)**	**(987)**	**728**	**407**		**(400)**
Ending balance	**$ 18,826**	**$ 17,764**	**$ 5,989**	**$ 3,573**	**$**	**$ 46,152**

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2013						
Allowance for loan losses:						
Beginning balance	$ 16,967	$ 28,446	$ 4,685	$ 3,383	$	$ 53,481
Charge-offs	(859)	(1,065)	(1,612)	(454)		(3,990)
Recoveries	1,314	849	1,174	183		3,520
Provision	(2,338)	(1,635)	597	(317)		(3,693)
Ending balance	$ 15,084	$ 26,595	$ 4,844	$ 2,795	$	$ 49,318

Table of Contents

Old National s activity in the allowance for loan losses for the six months ended June 30, 2014 and 2013 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2014						
Allowance for loan losses:						
Beginning balance	**$ 16,565**	**$ 22,401**	**$ 4,940**	**$ 3,239**	**$**	**$ 47,145**
Charge-offs	**(2,073)**	**(1,207)**	**(2,083)**	**(199)**		**(5,562)**
Recoveries	**1,586**	**1,575**	**1,662**	**109**		**4,932**
Provision	**2,748**	**(5,005)**	**1,470**	**424**		**(363)**
Ending balance	**$ 18,826**	**$ 17,764**	**$ 5,989**	**$ 3,573**	**$**	**$ 46,152**

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2013						
Allowance for loan losses:						
Beginning balance	$ 14,642	$ 31,289	$ 5,155	$ 3,677	$	$ 54,763
Charge-offs	(1,969)	(2,801)	(3,514)	(711)		(8,995)
Recoveries	2,029	1,738	2,408	223		6,398
Provision	382	(3,631)	795	(394)		(2,848)
Ending balance	$ 15,084	$ 26,595	$ 4,844	$ 2,795	$	$ 49,318

The following tables provide Old National s recorded investment in financing receivables by portfolio segment at June 30, 2014 and December 31, 2013 and other information regarding the allowance:

(dollars in thousands)	Commercial	CRE	Consumer	Residential	Unallocated	Total
June 30, 2014						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 6,320	$ 2,697	$	$	$	$ 9,017
Ending balance: collectively evaluated for impairment	$ 11,555	$ 13,292	$ 5,509	$ 3,533	$	$ 33,889
Ending balance: noncovered loans acquired with deteriorated credit quality	$ 252	$ 1,255	$ 215	$ 40	$	$ 1,762
	$ 699	$ 520	$ 265	$	$	$ 1,484

Ending balance: covered loans acquired with deteriorated credit quality						
Total allowance for credit losses	$ 18,826	$ 17,764	$ 5,989	$ 3,573	$	$ 46,152
Loans and leases outstanding:						
Ending balance: individually evaluated for impairment	$ 37,657	$ 40,811	$	$	$	$ 78,468
Ending balance: collectively evaluated for impairment	$ 1,471,425	$ 1,289,817	$ 1,138,009	$ 1,425,175	$	$ 5,324,426
Ending balance: loans acquired with deteriorated credit quality	$ 2,506	$ 27,654	$ 9,509	$ 156	$	$ 39,825
Ending balance: covered loans acquired with deteriorated credit quality	$ 8,889	$ 47,432	$ 14,988	$ 24,840	$	$ 96,149
Total loans and leases outstanding	$ 1,520,477	$ 1,405,714	$ 1,162,506	$ 1,450,171	$	$ 5,538,868

29

Table of Contents

(dollars in thousands)	Commercial	CRE	Consumer	Residential	Unallocated	Total
December 31, 2013						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 6,156	$ 2,190	$	$	$	$ 8,346
Ending balance: collectively evaluated for impairment	$ 9,980	$ 14,816	$ 4,494	$ 3,088	$	$ 32,378
Ending balance: noncovered loans acquired with deteriorated credit quality	$ 429	$ 2,025	$ 80	$ 35	$	$ 2,569
Ending balance: covered loans acquired with deteriorated credit quality	$	$ 3,370	$ 366	$ 116	$	$ 3,852
Total allowance for credit losses	$ 16,565	$ 22,401	$ 4,940	$ 3,239	$	$ 47,145
Loans and leases outstanding:						
Ending balance: individually evaluated for impairment	$ 34,213	$ 34,997	$	$	$	$ 69,210
Ending balance: collectively evaluated for impairment	$ 1,355,608	$ 1,106,971	$ 1,019,576	$ 1,359,564	$	$ 4,841,719
Ending balance: loans acquired with deteriorated credit quality	$ 648	$ 23,618	$ 12,725	$ 154	$	$ 37,145
Ending balance: covered loans acquired with deteriorated credit quality	$ 12,281	$ 77,232	$ 17,673	$ 27,704	$	$ 134,890
Total loans and leases outstanding	$ 1,402,750	$ 1,242,818	$ 1,049,974	$ 1,387,422	$	$ 5,082,964

Credit Quality

Old National s management monitors the credit quality of its financing receivables in an on-going manner. Internally, management assigns a credit quality grade to each non-homogeneous commercial and commercial real estate loan in the portfolio. The primary determinants of the credit quality grade are based upon the reliability of the primary source of repayment and the past, present, and projected financial condition of the borrower. The credit quality rating also reflects current economic and industry conditions. Major factors used in determining the grade can vary based on the nature of the loan, but commonly include factors such as debt service coverage, internal cash flow, liquidity, leverage, operating performance, debt burden, FICO scores, occupancy, interest rate sensitivity, and expense burden. Old National uses the following definitions for risk ratings:

Criticized. Special mention loans that have a potential weakness that deserves management s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution s credit position at some future date.

Classified Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Classified Nonaccrual. Loans classified as nonaccrual have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, in doubt.

Classified Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as nonaccrual, with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Table of Contents

Pass rated loans are those loans that are other than criticized, classified substandard, classified nonaccrual or classified doubtful.

As of June 30, 2014 and December 31, 2013, the risk category of loans, excluding covered loans, by class of loans is as follows:

(dollars in thousands)

Corporate Credit Exposure by Internally Assigned Grade	Commercial June 30, 2014	Commercial December 31, 2013	Commercial Real Estate-Construction June 30, 2014	Commercial Real Estate-Construction December 31, 2013	Commercial Real Estate-Other June 30, 2014	Commercial Real Estate-Other December 31, 2013
Grade:						
Pass	**$ 1,354,039**	$ 1,237,983	**$ 111,252**	$ 74,815	**$ 1,092,301**	$ 943,781
Criticized	**63,339**	90,545	**14,071**	9,383	**35,504**	35,473
Classified - substandard	**51,150**	16,252	**3,495**	2,559	**47,433**	42,516
Classified - nonaccrual	**28,309**	27,635	**6,321**	1,873	**41,388**	49,406
Classified - doubtful	**1,996**	1,000			**2,935**	1,084
Total	**$ 1,498,833**	$ 1,373,415	**$ 135,139**	$ 88,630	**$ 1,219,561**	$ 1,072,260

Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of June 30, 2014 and December 31, 2013, excluding covered loans:

June 30, 2014 (dollars inthousands)	Consumer Heloc	Consumer Auto	Consumer Other	Residential
Performing	**$ 279,809**	**$ 694,924**	**$ 109,917**	**$ 1,413,778**
Nonperforming	**2,014**	**1,085**	**1,259**	**11,401**
	$ 281,823	**$ 696,009**	**$ 111,176**	**$ 1,425,179**

December 31, 2013 (dollars inthousands)	Consumer Heloc	Consumer Auto	Consumer Other	Residential
Performing	$ 249,152	$ 618,911	$ 97,877	$ 1,349,236
Nonperforming	1,950	1,562	1,806	10,333
	$ 251,102	$ 620,473	$ 99,683	$ 1,359,569

Impaired Loans

Large commercial credits are subject to individual evaluation for impairment. Retail credits and other small balance credits that are part of a homogeneous group are not tested for individual impairment unless they are modified as a troubled debt restructuring. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National s policy, for all but purchased credit impaired loans, is to recognize interest income on impaired loans unless the loan is placed on nonaccrual status. No additional funds are committed to be advanced in connection with these impaired loans.

Table of Contents

The following table shows Old National s impaired loans, excluding covered loans, that are individually evaluated as of June 30, 2014 and December 31, 2013. Of the loans purchased without FDIC loss share coverage, only those that have experienced subsequent impairment since the date acquired are included in the table below.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
June 30, 2014			
With no related allowance recorded:			
Commercial	**$ 20,881**	**$ 21,384**	**$**
Commercial Real Estate - Construction	**1,522**	**1,630**	
Commercial Real Estate - Other	**23,054**	**27,779**	
Consumer	**362**	**381**	
Residential	**98**	**99**	
With an allowance recorded:			
Commercial	**10,736**	**13,742**	**4,246**
Commercial Real Estate - Construction			
Commercial Real Estate - Other	**16,235**	**16,940**	**2,697**
Consumer	**1,420**	**1,467**	**71**
Residential	**2,375**	**2,445**	**119**
Total Loans	**$ 76,683**	**$ 85,867**	**$ 7,133**
December 31, 2013			
With no related allowance recorded:			
Commercial	$ 17,066	$ 17,417	$
Commercial Real Estate - Construction	525	633	
Commercial Real Estate - Other	15,746	22,550	
Consumer	324	342	
Residential	106	106	
With an allowance recorded:			
Commercial	9,282	12,304	4,723
Commercial Real Estate - Construction			
Commercial Real Estate - Other	18,726	19,358	2,190
Consumer	835	888	43
Residential	2,239	2,295	112
Total Loans	$ 64,849	$ 75,893	$ 7,068

Table of Contents

The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the three months ended June 30, 2014 and 2013 are included in the tables below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
June 30, 2014		
With no related allowance recorded:		
Commercial	**$ 17,040**	**$ 1**
Commercial Real Estate - Construction	**1,449**	**15**
Commercial Real Estate - Other	**19,537**	**106**
Consumer	**348**	**2**
Residential	**98**	
With an allowance recorded:		
Commercial	**11,764**	**54**
Commercial Real Estate - Construction		
Commercial Real Estate - Other	**18,614**	**52**
Consumer	**1,248**	**14**
Residential	**2,308**	**24**
Total Loans	**$ 72,406**	**$ 268**

(1) The Company does not record interest on nonaccrual loans until principal is recovered.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
June 30, 2013		
With no related allowance recorded:		
Commercial	$ 10,294	$ 58
Commercial Real Estate - Construction	854	
Commercial Real Estate - Other	14,865	9
Consumer	57	
Residential	35	
With an allowance recorded:		
Commercial	17,815	21
Commercial Real Estate - Construction	2,684	
Commercial Real Estate - Other	32,356	(14)
Consumer	381	6
Residential	532	4
Total Loans	$ 79,873	$ 84

(1) The Company does not record interest on nonaccrual loans until principal is recovered.

Table of Contents

The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the six months ended June 30, 2014 and 2013 are included in the tables below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
June 30, 2014		
With no related allowance recorded:		
Commercial	**$ 18,975**	**$ 34**
Commercial Real Estate - Construction	**1,024**	**15**
Commercial Real Estate - Other	**19,402**	**160**
Consumer	**343**	**4**
Residential	**102**	
With an allowance recorded:		
Commercial	**10,002**	**108**
Commercial Real Estate - Construction		
Commercial Real Estate - Other	**17,490**	**164**
Consumer	**1,127**	**26**
Residential	**2,307**	**41**
Total Loans	**$ 70,772**	**$ 552**

(1) The Company does not record interest on nonaccrual loans until principal is recovered.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
June 30, 2013		
With no related allowance recorded:		
Commercial	$ 9,605	$ 58
Commercial Real Estate - Construction	891	
Commercial Real Estate - Other	15,212	13
Consumer	146	
Residential	59	
With an allowance recorded:		
Commercial	19,945	31
Commercial Real Estate - Construction	3,036	
Commercial Real Estate - Other	27,701	95
Consumer	532	6
Residential	1,101	4
Total Loans	$ 78,228	$ 207

(1) The Company does not record interest on nonaccrual loans until principal is recovered.

For all loan classes, a loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. Interest accrued during the current year on such loans is reversed against earnings. Interest accrued in the prior year, if any, is charged to the allowance for loan losses. Cash interest received on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for six months and future payments are reasonably assured.

Table of Contents

Loans accounted for under FASB ASC Topic 310-30 accrue interest, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period covered loan loss provision or prospective yield adjustments. Similar to uncovered loans, covered loans accounted for outside FASB ASC Topic 310-30 are classified as nonaccrual when, in the opinion of management, collection of principal or interest is doubtful. Information for covered loans accounted for both under and outside FASB ASC Topic 310-30 is included in the table below in the row labeled covered loans.

Old National s past due financing receivables as of June 30, 2014 and December 31, 2013 are as follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment > 90 Days and Accruing	Nonaccrual	Total Past Due	Current
June 30, 2014						
Commercial	**$ 1,045**	**$ 1,025**	**$ 2**	**$ 30,305**	**$ 32,377**	**$ 1,466,456**
Commercial Real Estate:						
Construction	**80**			**6,321**	**6,401**	**128,738**
Other	**229**	**391**	**78**	**44,323**	**45,021**	**1,174,540**
Consumer:						
Heloc	**1,136**	**118**		**2,014**	**3,268**	**278,555**
Auto	**2,958**	**639**	**129**	**1,085**	**4,811**	**691,198**
Other	**960**	**269**	**52**	**1,259**	**2,540**	**108,636**
Residential	**11,987**	**2,145**	**26**	**11,401**	**25,559**	**1,399,620**
Covered loans	**2,459**	**413**	**93**	**21,317**	**24,282**	**146,866**
Total loans	**$ 20,854**	**$ 5,000**	**$ 380**	**$ 118,025**	**$ 144,259**	**$ 5,394,609**
December 31, 2013						
Commercial	$ 1,532	$ 13	$	$ 28,635	$ 30,180	$ 1,343,235
Commercial Real Estate:						
Construction		139		1,873	2,012	86,618
Other	1,017	27		50,490	51,534	1,020,726
Consumer:						
Heloc	527	119		1,950	2,596	248,506
Auto	3,795	716	89	1,562	6,162	614,311
Other	844	317	100	1,806	3,067	96,616
Residential	8,588	2,823	35	10,333	21,779	1,337,790
Covered loans	1,831	730	14	31,793	34,368	183,464
Total loans	$ 18,134	$ 4,884	$ 238	$ 128,442	$ 151,698	$ 4,931,266

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At June 30, 2014, these loans totaled $200.6 million, of which $105.3 million had been sold to other financial institutions and $95.3 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder s share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Troubled Debt Restructurings

Old National may choose to restructure the contractual terms of certain loans. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit Old National by increasing the ultimate probability of collection.

Any loans that are modified are reviewed by Old National to identify if a troubled debt restructuring (TDR) has occurred, which is when for economic or legal reasons related to a borrower s financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate of new debt with similar risk, or a permanent reduction of the recorded investment of the loan.

Loans modified in a TDR are typically placed on nonaccrual status until we determine the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for six months.

If we are unable to resolve a nonperforming loan issue, the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based on quantitative benchmarks or subjectively based upon certain events or particular circumstances. It is Old National s policy to charge off small commercial loans scored through our small business credit center with contractual balances under $250,000 that have been placed on nonaccrual status or became ninety days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

For commercial TDRs, an allocated reserve is established within the allowance for loan losses for the difference between the carrying value of the loan and its computed fair value. To determine the fair value of the loan, one of the following methods is selected: (1) the present value of expected cash flows discounted at the loan s original effective interest rate, (2) the loan s observable market price, or (3) the fair value of the collateral value, if the loan is collateral dependent. The allocated reserve is established as the difference between the carrying value of the loan and the collectable value. If there are significant changes in the amount or timing of the loan s expected future cash flows, impairment is recalculated and the valuation allowance is adjusted accordingly.

When a consumer or residential loan is identified as a troubled debt restructuring, the loan is written down to its collateral value less selling costs.

At June 30, 2014, our TDRs consisted of $18.6 million of commercial loans, $20.4 million of commercial real estate loans, $2.0 million of consumer loans and $2.5 million of residential loans, totaling $43.5 million. Approximately $22.2 million of the TDRs at June 30, 2014 were included with nonaccrual loans. At December 31, 2013, our TDRs consisted of $22.5 million of commercial loans, $22.6 million of commercial real estate loans, $1.4 million of consumer loans and $2.4 million of residential loans, totaling $48.9 million. Approximately $33.1 million of the TDRs at December 31, 2013 were included with nonaccrual loans.

As of June 30, 2014 and December 31, 2013, Old National has allocated $4.8 million and $4.1 million of specific reserves to customers whose loan terms have been modified in TDRs, respectively. Old National has not committed to lend any additional amounts as of June 30, 2014 and December 31, 2013, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

Table of Contents

The following table presents loans by class modified as troubled debt restructurings that occurred during the six months ended June 30, 2014:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	13	$ 10,422	$ 8,833
Commercial Real Estate - construction	1	937	484
Commercial Real Estate - other	14	1,667	1,338
Residential	2	194	175
Consumer - other	13	886	831
Total	43	$ 14,106	$ 11,661

The TDRs described above increased the allowance for loan losses by $0.8 million and resulted in immaterial charge-offs during the six months ended June 30, 2014.

The following table presents loans by class modified as troubled debt restructurings that occurred during the twelve months ended December 31, 2013:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	35	$ 16,196	$ 15,155
Commercial Real Estate - construction	1	60	60
Commercial Real Estate - other	36	10,585	9,791
Residential	14	1,936	1,901
Consumer - other	49	1,622	1,484
Total	135	$ 30,399	$ 28,391

The TDRs described above increased the allowance for loan losses by $0.1 million and resulted in charge-offs of $0.2 million during the twelve months ended December 31, 2013.

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

The following table presents loans by class modified as TDRs during the first six months of 2014 for which there was a payment default within the last twelve months. The impact of the defaults was immaterial.

(dollars in thousands)	Number of Contracts	Recorded Investment
Troubled Debt Restructuring		
That Subsequently Defaulted:		
Commercial	3	$ 92
Commercial Real Estate	2	142
Total	5	$ 234

The TDRs that subsequently defaulted, described above, had no material impact on the allowance for loan losses and resulted in no charge-offs during the six months ended June 30, 2014.

37

Table of Contents

The following table presents loans by class modified as TDRs during 2013 for which there was a payment default within the last twelve months.:

(dollars in thousands)	Number of Contracts	Recorded Investment
Troubled Debt Restructuring		
That Subsequently Defaulted:		
Commercial	3	$ 32
Commercial Real Estate	2	85
Total	5	$ 117

The TDRs that subsequently defaulted, described above, resulted in no material impact on the allowance for loan losses and resulted in charge-offs of $0.1 million during the three months ended December 31, 2013.

The terms of certain other loans were modified during the six months ended June 30, 2014 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have had the maturity date extended. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

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. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool. As of June 30, 2014, it has not been necessary to remove any loans from PCI accounting.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR, and therefore impaired, until it is paid in full, otherwise settled, sold or charged off. However, our policy also permits for loans to be removed from TDR status in the years following the restructuring if the following two conditions are met: (1) the restructuring agreement specifies an interest rate equal to or greater than the rate that we were willing to accept at the time of the restructuring for a new loan with comparable risk, and (2) the loan is not impaired based on the terms specified by the restructuring agreement.

Table of Contents

The following table presents activity in troubled debt restructurings for the six months ended June 30, 2014 and 2013:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
2014					
Troubled debt restructuring:					
Balance, January 1, 2014	**$ 22,443**	**$ 22,639**	**$ 1,441**	**$ 2,344**	**$ 48,867**
(Charge-offs)/recoveries	**(252)**	**167**	**(21)**	**1**	**(105)**
Payments	**(12,408)**	**(4,220)**	**(229)**	**(47)**	**(16,904)**
Additions	**8,833**	**1,822**	**831**	**175**	**11,661**
Balance June 30, 2014	**$ 18,616**	**$ 20,408**	**$ 2,022**	**$ 2,473**	**$ 43,519**

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
2013					
Troubled debt restructuring:					
Balance, January 1, 2013	$ 12,660	$ 18,422	$ 473	$ 499	$ 32,054
(Charge-offs)/recoveries	402	(57)	(62)		283
Payments	(3,894)	(2,435)	(351)	(40)	(6,720)
Additions	2,172	3,307	764	226	6,469
Balance June 30, 2013	$ 11,340	$ 19,237	$ 824	$ 685	$ 32,086

Purchased Impaired Loans (non-covered loans)

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date with no carryover of the related allowance for loan and lease losses. In determining the estimated fair value of purchased loans, management considers a number of factors including the remaining life of the acquired loans, estimated prepayments, estimated loss ratios, estimated value of the underlying collateral, net present value of cash flows expected to be received, among others. Purchased loans are accounted for in accordance with guidance for certain loans acquired in a transfer (ASC 310-30), when the loans have evidence of credit deterioration since origination and it is probable at the date of acquisition that the acquirer will not collect all contractually required principal and interest payments. The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a provision for loan and lease losses. Subsequent increases in expected cash flows will result in a reversal of the provision for loan losses to the extent of prior charges and then an adjustment to accretable yield, which would have a positive impact on interest income.

Old National has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. For these noncovered loans that meet the criteria of ASC 310-30 treatment, the carrying amount is as follows:

(dollars in thousands)	June 30, 2014	December 31, 2013
Commercial	**$ 2,506**	$ 648
Commercial real estate	**27,654**	23,618
Consumer	**9,509**	12,725
Residential	**156**	154
Carrying amount	**$ 39,825**	$ 37,145
Carrying amount, net of allowance	**$ 38,063**	$ 34,576
Allowance for loan losses	**$ 1,762**	$ 2,569

The outstanding balance of noncovered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $116.9 million and $115.0 million as of June 30, 2014 and December 31, 2013, respectively.

The accretable difference on purchased loans acquired in a business combination is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. Accretion of $9.8 million has been recorded as loan interest income through the six months ended June 30, 2014. Accretion of $8.9 million was recorded as loan interest income through the six months ended June 30, 2013. Improvement in cash flow expectations has resulted in a reclassification from nonaccretable difference to accretable yield.

Accretable yield of noncovered loans, or income expected to be collected, is as follows:

(dollars in thousands)	Monroe	Integra Noncovered	IBT	Tower	Total
Balance at January 1, 2014	$ 6,787	$ 2,425	$ 19,079	$	$ 28,291
New loans purchased				4,065	4,065
Accretion of income	(1,792)	(481)	(7,252)	(226)	(9,751)
Reclassifications from (to) nonaccretable difference	(1,081)	(149)	3,411		2,181
Disposals/other adjustments	640	(77)			563
Balance at June 30, 2014	$ 4,554	$ 1,718	$ 15,238	$ 3,839	$ 25,349

Included in Old National s allowance for loan losses is $1.8 million related to the purchased loans disclosed above for the first six months of 2014. Included in Old National s allowance for loan losses was $2.6 million related to the purchased loans in 2013. An immaterial amount of allowances for loan losses were reversed during 2013 related to these loans.

At acquisition, purchased loans, both covered and noncovered, for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

(dollars in thousands)	Monroe Bancorp	Integra Bank (1)	IBT	Tower
Contractually required payments	$ 94,714	$ 921,856	$ 118,535	$ 22,746
Nonaccretable difference	(45,157)	(226,426)	(53,165)	(5,826)
Cash flows expected to be collected at acquisition	49,557	695,430	65,370	16,920
Accretable yield	(6,971)	(98,487)	(11,945)	(4,065)
Fair value of acquired loans at acquisition	$ 42,586	$ 596,943	$ 53,425	$ 12,855

(1) Includes covered and noncovered.

Income is not recognized on certain purchased loans if Old National cannot reasonably estimate cash flows to be collected. Old National had no purchased loans for which it could not reasonably estimate cash flows to be collected.

Table of Contents

NOTE 9 COVERED LOANS

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. The carrying amount of covered loans was $171.1 million at June 30, 2014. The composition of covered loans by lending classification was as follows:

	At June 30, 2014		
(dollars in thousands)	Loans Accounted for Under ASC 310-30 (Purchased Credit Impaired)	Loans excluded from ASC 310-30 (1) (Not Purchased Credit Impaired)	Total Covered Purchased Loans
Commercial	**$ 8,889**	**$ 12,755**	**$ 21,644**
Commercial real estate	**47,432**	**3,582**	**51,014**
Residential	**24,840**	**152**	**24,992**
Consumer	**14,988**	**58,510**	**73,498**
Covered loans	**96,149**	**74,999**	**171,148**
Allowance for loan losses	**(1,484)**	**(2,174)**	**(3,658)**
Covered loans, net	**$ 94,665**	**$ 72,825**	**$ 167,490**

(1) Includes loans with revolving privileges which are scoped out of FASB ASC 310-30 and certain loans which Old National elected to treat under the cost recovery method of accounting.

Loans were recorded at fair value in accordance with FASB ASC 805, Business Combinations. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC 820, exclusive of the loss share agreements with the FDIC. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest and other cash flows.

The outstanding balance of covered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $290.6 million and $406.3 million as of June 30, 2014 and December 31, 2013, respectively.

The following table is a roll-forward of acquired impaired loans accounted for under ASC 310-30 for the six months ended June 30, 2014:

(dollars in thousands)	Contractual Cash Flows (1)	Nonaccretable Difference	Accretable Yield	Carrying Amount (2)

Balance at January 1, 2014	$ 251,042	$ (46,793)	$ (73,211)	$ 131,038
Principal reductions and interest payments	(56,475)	(828)	(940)	(58,243)
Accretion of loan discount			24,950	24,950
Changes in contractual and expected cash flows due to remeasurement	(6,170)	23,017	(14,494)	2,353
Removals due to foreclosure or sale	(6,138)	1,670	(965)	(5,433)
Balance at June 30, 2014	$ 182,259	$ (22,934)	$ (64,660)	$ 94,665

(1) The balance of contractual cash flows includes future contractual interest and is net of amounts charged off and interest collected on nonaccrual loans.

(2) Carrying amount for this table is net of allowance for loan losses.

The following table is a roll-forward of acquired impaired loans accounted for under ASC 310-30 for the six months ended June 30, 2013:

(dollars in thousands)	Contractual Cash Flows (1)	Nonaccretable Difference	Accretable Yield	Carrying Amount (2)
Balance at January 1, 2013	$ 424,527	$ (90,996)	$ (85,779)	$ 247,752
Principal reductions and interest payments	(78,174)			(78,174)
Accretion of loan discount			19,174	19,174
Changes in contractual and expected cash flows due to remeasurement	(14,514)	23,521	(8,873)	134
Removals due to foreclosure or sale	(7,764)	948	(1,663)	(8,479)
Balance at June 30, 2013	$ 324,075	$ (66,527)	$ (77,141)	$ 180,407

(1) The balance of contractual cash flows includes future contractual interest and is net of amounts charged off and interest collected on nonaccrual loans.
(2) Carrying amount for this table is net of allowance for loan losses.

Over the life of the acquired loans, we continue to estimate cash flows expected to be collected on individual loans or on pools of loans sharing common risk characteristics which were treated in the aggregate when applying various valuation techniques. We evaluate at each balance sheet date whether the present value of its loans determined using the effective interest rates has decreased and if so, recognize a provision for loan losses. For any increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the loan s or pool s remaining life. Eighty percent of the prospective yield adjustments are offset as Old National will recognize a corresponding decrease in cash flows expected from the indemnification asset prospectively in a similar manner. The indemnification asset is adjusted over the shorter of the life of the underlying investment or the indemnification agreement.

Accretable yield, or income expected to be collected on the covered loans accounted for under ASC 310-30, is as follows:

(dollars in thousands)	2014	2013
Balance at January 1,	**$ 73,211**	$ 85,779
New loans purchased		
Accretion of income	**(24,950)**	(19,174)
Reclassifications from (to) nonaccretable difference	**14,494**	8,873
Disposals/other adjustments	**1,905**	1,663
Balance at June 30,	**$ 64,660**	$ 77,141

At June 30, 2014, the $51.4 million loss sharing asset is comprised of a $45.9 million FDIC indemnification asset and a $5.5 million FDIC loss share receivable. The loss share receivable represents actual incurred losses where reimbursement has not yet been received from the FDIC. The indemnification asset represents future cash flows we expect to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that are being amortized over the same period for which those improved cash flows are being accreted into income. At June 30, 2014, $17.0 million of the FDIC indemnification asset is related to expected indemnification payments and $28.9 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income. At June 30, 2013, $63.8 million of the FDIC indemnification asset was related to expected indemnification payments and $25.8 million was expected to be amortized and reported in noninterest income as an offset to future accreted interest income.

For covered loans, we remeasure contractual and expected cash flows on a quarterly basis. When the quarterly re-measurement process results in a decrease in expected cash flows due to an increase in expected credit losses, impairment is recorded. As a result of this impairment, the indemnification asset is increased to reflect anticipated future cash flows to be received from the FDIC. Consistent with the loss sharing agreements between Old National and the FDIC, the amount of the increase to the indemnification asset is measured at 80% of the resulting impairment.

Table of Contents

Alternatively, when the quarterly re-measurement results in an increase in expected future cash flows due to a decrease in expected credit losses, the nonaccretable difference decreases and the effective yield of the related loan portfolio is increased. As a result of the improved expected cash flows, the indemnification asset would be reduced first by the amount of any impairment previously recorded and, second, by increased amortization over the remaining life of the related loss sharing agreements or the remaining life of the indemnification asset, whichever is shorter.

The following table shows a detailed analysis of the FDIC loss sharing asset for the six months ended June 30, 2014 and 2013:

(dollars in thousands)	2014	2013
Balance at January 1,	**$ 88,513**	$ 116,624
Adjustments not reflected in income:		
Cash received from FDIC	**(20,306)**	(13,098)
Loan expenses to be reimbursed	**(103)**	911
Other	**1,140**	(270)
Adjustments reflected in income:		
(Amortization) accretion	**(15,988)**	(3,782)
Higher (lower) loan loss expectations	**(18)**	95
Write-downs/(gain) on sale of other real estate	**(1,807)**	1,093
Recovery amounts due to FDIC		(1,243)
Other		61
Balance at June 30,	**$ 51,431**	$ 100,391

NOTE 10 OTHER REAL ESTATE OWNED

The following table shows the carrying amount for other real estate owned at June 30, 2014 and 2013:

(dollars in thousands)	Other Real Estate Owned (1)	Other Real Estate Owned, Covered
Balance, January 1, 2014	**$ 7,562**	**$ 13,670**
Additions	**2,878**	**7,387**
Sales	**(2,909)**	**(8,113)**
Write-downs/other adjustments	**(802)**	**(1,789)**
Balance, June 30, 2014	**$ 6,729**	**$ 11,155**

(1) Includes $0.4 million of repossessed personal property at June 30, 2014.

(dollars in thousands)	Other Real Estate Owned (1)	Other Real Estate Owned, Covered

Balance, January 1, 2013	$	11,179	$	26,137
Additions		2,682		5,354
Sales		(5,001)		(5,823)
Write-downs/other adjustments		(1,121)		(2,537)
Balance, June 30, 2013	$	7,739	$	23,131

(1) Includes $0.2 million of repossessed personal property at June 30, 2013.

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income. Under the loss sharing agreements, the FDIC will reimburse us for 80% of expenses and valuation write-downs related to covered assets up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0%, and 80% of losses in excess of $467.2 million. As of June 30, 2014, we do not expect losses to exceed $275.0 million. The reimbursable portion of these expenses is recorded in the FDIC indemnification asset. Changes in the FDIC indemnification asset are recorded in the noninterest income section of the consolidated statements of income.

Table of Contents

NOTE 11 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the six months ended June 30, 2014 and 2013:

(dollars in thousands)	Banking	Insurance	Wealth Management	Other	Total
Balance, January 1, 2014	**$ 310,964**	**$ 39,873**	**$ 1,892**	**$**	**$ 352,729**
Goodwill acquired during the period	**53,919**		**1,826**		**55,745**
Balance, June 30, 2014	**$ 364,883**	**$ 39,873**	**$ 3,718**	**$**	**$ 408,474**
Balance, January 1, 2013	$ 297,055	$ 39,873	$ 1,892	$	$ 338,820
Goodwill acquired during the period	562				562
Balance, June 30, 2013	$ 297,617	$ 39,873	$ 1,892	$	$ 339,382

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2013 and concluded that, based on current events and circumstances, it is not more likely than not that the carry value of goodwill exceeds fair value. During the second quarter of 2014, Old National recorded $55.7 million of goodwill associated with the acquisition of Tower of which $53.9 million was allocated to the Banking segment and $1.8 million to the Wealth Management segment. During the third quarter of 2013, Old National recorded $13.3 million of goodwill associated with the acquisition of 24 retail bank branches from Bank of America. This was allocated to the Banking segment. During the second quarter of 2013, Old National recorded $0.6 million of goodwill primarily related to the final pension settlement associated with the IBT acquisition. This was allocated to the Banking segment. The final purchase price allocation resulted in goodwill of $86.2 million associated with the IBT acquisition.

The gross carrying amount and accumulated amortization of other intangible assets at June 30, 2014 and December 31, 2013 was as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
June 30, 2014			
Amortized intangible assets:			
Core deposit	**$ 48,618**	**$ (33,650)**	**$ 14,968**
Customer business relationships	**28,148**	**(20,646)**	**7,502**
Customer trust relationships	**9,136**	**(2,245)**	**6,891**
Customer loan relationships	**4,413**	**(2,975)**	**1,438**
Total intangible assets	**$ 90,315**	**$ (59,516)**	**$ 30,799**
December 31, 2013			

Amortized intangible assets:						
Core deposit	$	44,021	$	(31,266)	$	12,755
Customer business relationships		27,848		(19,826)		8,022
Customer trust relationships		5,352		(1,810)		3,542
Customer loan relationships		4,413		(2,775)		1,638
Total intangible assets	$	81,634	$	(55,677)	$	25,957

Table of Contents

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 5 to 15 years. During the second quarter of 2014, Old National increased core deposit intangibles by $4.6 million related to the Tower acquisition, which is included in the Banking segment. Also during the second quarter of 2014, Old National increased customer trust relationship intangibles by $3.8 million associated with the trust business of Tower, which is included in the Wealth Management segment. Also during the second quarter of 2014, Old National increased customer business relationship intangibles by $0.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment. During the fourth quarter of 2013, Old National increased customer business relationships by $1.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment. During the third quarter of 2013, Old National increased core deposit intangibles by $3.5 million related to the acquisition of 24 retail bank branches from Bank of America, which is included in the Banking segment. During the second quarter of 2013, Old National increased customer business relationships by $0.1 million related to the purchase of an insurance book of business, which is included in the Insurance segment. Also during the second quarter of 2013, Old National decreased customer business relationships by $0.1 million related to the sale of an insurance book of business, which is included in the Insurance segment. See Note 20 to the consolidated financial statements for a description of the Company s operating segments.

Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. No impairment charges were recorded in 2014 or 2013. Total amortization expense associated with other intangible assets for the six months ended June 30 was $3.8 million in 2014 and $4.4 million in 2013. Included in expense for the first quarter of 2013 is $0.6 million related to the branch sales that occurred in the first quarter.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2014 remaining	$ 4,222
2015	7,251
2016	5,961
2017	4,350
2018	3,164
Thereafter	5,851
Total	$ 30,799

NOTE 12 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of June 30, 2014:

(dollars in thousands)	**Federal Funds Purchased**	**Repurchase Agreements**	**Total**
2014			
Outstanding at June 30, 2014	**$ 150,188**	**$ 317,390**	**$ 467,578**

Average amount outstanding	**80,393**	**309,777**	**390,170**
Maximum amount outstanding at any month-end	**182,847**	**317,390**	
Weighted average interest rate:			
During six months ended			
June 30, 2014	**0.17%**	**0.05%**	**0.08%**
At June 30, 2014	**0.19**	**0.05**	**0.10**

45

Table of Contents

NOTE 13 FINANCING ACTIVITIES

The following table summarizes Old National s and its subsidiaries other borrowings at June 30, 2014 and December 31, 2013:

(dollars in thousands)	June 30, 2014	December 31, 2013
Old National Bancorp:		
Junior subordinated debentures (variable rates of 1.57% to 1.98%) maturing March 2035 to June 2037	**$ 45,000**	$ 28,000
ASC 815 fair value hedge and other basis adjustments	**(5,094)**	(3,262)
Old National Bank:		
Securities sold under agreements to repurchase (fixed rates 2.47% to 2.50%) maturing January 2017 to January 2018	**50,000**	50,000
Federal Home Loan Bank advances (fixed rates 0.16% to 8.34% and variable rates 0.32% to 0.36%) maturing July 2014 to May 2024	**807,379**	477,856
Capital lease obligation	**4,128**	4,157
ASC 815 fair value hedge and other basis adjustments	**602**	(363)
Total other borrowings	**$ 902,015**	$ 556,388

Contractual maturities of other borrowings at June 30, 2014, were as follows:

(dollars in thousands)	
Due in 2014	$ 405,728
Due in 2015	63
Due in 2016	117,395
Due in 2017	46,020
Due in 2018	145,563
Thereafter	191,738
ASC 815 fair value hedge and other basis adjustments	(4,492)
Total	$ 902,015

FEDERAL HOME LOAN BANK

Federal Home Loan Bank (FHLB) advances had weighted-average rates of 0.64% and 0.94% at June 30, 2014, and December 31, 2013, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 145% of outstanding debt.

During 2013, Old National terminated $50.0 million of FHLB advances, resulting in a loss on extinguishment of debt of $1.0 million. Old National also restructured $33.4 million pertaining to two FHLB advances in the first quarter of

2013, which lowered their effective interest rates from 3.27% and 3.29% to 2.04% and 2.49%, respectively.

JUNIOR SUBORDINATED DEBENTURES

Junior subordinated debentures related to trust preferred securities are classified in other borrowings . These securities qualify as Tier 1 capital for regulatory purposes, subject to certain limitations.

In 2007, Old National acquired St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust II. St. Joseph Capital Trust II issued $5.0 million in preferred securities in March 2005. The preferred securities had a cumulative annual distribution rate of 6.27% until March 2010 and now carry a variable rate of interest priced at the three-month LIBOR plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II. Old National, at any time, may redeem the junior subordinated debentures at par and thereby cause a redemption of the trust preferred securities.

Table of Contents

In 2011, Old National acquired Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II in conjunction with its acquisition of Monroe Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II. Monroe Bancorp Capital Trust I issued $3.0 million in preferred securities in July 2006. The preferred securities carried a fixed rate of interest of 7.15% until October 7, 2011 and thereafter a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Capital Trust I. Monroe Bancorp Statutory Trust II issued $5.0 million in preferred securities in March 2007. The preferred securities carried a fixed rate of interest of 6.52% until June 15, 2012 and thereafter a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Statutory Trust II. Old National, at any time, may redeem the junior subordinated debentures at par and thereby cause a redemption of the trust preferred securities in whole or in part.

In 2012, Old National acquired Home Federal Statutory Trust I in conjunction with its acquisition of Indiana Community Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Home Federal Statutory Trust I. Home Federal Statutory Trust I issued $15.0 million in preferred securities in September 2006. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 165 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Home Federal Statutory Trust I. Old National, at any time, may redeem the junior subordinated debentures at par and thereby cause a redemption of the trust preferred securities in whole or in part.

On April 25, 2014, Old National acquired Tower Capital Trust 2 and Tower Capital Trust 3 in conjunction with its acquisition of Tower Financial Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by Tower Capital Trust 2 and Tower Capital Trust 3. Tower Capital Trust 2 issued $8.0 million in preferred securities in December 2005. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 134 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Tower Capital Trust 2. Tower Capital Trust 3 issued $9.0 million in preferred securities in December 2006. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 169 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Tower Capital Trust 3. Old National, at any time, may redeem the junior subordinated debentures at par and thereby cause a redemption of the trust preferred securities in whole or in part.

CAPITAL LEASE OBLIGATION

On January 1, 2004, Old National entered into a long-term capital lease obligation for a branch office building in Owensboro, Kentucky, which extends for 25 years with one renewal option for 10 years. The economic substance of this lease is that Old National is financing the acquisition of the building through the lease and accordingly, the building is recorded as an asset and the lease is recorded as a liability. The fair value of the capital lease obligation was estimated using a discounted cash flow analysis based on Old National s current incremental borrowing rate for similar types of borrowing arrangements.

Table of Contents

At June 30, 2014, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2014 remaining	$ 205
2015	410
2016	410
2017	410
2018	410
Thereafter	9,265
Total minimum lease payments	11,110
Less amounts representing interest	6,982
Present value of net minimum lease payments	$ 4,128

NOTE 14 EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National s policy is to contribute at least the minimum funding requirement determined by the plan s actuary. Old National expects to contribute approximately $320 thousand to the Retirement Plan in 2014.

Old National also maintains an unfunded pension restoration plan (the Restoration Plan) which provides benefits for eligible employees that are in excess of the limits under Section 415 of the Internal Revenue Code of 1986, as amended, that apply to the Retirement Plan. The Restoration Plan is designed to comply with the requirements of ERISA. The entire cost of the plan, which was also frozen as of December 31, 2005, is supported by contributions from the Company.

Old National contributed $59 thousand to cover benefit payments from the Restoration Plan during the first six months of 2014. Old National expects to contribute an additional $54 thousand to cover benefit payments from the Restoration Plan during the remainder of 2014.

The net periodic benefit cost and its components were as follows for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Interest cost	**$ 438**	$ 435	**$ 877**	$ 870
Expected return on plan assets	**(560)**	(551)	**(1,120)**	(1,101)
Recognized actuarial loss	**329**	580	**658**	1,159
Settlement	**285**	144	**285**	423

Net periodic benefit cost	**$ 492**	$ 608	**$ 700**	$ 1,351

On September 15, 2012, Old National assumed Indiana Bank and Trust s Pentegra Defined Benefit Plan for Financial Institutions. This defined benefit pension plan has been frozen since April 1, 2008. The trustees of the Financial Institutions Retirement Fund administer the Pentegra Plan, employer identification number 13-5645888 and plan number 333. The Pentegra Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code.

During the second quarter of 2013, Old National withdrew from the plan, contributing $14.0 million to satisfy the final termination liability. Funding the termination liability had no impact on earnings as it was considered in the fair value of Indiana Bank and Trust s purchase accounting entries.

NOTE 15 STOCK-BASED COMPENSATION

At June 30, 2014, Old National had 4.7 million shares remaining available for issuance under the Company s Amended and Restated 2008 Incentive Compensation Plan. The granting of awards to key employees is typically in the form of restricted stock awards or units.

Restricted Stock Awards

The Company granted 180 thousand time-based restricted stock awards to certain key officers during the first six months of 2014, with shares vesting over a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of June 30, 2014, unrecognized compensation expense was estimated to be $3.0 million for unvested restricted share awards.

Old National recorded expense of $0.4 million, net of tax, during the first six months of 2014, compared to expense of $0.4 million during the first six months of 2013 related to the vesting of restricted share awards.

Restricted Stock Units

The Company granted 260 thousand shares of performance based restricted stock units to certain key officers during the first six months of 2014, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. For certain awards, the level of performance could increase or decrease the percentage of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of June 30, 2014, unrecognized compensation expense was estimated to be $4.7 million.

Old National recorded $1.1 million of stock based compensation expense, net of tax, during the first six months of 2014. Old National recorded $1.0 million of stock based compensation expense, net of tax, during the first six months of 2013.

Stock Options

Old National has not granted stock options since 2009. However, in connection with the acquisition of Tower Financial Corporation on April 25, 2014, 22 thousand options for shares of Tower Financial Corporation were converted to 37 thousand options for shares of Old National Bancorp stock. Old National recorded no incremental expense associated with the conversion of these options.

Old National did not record any stock based compensation expense related to stock options during the first six months of 2014 or 2013, respectively.

Table of Contents

NOTE 16 INCOME TAXES

Following is a summary of the major items comprising the differences in taxes from continuing operations computed at the federal statutory rate and as recorded in the consolidated statement of income for the three and six months ended June 30:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Provision at statutory rate of 35%	**$ 9,251**	$ 14,774	**$ 21,764**	$ 26,792
Tax-exempt income	**(3,422)**	(3,092)	**(6,559)**	(5,989)
State income taxes	**182**	1,156	**825**	2,372
State statutory rate change	**(218)**	1,257	**904**	1,257
Interim period effective rate adjustment	**2,149**	(358)	**124**	(223)
Other, net	**(284)**	(3)	**(158)**	(83)
Income tax expense	**$ 7,658**	$ 13,734	**$ 16,900**	$ 24,126
Effective tax rate	**29.0%**	32.5%	**27.2%**	31.5%

In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at June 30, 2014 and 2013 based on the current estimate of the effective annual rate.

For the six months ended June 30, 2014, the effective tax rate was lower than the six months ended June 30, 2013. The lower tax rate in the first six months of 2014 is the result of higher tax exempt income in relation to pre-tax book income for 2014 as compared to prior year, as well as lower projected state taxes due to reduced statutory rates.

No valuation allowance was recorded at June 30, 2014 and 2013 because, based on our current expectations, Old National believes that it will generate sufficient income in the future years to realize deferred tax assets.

Unrecognized Tax Benefits

The Company and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(dollars in thousands)	**2014**	2013
Balance at January 1	**$ 3,847**	$ 3,953
Additions (reductions) based on tax positions related to the current year	**21**	8
Balance at June 30	**$ 3,868**	$ 3,961

Approximately $.07 million of unrecognized tax benefits, net of interest, if recognized, would favorably affect the effective income tax rate in future periods. The Company expects the total amount of unrecognized tax benefits to decrease by approximately $3.8 million in the next six months.

NOTE 17 DERIVATIVE FINANCIAL INSTRUMENTS

As part of our overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was $539.5 million and $464.5 million at June 30, 2014 and December 31, 2013, respectively. The June 30, 2014 balances consist of $39.5 million notional amount of receive-fixed pay variable interest rate swaps and $500.0 million notional amount of pay-fixed, receive variable interest rate swaps on certain of its FHLB advances. The December 31, 2013 balances consist of $39.5 million notional amount of receive-fixed pay variable interest rate swaps and $425.0 million notional amount of pay-fixed, receive variable interest rate swaps on certain of its FHLB advances. These hedges were entered into to manage interest rate risk. These derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

Table of Contents

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At June 30, 2014, the notional amount of the interest rate lock commitments and forward commitments were $22.2 million and $32.8 million, respectively. At December 31, 2013, the notional amount of the interest rate lock commitments and forward commitments were $10.5 million and $17.2 million, respectively. It is our practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $457.5 million and $457.5 million, respectively, at June 30, 2014. At December 31, 2013, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $436.8 million and $436.8 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps and collars. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. Old National s exposure is limited to the replacement value of the contracts rather than the notional, principal or contract amounts. There are provisions in our agreements with the counterparties that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed thresholds are collateralized. In addition, we minimize credit risk through credit approvals, limits, and monitoring procedures.

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

	Asset Derivatives			
	June 30, 2014		December 31, 2013	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Other assets	$ 3,690	Other assets	$ 3,545
Total derivatives designated as hedging instruments		$ 3,690		$ 3,545
Derivatives not designated as hedging instruments				
Interest rate contracts	Other assets	$ 16,308	Other assets	$ 18,279
Mortgage contracts	Other assets	459	Other assets	263
Total derivatives not designated as hedging instruments		$ 16,767		$ 18,542
Total derivative assets		$ 20,457		$ 22,087

51

Table of Contents

	Liability Derivatives			
	June 30, 2014		December 31, 2013	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Other liabilities	**$ 5,446**	Other liabilities	$ 1,218
Total derivatives designated as hedging instruments		**$ 5,446**		$ 1,218
Derivatives not designated as hedging instruments				
Interest rate contracts	Other liabilities	**$ 16,464**	Other liabilities	$ 18,505
Mortgage contracts	Other liabilities	**75**	Other liabilities	
Total derivatives not designated as hedging instruments		**$ 16,539**		$ 18,505
Total derivative liabilities		**$ 21,985**		$ 19,723

The effect of derivative instruments on the Consolidated Statement of Income for the three and six months ended June 30, 2014 and 2013 are as follows:

(dollars in thousands)		Three months ended June 30, 2014	Three months ended June 30, 2013
Derivatives in Fair Value Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ 339**	$ 467
Interest rate contracts (2)	Other income / (expense)	**75**	(75)
Total		**$ 414**	$ 392

Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (3)	Other income / (expense)	**$ (4)**	$ 218
Mortgage contracts	Mortgage banking revenue	**42**	598

Total		**$ 38**	$ 816

(dollars in thousands)		**Six months ended June 30, 2014**	**Six months ended June 30, 2013**
Derivatives in Fair Value Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ 698**	$ 944
Interest rate contracts (2)	Other income / (expense)	**181**	(48)
Total		**$ 879**	$ 896

Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (3)	Other income / (expense)	**$ 69**	$ 179
Mortgage contracts	Mortgage banking revenue	**122**	745
Total		**$ 191**	$ 924

(1) Amounts represent the net interest payments as stated in the contractual agreements.
(2) Amounts represent ineffectiveness on derivatives designated as fair value hedges.
(3) Includes the valuation differences between the customer and offsetting counterparty swaps.
See Note 21 to the consolidated financial statements.

Table of Contents

NOTE 18 COMMITMENTS AND CONTINGENCIES

LITIGATION

In the normal course of business, Old National Bancorp and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages.

Old National contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, Old National cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, or other relief, if any, might be. Subject to the foregoing, Old National believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of Old National, although the outcome of such matters could be material to Old National s operating results and cash flows for a particular future period, depending on, among other things, the level of Old National s revenues or income for such period. Old National will accrue for a loss contingency if (1) it is probable that a future event will occur and confirm the loss and (2) the amount of the loss can be reasonably estimated.

In November 2010, Old National was named in a class action lawsuit in Vanderburgh Circuit Court challenging our checking account practices associated with the assessment of overdraft fees. The theory set forth by plaintiffs in this case is similar to other class action complaints filed against other financial institutions in recent years and settled for substantial amounts. On May 1, 2012, the plaintiff was granted permission to file a First Amended Complaint which named additional plaintiffs and amended certain claims. The plaintiffs seek damages, and other relief, including treble damages, attorneys fees and costs pursuant to the Indiana Crime Victim s Relief Act. On June 13, 2012, Old National filed a motion to dismiss the First Amended Complaint, which was subsequently denied by the Court. On September 7, 2012, the plaintiffs filed a motion for class certification, which was granted on March 20, 2013, and provides for a class of All Old National Bank customers in the State of Indiana who had one or more consumer accounts and who, within the applicable statutes of limitation through August 15, 2010, incurred an overdraft fee as a result of Old National Bank s practice of sequencing debit card and ATM transactions from highest to lowest. Old National sought an interlocutory appeal on the issue of class certification on April 2, 2013, which was subsequently denied.

Old National does not believe that relevant facts are in dispute or that plaintiffs have stated a claim upon which relief may be granted under Indiana law. Accordingly, on June 11, 2013, Old National moved for summary judgment. On September 16, 2013, a hearing was held on the summary judgment motion and on September 27, 2013, the Circuit Court ordered the parties to mediation and informed the parties that Court will be denying the motion for summary judgment upon receiving the report of the mediator.

The parties subsequently met twice with the mediator and were unable to reach an agreement to resolve the dispute. Old National s pending Motion for Summary Judgment filed June 11, 2013, was denied by the Circuit Court on April 14, 2014, and on April 23, 2014, Old National sought leave from the Circuit Court to file an interlocutory appeal to the Indiana Court of Appeals. On May 28, 2014, the Circuit Court granted Old National s motion. On June 5, 2014, Old National filed with the Court of Appeals a Combined Motion to Accept Jurisdiction Over Interlocutory Appeal Pursuant to Appellate Rule 14(B) and Motion to Stay Trial Court Proceedings Pending Appeal Pursuant to Appellate Rule 14(H) . On July 11, 2014, the Court of Appeals granted both of Old National s Motions, thereby accepting an appeal and issuing a Stay of the case before the Circuit Court. The case is currently set for trial beginning October 27, 2014, though this is most certainly to be vacated in light of the Stay issued by the Court of Appeals. Old National believes it has meritorious defenses to the claims brought by the plaintiffs. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss.

Table of Contents

LEASES

Old National rents certain premises and equipment under operating leases, which expire at various dates. Many of these leases require the payment of property taxes, insurance premiums, maintenance and other costs. In some cases, rentals are subject to increase in relation to a cost-of-living index. The leases have original terms ranging from less than one year to twenty-four years, and Old National has the right, at its option, to extend the terms of certain leases for four additional successive terms of five years. We do not have any material sub-lease agreements.

As of June 30, 2014 and 2013, Old National had $71.4 million and $79.9 million, respectively, of deferred gains remaining associated with prior sale leaseback transactions. The leases had original terms ranging from five to twenty-four years. These gains will be recognized over the remaining term of the leases.

CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, Old National s banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.382 billion and standby letters of credit of $68.7 million at June 30, 2014. At June 30, 2014, approximately $1.303 billion of the loan commitments had fixed rates and $79 million had floating rates, with the floating interest rates ranging from 0% to 21%. At December 31, 2013, loan commitments were $1.271 billion and standby letters of credit were $62.0 million. These commitments are not reflected in the consolidated financial statements. At June 30, 2014 and December 31, 2013, the balance of the allowance for unfunded loan commitments was $3.5 million and $2.7 million, respectively.

At June 30, 2014 and December 31, 2013, Old National had credit extensions of $13.5 million and $15.6 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients. At June 30, 2014 and December 31, 2013, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $10.4 million and $12.4 million, respectively. Old National did not provide collateral for the remaining credit extensions.

NOTE 19 FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At June 30, 2014, the notional amount of standby letters of credit was $68.7 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.4 million. At December 31, 2013, the notional amount of standby letters of credit was $62.0 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.4 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of $8.0 million at June 30, 2014.

NOTE 20 SEGMENT INFORMATION

Our business segments are defined as Banking, Insurance, Wealth Management, and Other and are described below:

Banking

The banking segment provides a wide range of financial products and services to consumers and businesses. Loan products include commercial, commercial real estate, mortgage and other consumer loans. Deposit products include checking, savings, and time deposit accounts. This segment also provides cash management, private banking, brokerage, and investment services. Products and services are delivered to customers in the states of Indiana, Kentucky, Illinois and Michigan through our branch locations, ATMs, on-line banking services, 24-hour telephone banking, client care call center, and a mobile banking service.

Insurance

The insurance segment offers full-service insurance brokerage services including commercial property and casualty, surety, loss control services, employee benefits consulting and administration, and personal insurance. Our agencies offer products that are issued and underwritten by various insurance companies not affiliated with us. In addition, we have two affiliated third party claims management companies that do fee for service claims handling for self-insured clients.

Wealth Management

The wealth management segment includes trust services and investment advisory services. A significant portion of this segment s income is derived from fees, which are generally based on the market values of assets under management. This segment is focused on assisting high-net-worth individuals and families in building and preserving their wealth.

Other

Other Corporate Administrative units such as Human Resources or Finance, provide a wide-range of support to our other income earning segments. Expenses incurred by these support units are charged to the business segments through an internal cost allocation process, which may not be comparative to that of other companies. The other segment includes the unallocated portion of other corporate support functions, the elimination of intercompany transactions and our Corporate Treasury unit. Corporate Treasury activities consist of corporate asset and liability management. This unit s assets and liabilities (and related interest income and expense) consist of investment securities, corporate-owned life insurance, and certain borrowings.

As of December 31, 2013, Old National changed the composition of its reportable segments to those described above and restated all prior period information. Selected business segment financial information is shown in the following table for the three and six months ended June 30:

(dollars in thousands)	Banking	Insurance	Wealth Management	Other	Total
Three months ended June 30, 2014					
Net interest income	**$ 84,726**	**$ 3**	**$ 11**	**$ (258)**	**$ 84,482**
Noninterest income	**21,760**	**9,788**	**7,668**	**437**	**39,653**
Noncash items:					
Depreciation and software amortization	**3,338**	**35**	**13**	**135**	**3,521**
Provision for loan losses	**(400)**				**(400)**
Amortization of intangibles	**1,325**	**413**	**265**		**2,003**
Income tax expense (benefit)	**6,853**	**165**	**109**	**531**	**7,658**
Segment profit	**22,202**	**240**	**120**	**(3,789)**	**18,773**
Segment assets	**10,233,398**	**62,800**	**20,015**	**71,720**	**10,387,933**
Three months ended June 30, 2013					
Net interest income	$ 79,291	$ 5	$ 12	$ (117)	$ 79,191
Noninterest income	29,704	9,473	6,576	491	46,244
Noncash items:					

Depreciation and software amortization	2,794	37	5	73	2,909
Provision for loan losses	(3,693)				(3,693)
Amortization of intangibles	1,177	478	185		1,840
Income tax expense (benefit)	14,031	18	355	(670)	13,734
Segment profit	28,372	370	587	(851)	28,478
Segment assets	9,492,552	61,831	14,119	72,569	9,641,071

Table of Contents

Six months ended June 30, 2014					
Net interest income	**$ 168,270**	**$ 6**	**$ 21**	**$ (337)**	**$ 167,960**
Noninterest income	**44,061**	**21,764**	**13,627**	**764**	**80,216**
Noncash items:					
Depreciation and software amortization	**6,569**	**70**	**18**	**256**	**6,913**
Provision for loan losses	**(363)**				**(363)**
Amortization of intangibles	**2,585**	**820**	**435**		**3,840**
Income tax expense (benefit)	**17,712**	**968**	**474**	**(2,254)**	**16,900**
Segment profit	**45,037**	**2,113**	**786**	**(2,653)**	**45,283**
Segment assets	**10,233,398**	**62,800**	**20,015**	**71,720**	**10,387,933**
Six months ended June 30, 2013					
Net interest income	$ 158,491	$ 10	$ 23	$ (283)	$ 158,241
Noninterest income	58,844	20,337	12,403	975	92,559
Noncash items:					
Depreciation and software amortization	5,436	71	12	137	5,656
Provision for loan losses	(2,848)				(2,848)
Amortization of intangibles	3,065	928	372		4,365
Income tax expense (benefit)	24,447	705	672	(1,698)	24,126
Segment profit	52,107	1,421	1,078	(2,183)	52,423
Segment assets	9,492,552	61,831	14,119	72,569	9,641,071

NOTE 21 FAIR VALUE

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Significant other 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.

Level 3 Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Old National used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using swap and LIBOR curves plus spreads that adjust for loss severities, volatility, credit risk and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Residential loans held for sale: The fair value of loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Table of Contents

Derivative financial instruments: The fair values of derivative financial instruments are based on derivative valuation models using market data inputs as of the valuation date (Level 2).

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which we have elected the fair value option, are summarized below:

		Fair Value Measurements at June 30, 2014 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Trading securities	$ 3,726	$ 3,726	$	$
Investment securities available-for-sale:				
U.S. Treasury	11,186	11,186		
U.S. Government-sponsored entities and agencies	623,672		623,672	
Mortgage-backed securities Agency	1,204,381		1,204,381	
Mortgage-backed securities Non-agency	15,912		15,912	
States and political subdivisions	309,106		308,761	345
Pooled trust preferred securities	6,422			6,422
Other securities	365,378	31,412	333,966	
Residential loans held for sale	11,398		11,398	
Derivative assets	20,457		20,457	
Financial Liabilities				
Derivative liabilities	21,985		21,985	

		Fair Value Measurements at December 31, 2013 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Trading securities	$ 3,566	$ 3,566	$	$
Investment securities available-for-sale:				
U.S. Treasury	13,113	13,113		
	435,588		435,588	

U.S. Government-sponsored entities and agencies				
Mortgage-backed securities Agency	1,289,258		1,289,258	
Mortgage-backed securities Non-agency	17,412		17,412	
States and political subdivisions	268,795		268,126	669
Pooled trust preferred securities	8,037			8,037
Other securities	339,998	31,254	308,744	
Residential loans held for sale	7,705		7,705	
Derivative assets	22,087		22,087	
Financial Liabilities				
Derivative liabilities	19,723		19,723	

Table of Contents

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2014:

	Fair Value Measurements using Significant Unobservable Inputs (Level 3)	
(dollars in thousands)	**Pooled Trust Preferred Securities Available-for-Sale**	**State and Political Subdivisions**
Beginning balance, January 1, 2014	**$ 8,037**	**$ 669**
Accretion/(amortization) of discount or premium	**9**	**1**
Sales/payments received	**(1,034)**	
Matured securities		**(325)**
Increase/(decrease) in fair value of securities	**(590)**	
Ending balance, June 30, 2014	**$ 6,422**	**$ 345**

Included in the income statement is $10 thousand of income included in interest income from the accretion of discounts on securities. The decrease in fair value is reflected in the balance sheet as a decrease in the fair value of investment securities available-for sale, a decrease in accumulated other comprehensive income, which is included in shareholders equity, and an increase in other assets related to the tax impact.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2013:

	Fair Value Measurements using Significant Unobservable Inputs (Level 3)	
(dollars in thousands)	**Pooled Trust Preferred Securities Available-for-Sale**	**State and Political Subdivisions**
Beginning balance, January 1, 2013	$ 9,359	$ 984
Accretion/(amortization) of discount or premium	9	2
Payments received	(1,403)	
Matured securities		(310)
Increase/(decrease) in fair value of securities	1,187	
Ending balance, June 30, 2013	$ 9,152	$ 676

Included in the income statement is $11 thousand of income included in interest income from the accretion of discounts on securities. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in shareholders equity, and a decrease in other assets related to the tax impact.

Table of Contents

The table below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy:

	Quantitative Information about Level 3 Fair Value Measurements			
(dollars in thousands)	Fair Value at June 30, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Pooled trust preferred securities	**$ 6,422**	Discounted cash flow	Constant prepayment rate (a)	0.00%
			Additional asset defaults (b)	0.3% - 4.5% (2.1%)
			Expected asset recoveries (c)	1.5% - 7.0% (2.7%)
State and political subdivision securities	**345**	Discounted cash flow	No unobservable inputs	NA
			Illiquid local municipality issuance	
			Old National owns 100%	
			Carried at par	

(a) Assuming no prepayments.
(b) Each currently performing pool asset is assigned a default probability based on the banking environment, which is adjusted for specific issuer evaluation, of 0%, 50% or 100%.
(c) Each currently defaulted pool asset is assigned a recovery probability based on specific issuer evaluation of 0%, 25% or 100%.

The significant unobservable inputs used in the fair value measurement for pooled trust preferred securities are prepayment rates, assumed additional pool asset defaults and expected return to performing status of defaulted pool assets. Significant changes in any of the inputs in isolation would result in a significant change to the fair value measurement. The three pooled trust preferred securities Old National owns are subordinate note classes that rely on an ongoing cash flow stream to support their values. The senior note classes receive the benefit of prepayments to the detriment of subordinate note classes since the ongoing interest cash flow stream is reduced by the early redemption. Generally, a change in prepayment rates or additional pool asset defaults has an impact that is directionally opposite from a change in the expected recovery of a defaulted pool asset.

Assets measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements at June 30, 2014 Using		
(dollars in thousands)	**Carrying Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Collateral Dependent Impaired Loans				
Commercial loans	**$ 11,228**	**$**	**$**	**$ 11,228**

Commercial real estate loans	**14,304**	**14,304**
Foreclosed Assets		
Commercial real estate	**7,461**	**7,461**
Residential	**379**	**379**

Impaired commercial and commercial real estate loans that are deemed collateral dependent are valued based on the fair value of the underlying collateral. These estimates are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral. These impaired commercial and commercial real estate loans had a principal amount of $34.5 million, with a valuation allowance of $9.0 million at June 30, 2014. Old National recorded $2.6 million of provision expense associated with these loans for the six months ended June 30, 2014.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of $7.8 million. The estimates of fair value are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral. There were write-downs of other real estate owned of $1.8 million and net gains on sale of other real estate owned of $2.9 million in the first six months of 2014.

Table of Contents

(dollars in thousands)	Carrying Value	Fair Value Measurements at December 31, 2013 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans				
Commercial loans	$ 9,224	$	$	$ 9,224
Commercial real estate loans	7,851			7,851
Foreclosed Assets				
Commercial real estate	9,069			9,069
Residential	283			283

As of December 31, 2013, impaired commercial and commercial real estate loans had a principal amount of $25.4 million, with a valuation allowance of $8.3 million. Old National recorded $6.9 million of provision expense associated with these loans in 2013.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of $9.4 million at December 31, 2013. There were write-downs of other real estate owned of $2.4 million in 2013.

During the second quarter of 2013, finance leases of $11.6 million were transferred from the commercial loan category at fair value, which is the offer price, and a loss of $0.2 million was recognized. The finance leases were sold during the third quarter of 2013.

The table below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy:

(dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements: Fair Value at June 30, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Collateral Dependent Impaired Loans				
Commercial loans	**$ 14,287**	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 94%(40%)
Commercial real estate loans	**18,777**	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 50%(25%)
Foreclosed Assets				
Commercial real estate	**7,461**	Fair value of collateral	Discount for type of property, age of appraisal and current status	2% - 85%(24%)
Residential	**379**	Fair value of collateral	Discount for type of property, age of appraisal and current status	20% - 74%(37%)

Table of Contents

(dollars in thousands)	Fair Value at Dec. 31, 2013	Valuation Techniques	Unobservable Input	Range (Weighted Average)
	Quantitative Information about Level 3 Fair Value Measurements			
Collateral Dependent Impaired Loans				
Commercial loans	$ 9,224	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 75%(24%)
Commercial real estate loans	7,851	Fair value of collateral	Discount for type of property, age of appraisal and current status	10% - 54%(30%)
Foreclosed Assets				
Commercial real estate	9,069	Fair value of collateral	Discount for type of property, age of appraisal and current status	10% - 40%(25%)
Residential	283	Fair value of collateral	Discount for type of property, age of appraisal and current status	10% - 45%(25%)

Collateral dependent loans, other real estate owned and other repossessed property are valued based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral. These appraisals are discounted depending on the type of property and the type of appraisal (market value vs. liquidation value).

Financial instruments recorded using fair value option

Under FASB ASC 825-10, we may elect to report most financial instruments and certain other items at fair value on an instrument-by instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election may not be revoked once an election is made.

We have elected the fair value option for residential mortgage loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement are $82 thousand and $125 thousand of interest income for residential loans held for sale for the three and six months ended June 30, 2014, respectively. Included in the income statement are $105 thousand and $206 thousand of interest income for residential loans held for sale for the three and six months ended June 30, 2013, respectively.

Residential mortgage loans held for sale

Old National has elected the fair value option for newly originated conforming fixed-rate and adjustable-rate first mortgage loans held for sale. These loans are intended for sale and are hedged with derivative instruments. Old National has elected the fair value option to mitigate accounting mismatches in cases where hedge accounting is complex and to achieve operational simplification. The fair value option was not elected for loans held for investment.

As of June 30, 2014, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected is as follows. Accrued interest at period end is included in the fair value of the instruments.

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential loans held for sale	**$ 11,398**	**$ 402**	**$ 10,996**

61

Table of Contents

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the three and six months ended June 30, 2014:

Changes in Fair Value for the Three Months ended June 30, 2014, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	**$ 286**	**$ 1**	**$**	**$ 287**

Changes in Fair Value for the Six Months ended June 30, 2014, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	**$ 273**	**$ 1**	**$**	**$ 274**

As of June 30, 2013, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected was as follows. Accrued interest at period end is included in the fair value of the instruments.

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential loans held for sale	$ 13,572	$ (329)	$ 13,901

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the three and six months ended June 30, 2013:

Changes in Fair Value for the Three Months ended June 30, 2013, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

	Other	Interest	Interest	Total Changes in Fair Values Included in Current Period

(dollars in thousands)	Gains and (Losses)	Income	(Expense)	Earnings
Residential loans held for sale	$ (737)	$	$ (3)	$ (740)

Changes in Fair Value for the Six Months ended June 30, 2013, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	$ (683)	$	$	$ (683)

62

Table of Contents

The carrying amounts and estimated fair values of financial instruments, not previously presented in this note, at June 30, 2014 and December 31, 2013 are as follows:

		Fair Value Measurements at June 30, 2014 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2014				
Financial Assets				
Cash, due from banks, federal funds sold and money market investments	$ 236,693	$ 236,693	$	$
Investment securities held-to-maturity:				
U.S. Government-sponsored entities and agencies	168,936		177,117	
Mortgage-backed securities Agency	28,930		30,264	
State and political subdivisions	655,038		691,626	
Federal Home Loan Bank stock	42,776		42,776	
Loans, net (including covered loans):				
Commercial	1,501,651			1,540,735
Commercial real estate	1,387,950			1,452,514
Residential real estate	1,446,598			1,541,606
Consumer credit	1,156,517			1,164,479
FDIC indemnification asset	51,431			22,332
Accrued interest receivable	54,630	42	21,930	32,658
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,129,705	$ 2,129,705	$	$
NOW, savings and money market deposits	4,440,369	4,440,369		
Time deposits	984,929		993,298	
Short-term borrowings:				
Federal funds purchased	150,188	150,188		
Repurchase agreements	317,390	317,389		
Other borrowings:				
Junior subordinated debenture	45,000		33,206	
Repurchase agreements	50,000		52,481	
Federal Home Loan Bank advances	807,379			816,743
Capital lease obligation	4,128		5,631	
Accrued interest payable	1,764		1,764	
Standby letters of credit	365			365
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$	$	$	$ 2,111

63

Table of Contents

		Fair Value Measurements at December 31, 2013 Using		
			Significant	
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013				
Financial Assets				
Cash, due from banks, federal funds sold and money market investments	$ 206,723	$ 206,723	$	$
Investment securities held-to-maturity:				
U.S. Government-sponsored entities and agencies	170,621		178,370	
Mortgage-backed securities Agency	35,443		36,348	
State and political subdivisions	556,670		566,040	
Federal Home Loan Bank stock	40,584		40,584	
Loans, net (including covered loans):				
Commercial	1,386,185			1,414,184
Commercial real estate	1,220,417			1,273,070
Residential real estate	1,384,183			1,475,710
Consumer credit	1,045,034			1,058,021
FDIC indemnification asset	88,513			55,368
Accrued interest receivable	50,205	42	20,708	29,455
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,026,490	$ 2,026,490	$	$
NOW, savings and money market deposits	4,166,438	4,166,438		
Time deposits	1,017,975		1,028,043	
Short-term borrowings:				
Federal funds purchased	115,103	115,103		
Repurchase agreements	347,229	347,226		
Other borrowings:				
Junior subordinated debenture	28,000		17,605	
Repurchase agreements	50,000		52,633	
Federal Home Loan Bank advances	447,856			485,759
Capital lease obligation	4,157		5,245	
Accrued interest payable	1,877		1,877	
Standby letters of credit	380			380
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$	$	$	$ 1,648

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

Cash, due from banks, federal funds sold and resell agreements and money market investments: For these instruments, the carrying amounts approximate fair value (Level 1).

Investment securities: Fair values for investment securities held-to-maturity are based on quoted market prices, if available. For securities where quoted prices are not available, fair values are estimated based on market prices of similar securities (Level 2).

Federal Home Loan Bank Stock: Old National Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost and periodically evaluated for impairment based on ultimate recovery of par value. The carrying value of FHLB stock approximates fair value based on the redemption provisions of the FHLB (Level 2).

Loans: The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities (Level 3).

Covered loans: Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting current market rates for new originations of comparable loans adjusted for the risk inherent in the cash flow estimates. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques (Level 3).

FDIC indemnification asset: The loss sharing asset was measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should we choose to dispose of the assets. Fair value was originally estimated using projected cash flows related to the loss sharing agreement based on the expected reimbursements for losses and the applicable loss sharing percentage and these projected cash flows are updated with the cash flow estimates on covered assets. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC (Level 3).

Accrued interest receivable and payable: The carrying amount approximates fair value and is aligned with the underlying assets or liabilities (Level 1, Level 2 or Level 3).

Deposits: The fair value of noninterest-bearing demand deposits and savings, NOW and money market deposits is the amount payable as of the reporting date (Level 1). The fair value of fixed-maturity certificates of deposit is estimated using rates currently offered for deposits with similar remaining maturities (Level 2).

Short-term borrowings: Federal funds purchased and other short-term borrowings generally have an original term to maturity of 30 days or less and, therefore, their carrying amount is a reasonable estimate of fair value (Level 1). The fair value of securities sold under agreements to repurchase is determined using end of day market prices (Level 1).

Other borrowings: The fair value of medium-term notes, subordinated debt and senior bank notes is determined using market quotes (Level 2). The fair value of FHLB advances is determined using calculated prices for new FHLB advances with similar risk characteristics (Level 3). The fair value of other debt is determined using comparable security market prices or dealer quotes (Level 2).

Standby letters of credit: Fair values for standby letters of credit are based on fees currently charged to enter into similar agreements. The fair value for standby letters of credit was recorded in Accrued expenses and other liabilities on the consolidated balance sheet in accordance with FASB ASC 460-10 (FIN 45) (Level 3).

Off-balance sheet financial instruments: Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements. For further information regarding the amounts of these financial instruments, see Notes 18 and 19.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is an analysis of our results of operations for the three and six months ended June 30, 2014 and 2013, and financial condition as of June 30, 2014, compared to June 30, 2013, and December 31, 2013. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from our current expectations and the related forward-looking statements.

EXECUTIVE SUMMARY

During the quarter, Old National recorded its highest level of organic loan growth since 2008, the beginning of the great recession. While one or two quarters does not necessarily make a trend, we were very pleased to see growth in various loan categories across our geographic footprint. Management is increasingly optimistic and our pipeline remains strong.

Management continues to focus on expanding our distribution network and transitioning the franchise to higher growth markets. On April 25, 2014, Old National completed its previously announced acquisition of Tower Financial Corporation (Tower). The addition of Tower s seven full-service banking centers expands Old National s presence in the attractive Fort Wayne market and helps solidify our standing as Indiana s bank.

On July 31, 2014, Old National completed its previously announced acquisition of Ann Arbor-based United Bancorp, Inc. (United). This acquisition added 18 branch offices in Southern Michigan, doubling our presence in this state.

On June 3, 2014, Old National announced it had entered into an agreement to acquire LSB Financial Corp. (LSB), which operates five full service banking centers in Lafayette, Indiana with loans of approximately $254 million and $315 million of deposits.

Subsequent to quarter end, we also announced plans to acquire Grand Rapids, Michigan-based Founders Financial Corporation (Founders). Founders operates four full-service banking centers in Kent County with loans of approximately $355 million and deposits of $378 million at June 30, 2014. This transaction is currently expected to close in the first half of 2015, subject to approval by Founders shareholders and regulatory authorities, as well as the satisfaction of other customary closing conditions.

During the second quarter of 2014, net income was $18.8 million, or $0.18 per share. This compares to the $28.5 million, or $0.28 per share reported in the second quarter of 2013. The decline in earnings is primarily attributable to higher amortization expense associated with our FDIC indemnification asset and $6.3 million of acquisition and integration costs associated with our Tower and United transactions. Low charge-offs and strong credit quality resulted in provision recapture of $0.4 million and $3.7 million in the second quarter of 2014 and 2013, respectively.

Table of Contents

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three and six months ended June 30, 2014 and 2013:

(dollars in thousands)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	% Change	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013	% Change
Income Statement Summary:						
Net interest income	**$ 84,482**	$ 79,191	6.7%	**$ 167,960**	$ 158,241	6.1%
Provision for loan losses	**(400)**	(3,693)	(89.2)	**(363)**	(2,848)	(87.3)
Noninterest income	**39,653**	46,244	(14.3)	**80,216**	92,559	(13.3)
Noninterest expense	**98,104**	86,916	12.9	**186,356**	177,099	5.2
Other Data:						
Return on average common equity	**6.00%**	9.51%		**7.47%**	8.75%	
Efficiency ratio (1)	**75.85**	66.52		**71.80**	67.44	
Tier 1 leverage ratio	**9.27**	8.80		**9.27**	8.80	
Net charge-offs to average loans	**0.07**	0.04		**0.05**	0.10	

(1) Efficiency ratio is defined as noninterest expense before amortization of intangibles as a percent of fully taxable net interest income and noninterest income, excluding net gains from securities transactions. This presentation excludes intangible amortization and net securities gains, as is common in other company disclosures, and better aligns with true operating performance. This is a non-GAAP financial measure that management believes to be helpful in understanding Old National s results of operations.

Net Interest Income

Net interest income is our most significant component of earnings, comprising over 67% of revenues at June 30, 2014. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally costs less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

Net interest income is the excess of interest received from earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is also presented in the table that follows, adjusted to a taxable equivalent basis to reflect what our tax-exempt assets would need to yield in order to achieve the same after-tax yield as a taxable asset. We used the federal statutory tax rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations. This analysis portrays the income tax benefits associated in tax-exempt assets and helps to facilitate a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2014**	**2013**	**2014**	**2013**
Net interest income	**$ 84,482**	$ 79,191	**$ 167,960**	$ 158,241
Taxable equivalent adjustment	**4,256**	4,243	**8,187**	8,155
Net interest income taxable equivalent	**$ 88,738**	$ 83,434	**$ 176,147**	$ 166,396
Average earning assets	**$ 8,730,063**	$ 8,406,635	**$ 8,504,418**	$ 8,308,580
Net interest margin	**3.87%**	3.77%	**3.95%**	3.81%
Net interest margin fully taxable equivalent	**4.07%**	3.97%	**4.14%**	4.01%

Net interest income was $84.5 million and $168.0 million for the three and six months ended June 30, 2014, up from the $79.2 million and $158.2 million reported for the three and six months ended June 30, 2013. Taxable equivalent net interest income was $88.7 million and $176.1 million for the three and six months ended June 30, 2014, up from the $83.4 million and $166.4 million reported for the three and six months ended June 30, 2013. The net interest margin on a fully taxable equivalent basis was 4.07% and 4.14% for the three and six months ended June 30, 2014, compared to 3.97% and 4.01% for the three and six months ended June 30, 2013. Both the three and six months ended June 30, 2014 and 2013 include accretion income (interest income in excess of contractual interest income) associated with purchased credit impaired loans. Excluding this accretion income in both periods, net interest income on a fully taxable equivalent basis would have been $71.1 million and $140.6 million for the three and six months ended June 30, 2014, compared to $69.2 million and $137.2 million for the three and six months ended June 30, 2013; and the net interest margin on a fully taxable equivalent basis would have been 3.26% and 3.31% for the three and six months ended June 30, 2014 compared to 3.29% and 3.30% for the three and six months ended June 30, 2013.

The increase in net interest income is primarily due to the increase in accretion income recorded in the first six months of 2014 compared to the first six months of 2013, combined with a change in the mix of interest earning assets and interest-bearing liabilities. We expect this accretion income to decline over time.

The increase in the net interest margin in the quarterly comparison is primarily due to the yield on average earning assets increasing while the cost of interest-bearing liabilities decreased. The yield on interest earning assets increased 2 basis points while the cost of interest-bearing liabilities decreased 10 basis points in the quarterly year-over-year comparison. The yield on interest earning assets is calculated by dividing annualized taxable equivalent net interest income by average interest earning assets while the cost of interest-bearing liabilities is calculated by dividing annualized interest expense by average interest-bearing liabilities. The increase in the net interest margin in the six month comparison is primarily due to the yield on average earning assets increasing while the cost of interest-bearing liabilities decreased. The yield on interest earning assets increased 5 basis points while the cost of interest-bearing liabilities decreased 13 basis points in the six month comparison.

Average earning assets were $8.730 billion for the three months ended June 30, 2014, compared to $8.407 billion for the three months ended June 30, 2013, an increase of 3.8%, or $323.4 million. Average earning assets were $8.504 billion for the six months ended June 30, 2014, compared to $8.309 billion for the six months ended June 30, 2013, an increase of 2.4%, or $195.8 million. Included in average earning assets for the six months ended June 30, 2014 is approximately $168.2 million from the Tower acquisition, which was acquired on April 25, 2014. Affecting average earning assets at June 30, 2014 compared to June 30, 2013, was the increase in the size of the investment portfolio combined with an increase in the size of the loan portfolio. The loan portfolio, which generally has an average yield higher than the investment portfolio, was approximately 61% of average interest earning assets at June 30, 2014.

The $59.9 million increase in average loans over the past twelve months is primarily a result of the Tower acquisition. However, for the second quarter of 2014 we experienced average loan growth of approximately $310.1 million. Included in this quarterly total is approximately $254.2 million from the Tower Financial acquisition. From March 31, 2014 to June 30, 2014, period-end loans grew approximately $111.4 million, excluding the Tower acquisition. The $111.4 million of organic growth was composed of $26.0 million in our commercial loan portfolio, $50.0 million in our commercial real estate loan portfolio, $57.0 million in our consumer loan portfolio and $1.4 million in our residential loan portfolio. These increases were partially offset by the $23.0 million decrease in our covered loan portfolio.

The $135.9 million increase in the average balance of the investment portfolio from June 30, 2013 to June 30, 2014 can be attributed primarily to the reinvestment of excess cash acquired as part of the Bank of America branch acquisition. Included in the increase is approximately $40.4 million from the Tower acquisition.

Positively affecting margin were increases in noninterest-bearing demand deposits, NOW and savings accounts, and money market accounts combined with a decrease in time deposits and borrowed funds. Average time deposits, which have an average interest rate higher than other types of deposits, decreased $208.2 million since June 30, 2013. In addition, average borrowed funds declined $92.5 million year over year.

Provision for Loan Losses

The provision for loan losses was a credit of $400 thousand for the three months ended June 30, 2014, compared to a credit of $3.7 million for the three months ended June 30, 2013. The provision for loan losses was a credit of $363 thousand for the six months ended June 30, 2014, compared to a credit of $2.8 million for the six months ended June 30, 2013. Over the last twelve months, charge-offs have remained low and we continue to see positive trends in credit quality. Continued loan growth in future periods could result in an increase in provision expense.

Noninterest Income

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. Noninterest income for the three months ended June 30, 2014 was $39.7 million, a decrease of $6.5 million, or 14.3%, from the $46.2 million reported for the three months ended June 30, 2013. For the six months ended June 30, 2014, noninterest income was $80.2 million, a decrease of $12.4 million, or 13.3%, from the $92.6 million reported for the six months ended June 30, 2013. The decrease in the quarterly comparison is primarily the result of adjustments to the FDIC indemnification asset, partially offset by increases in wealth management fees and gains on the sale of foreclosed properties. The decrease in the six month comparison is primarily the result of adjustments to the FDIC indemnification asset and the gain on branch divestitures that was recorded in the first quarter of 2013. Partially offsetting these decreases were increases in insurance revenue, insurance contingency fees and gains on the sale of foreclosed properties.

Net securities gains were $1.7 million and $2.1 million for the three and six months ended June 30, 2014, compared to net securities gains of $1.8 million and $2.8 million for the three and six months ended June 30, 2013. Included in the first six months of 2014 is a $100 thousand other-than-temporary-impairment charge on one limited partnership investment.

Wealth management fees are dependent on the performance of managed assets. Wealth management fees increased by $1.1 million and $1.2 million for the three and six months ended June 30, 2014 as compared to the three and six months ended June 30, 2013. Included in the increases for the quarterly and six month comparison is approximately $0.6 million from the acquisition of Tower.

Service charges and overdraft fees on deposit accounts, our largest source of noninterest income, continued to be challenged. Service charges and overdraft fees were $11.8 million for both the three months ended June 30, 2014 and 2013, respectively. Service charges and overdraft fees were $23.0 million for the six months ended June 30, 2014, compared to $22.9 million for the six months ended June 30, 2013. Included in the second quarter and first six months of 2014 is $1.0 million and $2.0 million, respectively, from the acquired Bank of America branches. Tower contributed $0.3 million in the three and six months ended June 30, 2014, respectively.

Debit card and ATM fees increased $0.5 million to $12.2 million for the six months ended June 30, 2014, as compared to $11.7 million for the six months ended June 30, 2013. The acquired Bank of America branches contributed $1.1 million during the first six months of 2014. At June 30, 2014, our total assets increased to greater than $10.0 billion subjecting us to certain provisions of the Dodd-Frank Act. As a result, management expects our fee card revenue to be negatively impacted beginning July 2015.

Mortgage banking revenue was $1.3 million and $1.9 million for the three and six months ended June 30, 2014, compared to $1.6 million and $2.9 million for the three and six months ended June 30, 2013. Mortgage production slowed in the first six months of 2014 as higher interest rates stymied refinance activity and bad weather in the first quarter of 2014 led to low levels of mortgage production, among other factors. As a result, mortgage banking revenue decreased as we sold less production to the secondary market in 2014.

Insurance premiums and commissions increased $1.5 million to $21.8 million for the six months ended June 30, 2014, as compared to $20.3 million for the six months ended June 30, 2013, primarily as a result of higher contingency income and commissions on property and casualty insurance.

During the third quarter of 2012, Old National announced plans to sell the deposits of nine banking centers in southern Illinois and western Kentucky. The sales closed during the first quarter of 2013. Deposits at the time of sale were approximately $150.1 million and we received a deposit premium of $2.2 million on the sales.

Other income increased $0.9 million and $2.3 million for the three and six months ended June 30, 2014 as compared to the three and six months ended June 30, 2013. The increases are primarily a result of an increase in gain on sales of foreclosed properties.

Noninterest Income Related to Covered Assets

The indemnification asset, on the acquisition date, reflects the reimbursements expected to be received from the FDIC. Deterioration in our expectation of credit quality of the OREO would immediately increase the basis of the indemnification asset. Deterioration in the expected credit quality of the loans would increase the basis of the indemnification asset prospectively. The offset for both OREO and loans is recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the indemnification asset, with the decrease being amortized into income over the same period or the life of the loss share agreements, whichever is shorter.

For the second quarter of 2014, changes in the FDIC indemnification asset resulted in a negative adjustment to noninterest income of $(10.5) million. This compares to a negative adjustment of $(1.5) million during the second quarter of 2013. Amortization expense has accelerated as expected loss claims improve and the amortization period shortens.

During the first six months of 2014, changes in the FDIC indemnification asset resulted in a negative adjustment to noninterest income of $(17.8) million. This compares to a negative adjustment of $(3.8) million during the first six months of 2013. Amortization expense has accelerated as expected loss claims improve and the amortization period shortens.

At June 30, 2014, $28.9 million of the remaining indemnification asset is expected to be amortized and reported in noninterest income over the next 27 months.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2014, totaled $98.1 million, an increase of $11.2 million, or 12.9%, from the $86.9 million recorded for the three months ended June 30, 2013. For the six months ended June 30, 2014, noninterest expense totaled $186.4 million, an increase of $9.3 million, or 5.2%, from the $177.1 million recorded for the six months ended June 30, 2013. Included in the three and six months ended June 30, 2014 is approximately $3.2 million and $6.4 million, respectively, of operating costs related to 24 branches acquired from Bank of America during the third quarter of 2013. Also included in the three and six months ended June 30, 2014 is approximately $2.2 million of costs related to the operation of the seven branches acquired from Tower. $6.1 million and $8.6 million of acquisition and integration costs are included in the three and six months ended June 30, 2014, respectively, associated with the Tower and United acquisitions.

Table of Contents

Salaries and benefits is the largest component of noninterest expense. For the three months ended June 30, 2014, salaries and benefits were $55.1 million compared to $48.7 million for the three months ended June 30, 2013. For the six months ended June 30, 2014, salaries and benefits were $106.4 million compared to $99.7 million for the six months ended June 30, 2013. Included in the three months ended June 30, 2014, is $2.0 million and $3.0 million, respectively, of salaries and benefits expense associated with the newly acquired Bank of America bank branches and Tower. Included in the six months ended June 30, 2014, is $4.0 million and $3.5 million, respectively, of salaries and benefits expense associated with the newly acquired Bank of America bank branches and Tower. Also included in the second quarter of 2014 is a $0.6 million increase in hospitalization expense and a $0.2 million increase in performance-based incentive compensation. Included in the first six months of 2014 is a $0.7 million decrease in pension expense.

Occupancy expense was $12.7 million and $23.7 million for the three and six months ended June 30, 2014, compared to $12.0 million and $24.1 million for the three and six months ended June 30, 2013. Occupancy expense related to the newly acquired Bank of America branches and Tower are the primary reason for the increase in the quarterly comparison. A decrease in real estate tax expense combined with a decrease in rent expense associated with our recent branch closures and consolidations were the primary reasons for the decrease in occupancy expense in the year-over-year comparison.

Marketing expense increased $1.5 million for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013. Marketing expense increased primarily as a result of a $1.4 million increase in public relations expense.

Data processing expense increased $0.8 million and $1.2 million for the three and six months ended June 30, 2014 as compared to the three and six months ended June 30, 2013. Data processing expense increased primarily as a result of increases in expenses related to upgrades in software and equipment.

Professional expense increased $0.8 million for the three and six months ended June 30, 2014 as compared to the three and six months ended June 30, 2013 primarily as a result of expenses related to the acquisition of Tower.

FDIC assessment expense was $1.4 million and $2.9 million for the three and six months ended June 30, 2014, compared to $0.1 million and $1.8 million for the three and six months ended June 30, 2013. 2013 expense was lower due to the amendment of certain call reports during this period.

Other expense was $5.3 million for the three months ended June 30, 2014, compared to $4.1 million for the three months ended June 30, 2013. Included in the second quarter of 2014 is an increase of approximately $1.8 million in the provision for unfunded commitments compared to the second quarter of 2013.

Noninterest Expense Related to Covered Assets

Noninterest expense related to covered assets are included in OREO expense, legal and professional expense and other covered asset-related expenses, and may be subject to FDIC reimbursement. Expenses must meet certain FDIC criteria in order for the expense amounts to be reimbursed. Certain amounts reflected in these balances may not be reimbursed by the FDIC if they do not meet the criteria.

Approximately $376 thousand, or twenty percent of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during the first six months of 2014. The remaining eighty percent was recorded as a receivable from the FDIC. Additional non-reimbursable expenses of $15 thousand associated with holding and maintaining covered assets assumed in the Integra acquisition were also recorded in noninterest expense during the first six months of 2014.

Approximately $238 thousand, or twenty percent of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during the first six months of 2013. The remaining eighty percent was recorded as a receivable from the FDIC. Additional non-reimbursable expenses of $188 thousand associated with holding and maintaining covered assets assumed in the Integra acquisition were also recorded in noninterest expense during the first six months of 2013.

Table of Contents

Provision for Income Taxes

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 29.0% for the three months ended June 30, 2014, compared to 32.5% for the three months ended June 30, 2013. The provision for income taxes, as a percentage of pre-tax income, was 27.2% for the six months ended June 30, 2014, compared to 31.5% for the six months ended June 30, 2013. In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at June 30, 2014 based on the current estimate of the effective annual rate. The lower tax rate in the second quarter and six months of 2014 is the result of higher tax exempt income in relation to pre-tax book income for 2014 as compared to prior year, as well as lower projected state taxes due to reduced statutory rates. See Note 16 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

Overview

At June 30, 2014, our assets were $10.388 billion, a 7.7% increase compared to June 30, 2013 assets of $9.641 billion, and an increase of 8.4% compared to December 31, 2013 assets of $9.582 billion. The increase in assets is primarily the result of the acquisition of Tower, which occurred on April 25, 2014. We also experienced organic loan growth of $111.4 million during the second quarter of 2014.

Earning Assets

Our earning assets are comprised of investment securities, portfolio loans, loans held for sale, money market investments, interest earning accounts with the Federal Reserve and trading securities. Earning assets were $9.007 billion at June 30, 2014, an increase of 7.6% from June 30, 2013.

Investment Securities

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we do have $28.9 million of 15- and 20-year fixed-rate mortgage-backed securities, $168.9 million of U.S. government-sponsored entity and agency securities and $655.0 million of state and political subdivision securities in our held-to-maturity investment portfolio at June 30, 2014. During the third quarter of 2013, state and political subdivision securities with a fair value of $357.8 million were transferred from the available-for-sale portfolio to the held-to-maturity portfolio. We moved these securities to our held-to-maturity portfolio to better align with the percentage of these securities held by our peers and to protect our tangible common equity against rising interest rates.

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 $3.7 million at June 30, 2014 compared to $3.3 million at June 30, 2013.

At June 30, 2014, the total investment securities portfolio was $3.435 billion compared to $3.104 billion at June 30, 2013, an increase of $331.4 million or 10.7%. Investment securities increased $256.4 million compared to December 31, 2013, an increase of 8.1%. Included in the investment securities portfolio at June 30, 2014 is $111.3

million of investment securities associated with the acquisition of Tower. Investment securities represented 38.1% of earning assets at June 30, 2014, compared to 37.1% at June 30, 2013, and 38.4% at December 31, 2013. An increase in U.S. government-sponsored entity and agency securities combined with the investment securities associated with the Tower acquisition were the primary reason for the increase in the investment portfolio. Stronger commercial loan demand in the future and management s decision to deleverage the balance sheet could result in a reduction in the securities portfolio. As of June 30, 2014, management does not intend to sell any securities with an unrealized loss position and does not believe we will be required to sell such securities.

The investment securities available-for-sale portfolio had net unrealized losses of $12.7 million at June 30, 2014, a decrease of $13.5 million compared to net unrealized losses of $26.2 million at June 30, 2013, and a decrease of $21.4 million compared to net unrealized losses of $34.1 million at December 31, 2013. Included in the first six months of 2014 is a $100 thousand other-than-temporary-impairment charge on one limited partnership investment. See the consolidated statements of comprehensive income for the impact of other-than-temporary-impairment in other comprehensive income and Note 6 to the consolidated financial statements for details on management s evaluation of securities for other-than-temporary-impairment.

The investment portfolio had an average duration of 4.34 at June 30, 2014, compared to 4.73 at June 30, 2013, and 4.84 at December 31, 2013. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. Generally, there is more uncertainty in interest rates over a longer average maturity, resulting in a higher duration percentage. The annualized average yields on investment securities, on a taxable equivalent basis, were 2.89% for the three months ended June 30, 2014, compared to 2.89% for the three months ended June 30, 2013, and 2.87% for the three months ended December 31, 2013. Average yields on investment securities, on a taxable equivalent basis, were 2.92%, 2.92% and 2.93% for the six months ended June 30, 2014 and 2013 and for the year ended December 31, 2013.

Residential Loans Held for Sale

Residential loans held for sale were $11.4 million at June 30, 2014, compared to $13.6 million at June 30, 2013, and $7.7 million at December 31, 2013. At June 30, 2014, loans held for sale was made up entirely of mortgage loans held for immediate sale in the secondary market with servicing released. These loans are sold at or prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company s balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse and Old National has experienced no material losses. Mortgage originations are subject to volatility due to interest rates and home sales.

We have elected the fair value option under FASB ASC 825-10 (SFAS No. 159) prospectively for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balance by $0.4 million as of June 30, 2014. The aggregate fair value was $0.3 million less than the unpaid principal balance as of June 30, 2013. At December 31, 2013, the aggregate fair value exceeded the unpaid principal balances by $0.1 million.

Finance Leases Held for Sale

At June 30, 2013, Old National had taxable finance leases held for sale of $11.6 million. These leases were transferred from the commercial loan category at fair value and a loss of $0.2 million was recognized. The portfolio of leases held for sale had an average maturity of 2.7 years and interest rates ranging from 3.57% to 10.22%. The leases held for sale were to a variety of borrowers, with various types of equipment securing the leases, and all of the leases were current. The leases held for sale were sold in the third quarter of 2013. As of June 30, 2014, Old National does not intend to sell its nontaxable leases.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans, including covered loans, are the second largest classification within earning assets, representing 32.5% of earning assets at June 30, 2014, a decrease from 33.1% at June 30, 2013, and an increase from 31.9% at December 31, 2013. At June 30, 2014, commercial and commercial real estate loans, including covered loans, were $2.926 billion, an increase of $160.3 million since June 30, 2013, and an increase of $280.6 million since December 31, 2013. Included in the total for June 30, 2014 is approximately $253.4 million related to the acquisition of Tower. At June 30, 2013, we had taxable finance leases held for sale of $11.6 million. These leases were transferred from the commercial loan category at fair value and a loss of $0.2 million was recognized. These leases were sold in the third quarter of 2013 with no additional loss. During the second quarter of 2014, Old National experienced organic loan growth. Excluding the recently acquired Tower loans, commercial and commercial real estate loans increased $76.1 million from March 2014.

Table of Contents

Consumer Loans

At June 30, 2014, consumer loans, including automobile loans, personal and home equity loans and lines of credit, increased $183.8 million or 18.8% compared to June 30, 2013, and increased $112.5 million or 10.7% since December 31, 2013. Included in the total for June 30, 2014 is approximately $34.2 million related to the acquisition of Tower. During the second quarter of 2014, Old National experienced loan growth in consumer loans. Excluding the recently acquired Tower loans, consumer loans increased $57.0 million from March 2014.

Residential Real Estate Loans

At June 30, 2014, residential real estate loans, including covered loans, held in our loan portfolio were $1.450 billion, an increase of $62.7 million, or 4.5%, from December 31, 2013 and an increase of $18.5 million, or 1.3%, from June 30, 2013. Included in the total for June 30, 2014 is approximately $67.6 million related to the acquisition of Tower.

During the third quarter of 2013, Old National sold approximately $96.9 million of residential real estate loans as part of its effort to reduce interest rate risk in the loan portfolio. All of the loans sold were FNMA conforming loans.

Covered Assets

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. We entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned (OREO). Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC 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 with respect to covered assets. As of June 30, 2014, we do not expect losses to exceed $275.0 million.

A summary of covered assets is presented below:

(dollars in thousands)	June 30, 2014	December 31, 2013
Loans, net of discount & allowance	**$ 167,490**	$ 212,428
Other real estate owned	**11,155**	13,670
Total covered assets	**$ 178,645**	$ 226,098

FDIC Indemnification Asset

Because the FDIC will reimburse Old National for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The indemnification asset, on the acquisition date, reflects the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. Reimbursement claims are submitted to the FDIC and the receivable is reduced when the FDIC pays the claim. At June 30, 2014, the FDIC loss sharing asset was $51.4 million and was comprised of a $45.9 million FDIC indemnification asset and a

$5.5 million FDIC loss share receivable. The loss share receivable represents actual incurred losses where reimbursement has not yet been received from the FDIC. The indemnification asset represents future cash flows we expect to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that are being amortized over the same period for which those improved cash flows are being accreted into income. At June 30, 2014, $17.0 million of the FDIC indemnification asset is related to expected indemnification payments and $28.9 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income.

Table of Contents

A summary of activity for the indemnification asset and loss share receivable is presented below:

(dollars in thousands)	2014	2013
Balance at January 1,	**$ 88,513**	$ 116,624
Adjustments not reflected in income:		
Cash received from FDIC	**(20,306)**	(13,098)
Loan expenses to be reimbursed	**(103)**	911
Other	**1,140**	(270)
Adjustments reflected in income:		
(Amortization) accretion	**(15,988)**	(3,782)
Higher (lower) loan loss expectations	**(18)**	95
Write-downs/(gain) on sale of other real estate	**(1,807)**	1,093
Recovery amounts due to FDIC		(1,243)
Other		61
Balance at June 30,	**$ 51,431**	$ 100,391

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at June 30, 2014, totaled $439.3 million, an increase of $74.9 million compared to $364.4 million at June 30, 2013, and an increase of $60.6 million compared to $378.7 million at December 31, 2013. During the second quarter of 2014, we recorded $64.1 million of goodwill and other intangible assets associated with the acquisition of Tower Financial Corporation, of which $60.3 million is included in the Banking column and $3.8 million is included in the Wealth Management column for segment reporting. Also during the second quarter of 2014, we increased customer business relationship intangibles by $0.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment. During the third quarter of 2013, we recorded $16.8 million of goodwill and other intangible assets associated with the acquisition of 24 retail bank branches from Bank of America, all of which is included in the Banking column for segment reporting. During the fourth quarter of 2013, we increased customer business relationships by $1.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment.

Assets Held for Sale

Assets held for sale were $9.0 million at June 30, 2014 compared to $9.1 million at December 31, 2013. Included in assets held for sale are four facilities associated with the Monroe Bancorp acquisition.

Other Assets

Other assets have decreased $27.5 million, or 11.0%, since June 30, 2013 primarily a result of decreases in deferred tax assets and the fair value of derivative financial instruments.

Funding

Total funding, comprised of deposits and wholesale borrowings, was $8.925 billion at June 30, 2014, an increase of 8.1% from $8.255 billion at June 30, 2013, and an increase of 8.4% from $8.230 billion at December 31, 2013. Included in total funding were deposits of $7.555 billion at June 30, 2014, an increase of $714.9 million, or 10.5%, compared to June 30, 2013, and an increase of $344.1 million, or 4.8%, compared to December 31, 2013. Included in total deposits at June 30, 2014 are $478.0 million from the acquisition of Tower. Also included in total deposits at June 30, 2014 are $466.7 million of deposits from the Bank of America acquisition. Partially offsetting these increases is the $28.2 million of deposits that were sold in conjunction with our branch sales in the fourth quarter of 2013 along with a decrease in higher cost certificates of deposit that reached maturity. Noninterest-bearing deposits increased 13.2%, or $248.3 million, compared to June 30, 2013. NOW deposits increased 15.7% or $259.4 million, while savings deposits increased 10.5%, or $200.0 million, compared to June 30, 2013. Money market deposits increased 50.9%, or $144.3 million. Time deposits decreased 12.2% or $137.1 million compared to June 30, 2013. Year over year we experienced an increase in noninterest-bearing demand deposits.

Table of Contents

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At June 30, 2014, wholesale borrowings, including short-term borrowings and other borrowings, decreased $45.1 million, or 3.2%, from June 30, 2013 and increased $350.9 million, or 34.4%, from December 31, 2013, respectively. Wholesale funding as a percentage of total funding was 15.3% at June 30, 2014, compared to 17.1% at June 30, 2013, and 12.4% at December 31, 2013. Wholesale funding increased early in 2013 in anticipation of the pending branch acquisition from Bank of America. The deposit funding assumed in the July 2013 transaction replaced the majority of the increase in short-term and other borrowings that had occurred earlier in 2013. The increase in wholesale funding during 2014 is primarily in short maturity FHLB advances. Over the past year, we have reduced the cost of other borrowings by changing the composition of other borrowings. During 2013, we terminated $50.0 million of FHLB advances and restructured $33.4 million of FHLB advances.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities decreased $33.3 million, or 15.2%, since June 30, 2013 primarily as a result of decreases in accrued pension expense and tax liabilities combined with fluctuations in the fair value of derivative financial instruments.

Capital

Shareholders equity totaled $1.277 billion at June 30, 2014, compared to $1.167 billion at June 30, 2013, and $1.163 billion at December 31, 2013. The June 30, 2014 balance includes approximately $78.7 million from the approximately 5.6 million shares of common stock that were issued in conjunction with the acquisition of Tower Financial Corporation.

We paid cash dividends of $0.11 and $0.22 per share for the three and six months ended June 30, 2014, which reduced equity by $22.6 million. We paid cash dividends of $0.10 and $0.20 per share for the three and six months ended June 30, 2013, which reduced equity by $20.2 million. We repurchased shares of our stock, reducing shareholders equity by $1.6 million during the six months ended June 30, 2014, and $7.7 million during the six months ended June 30, 2013. During the second quarter of 2013, we repurchased 500,000 shares of our common stock under our buyback program. The remaining repurchases related primarily to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by $13.7 million during the six months ended June 30, 2014, and decreased equity by $56.0 million during the six months ended June 30, 2013. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders equity by $3.8 million during the six months ended June 30, 2014, compared to $2.7 million during the six months ended June 30, 2013.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At June 30, 2014, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition. To be categorized as well-capitalized, the bank subsidiary must maintain at least a total risk-based capital ratio of 10.0%, a Tier 1 risk-based capital ratio of 6.0% and a Tier 1 leverage ratio of 5.0%. Goodwill of $55.7 million, core deposit intangibles of $4.6 million and customer relationship intangibles of $3.8 million were recorded in conjunction with the Tower Financial Corporation acquisition. Also impacting regulatory capital ratios at June 30, 2014 is $13.3 million of goodwill and $3.5 million of core deposit intangibles recorded in conjunction with the Bank of America retail bank branch acquisition on July 12, 2013.

76

Table of Contents

As of June 30, 2014, Old National s consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

	Regulatory Guidelines Minimum	June 30, 2014	June 30, 2013	December 31, 2013
Risk-based capital:				
Tier 1 capital to total avg assets (leverage ratio)	4.00%	**9.27%**	8.80%	8.92%
Tier 1 capital to risk-adjusted total assets	4.00	**13.96**	14.44	14.32
Total capital to risk-adjusted total assets	8.00	**14.74**	15.36	15.19
Shareholders equity to assets	N/A	**12.30**	12.10	12.13

As of June 30, 2014, Old National Bank, Old National s bank subsidiary, maintained a strong capital position as evidenced by the following comparisons of key industry ratios.

	Regulatory Guidelines Minimum	Well Capitalized Guidelines	June 30, 2014	June 30, 2013	December 31, 2013
Risk-based capital:					
Tier 1 capital to total avg assets (leverage ratio)	4.00%	5.00%	**7.97%**	7.91%	7.35%
Tier 1 capital to risk-adjusted total assets	4.00	6.00	**11.98**	12.95	11.80
Total capital to risk-adjusted total assets	8.00	10.00	**12.77**	13.88	12.67

RISK MANAGEMENT

Overview

Management, with the oversight of the Board of Directors, has in place company-wide structures, processes, and controls for managing and mitigating risk. Our Chief Risk Officer is independent of management and reports directly to the Chair of the Board s Enterprise Risk Management committee. The following discussion addresses the three major risks we face: credit, market, and liquidity.

Credit Risk

Credit risk represents the risk of loss arising from an obligor s inability or failure to meet contractual payment or performance terms. Our primary credit risks result from our investment and lending activities.

Investment Activities

While the overall residential real estate market has stabilized, we carry a higher exposure to loss with certain of our non-agency collateralized mortgage obligations. Of the four non-agency collateralized mortgage obligations we carried at June 30, 2014, three were rated below investment grade. The total market value of these four securities was $15.9 million at June 30, 2014 and represents less than 1% of our available-for-sale securities portfolio. The unrealized gain on these securities at June 30, 2014 was approximately $0.5 million. Deterioration in the performance of the underlying loan collateral could result in deterioration in the performance of our asset-backed securities. During

2013, one non-agency mortgage-backed security that was below investment grade paid down and two non-agency mortgage-backed securities were sold. There was no other-than-temporary-impairment recorded in either the first six months of 2014 or 2013 on these securities.

We also carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At June 30, 2014, we had pooled trust preferred securities with a fair value of approximately $6.4 million, or 0.3% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and at June 30, 2014, the unrealized loss on our pooled trust preferred securities was approximately $11.6 million. There was no other-than-temporary-impairment recorded in either the first six months of 2014 or 2013 on these securities.

The remaining mortgage-backed securities are backed by U.S. government-sponsored or federal agencies. Municipal bonds, corporate bonds and other debt securities are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. We do not have the intent to sell these securities and it is likely that we will not be required to sell these securities before their anticipated maturity or redemption.

Included in the held-to-maturity category at June 30, 2014 are approximately $28.9 million of agency mortgage-backed securities and $655.0 million of municipal securities at amortized cost. During the third quarter of 2013, state and political subdivision securities with a fair value of $357.8 million were transferred from the available-for-sale portfolio to the held-to-maturity portfolio to better align with the percentage of these securities held by our peers and to protect our tangible common equity against rising interest rates.

Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National s net counterparty exposure was an asset of $325.4 million at June 30, 2014.

Lending Activities

Commercial

Commercial and industrial loans are made primarily for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Lease financing consists of direct financing leases and are used by commercial customers to finance capital purchases ranging from computer equipment to transportation equipment. The credit decisions for these transactions are based upon an assessment of the overall financial capacity of the applicant. A determination is made as to the applicant s ability to repay in accordance with the proposed terms as well as an overall assessment of the risks involved. In addition to an evaluation of the applicant s financial condition, a determination is made of the probable adequacy of the primary and secondary sources of repayment, such as additional collateral or personal guarantees, to be relied upon in the transaction. Credit agency reports of the applicant s credit history supplement the analysis of the applicant s creditworthiness.

Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily domiciled in the geographic market areas we serve, primarily Indiana, southeastern Illinois, western Kentucky and southwestern Michigan. These loans are secured by first mortgages on real estate at loan-to-value (LTV) margins deemed appropriate for the property type, quality, location and sponsorship. Generally, these LTV ratios do not exceed 80%. The commercial properties are predominantly non-residential properties such as retail centers, apartments, industrial properties and, to a lesser extent, more specialized properties. Substantially all of our commercial real estate loans are secured by properties located in our primary market area.

In the underwriting of our commercial real estate loans, we obtain appraisals for the underlying properties. Decisions to lend are based on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we primarily emphasize the ratio of the property s projected net cash flows to the loan s debt service requirement. The debt service coverage ratio normally is not less than 120% and it is computed after deduction for a vacancy factor and property expenses as appropriate. In addition, a personal guarantee of the loan or a portion thereof is often required from the principal(s) of the borrower. We require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required.

Construction loans are underwritten against projected cash flows derived from rental income, business income from an owner-occupant or the sale of the property to an end-user. We may mitigate the risks associated with these types of loans by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements.

Table of Contents

Consumer

We offer a variety of first mortgage and junior lien loans to consumers within our markets, with residential home mortgages comprising our largest consumer loan category. These loans are secured by a primary residence and are underwritten using traditional underwriting systems to assess the credit risks of the consumer. Decisions are primarily based on LTV ratios, debt-to-income (DTI) ratios, liquidity and credit scores. A maximum LTV ratio of 80% is generally required, although higher levels are permitted with mortgage insurance or other mitigating factors. We offer fixed rate mortgages and variable rate mortgages with interest rates that are subject to change every year after the first, third, fifth, or seventh year, depending on the product and are based on fully-indexed rates such as the London Interbank Offered Rate (LIBOR). We do not offer interest-only loans, payment-option facilities, sub-prime loans, or any product with negative amortization.

Home equity loans are secured primarily by second mortgages on residential property of the borrower. The underwriting terms for the home equity product generally permits borrowing availability, in the aggregate, up to 90% of the appraised value of the collateral property at the time of origination. We offer fixed and variable rate home equity loans, with variable rate loans underwritten at fully-indexed rates. Decisions are primarily based on LTV ratios, DTI ratios, liquidity, and credit scores. We do not offer home equity loan products with reduced documentation.

Automobile loans include loans and leases secured by new or used automobiles. We originate automobile loans and leases primarily on an indirect basis through selected dealerships. We require borrowers to maintain collision insurance on automobiles securing consumer loans, with us listed as loss payee. Our procedures for underwriting automobile loans include an assessment of an applicant s overall financial capacity, including credit history and the ability to meet existing obligations and payments on the proposed loan. Although an applicant s creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount.

Asset Quality

Community-based lending personnel, along with region-based independent underwriting and analytic support staff, extend credit under guidelines established and administered by our Enterprise Risk Committee. This committee, which meets quarterly, is made up of outside directors. The committee monitors credit quality through its review of information such as delinquencies, credit exposures, peer comparisons, problem loans and charge-offs. In addition, the committee reviews and approves recommended loan policy changes to assure it remains appropriate for the current lending environment.

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At June 30, 2014, we had no concentration of loans in any single industry exceeding 10% of our portfolio and had no exposure to foreign borrowers or sovereign debt. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, southeastern Illinois, western Kentucky and southwestern Michigan. We are experiencing a slow and gradual improvement in the economy of our principal markets. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens or weakens.

During the third quarter of 2011, Old National acquired the banking operations of Integra Bank in an FDIC assisted transaction. As of June 30, 2014, acquired loans totaled $209.0 million and there was $11.2 million of other real estate owned. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned.

In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. At June 30, 2014, approximately $167.5 million of loans, net of discount and allowance, and $11.2 million of other real estate owned are covered by the loss sharing agreements. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to $275.0 million. These covered assets are included in our summary of under-performing, criticized and classified assets found below.

On April 25, 2014, Old National closed on its acquisition of Tower. As of June 30, 2014, acquired loans totaled $355.2 million and there was $0.5 million of other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. Old National reviewed the acquired loans and determined that as of June 30, 2014, $14.1 million met the definition of criticized, $27.2 million were considered classified, and $1.3 million were doubtful. Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These assets are included in our summary of under-performing, criticized and classified assets found below.

Table of Contents

Summary of under-performing, criticized and classified assets:

(dollars in thousands)	June 30, 2014	June 30, 2013	December 31, 2013
Nonaccrual loans			
Commercial	**$ 30,305**	$ 31,408	$ 28,635
Commercial real estate	**50,644**	82,631	52,363
Residential real estate	**11,401**	10,412	10,333
Consumer	**4,358**	5,007	5,318
Covered loans (5)	**21,317**	60,312	31,793
Total nonaccrual loans (6)	**118,025**	189,770	128,442
Renegotiated loans not on nonaccrual			
Noncovered loans	**21,311**	9,023	15,596
Covered loans (5)	**128**	35	148
Past due loans (90 days or more and still accruing)			
Commercial	**2**	11	
Commercial real estate	**78**	80	
Residential real estate	**26**	658	35
Consumer	**181**	440	189
Covered loans (5)	**93**	18	14
Total past due loans	**380**	1,207	238
Other real estate owned	**6,729**	7,739	7,562
Other real estate owned, covered (5)	**11,155**	23,131	13,670
Total under-performing assets	**$ 157,728**	$ 230,905	$ 165,656
Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)	**$ 203,874**	$ 198,445	$ 159,783
Classified loans, covered (5)	**24,819**	67,479	35,500
Other classified assets (3)	**41,452**	49,623	43,861
Criticized loans	**112,914**	152,801	135,401
Criticized loans, covered (5)	**6,490**	14,044	8,421
Total criticized and classified assets	**$ 389,549**	$ 482,392	$ 382,966
Asset Quality Ratios including covered assets:			
Non-performing loans/total loans (1) (2)	**2.52%**	3.84%	2.84%
Under-performing assets/total loans and other real estate owned (1)	**2.84**	4.43	3.25
Under-performing assets/total assets	**1.52**	2.40	1.73
Allowance for loan losses/under-performing assets (4)	**29.26**	21.36	28.46
Allowance for loan losses/nonaccrual loans (6)	**39.10**	25.99	36.71
Asset Quality Ratios excluding covered assets:			
Non-performing loans/total loans (1) (2)	**2.20**	2.83	2.31

Under-performing assets/total loans and other real estate owned (1)	**2.33**	3.01	2.46
Under-performing assets/total assets	**1.20**	1.53	1.25
Allowance for loan losses/under-performing assets (4)	**33.99**	29.77	34.78
Allowance for loan losses/nonaccrual loans (6)	**43.94**	33.90	43.19

(1) Loans exclude residential loans held for sale and leases held for sale.
(2) Non-performing loans include nonaccrual and renegotiated loans.
(3) Includes 3 pooled trust preferred securities, 3 non-agency mortgage-backed securities and 4 corporate securities at June 30, 2014.
(4) Because the acquired loans from Monroe, Integra, Indiana Community and Tower were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date.
(5) The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans and other real estate owned. At June 30, 2014, we expect eighty percent of any losses incurred on these covered assets to be reimbursed to Old National by the FDIC.
(6) Includes approximately $35.5 million of purchased credit impaired loans that are categorized as nonaccrual because the collection of principal or interest is doubtful. These loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

Under-performing assets totaled $157.7 million at June 30, 2014, a decrease of $73.2 million compared to $230.9 million at June 30, 2013, and a decrease of $8.0 million compared to $165.7 million at December 31, 2013. As a percent of total loans and other real estate owned, under-performing assets, at June 30, 2014, were 2.84%, a decrease from the June 30, 2013 ratio of 4.43% and a decrease from the December 31, 2013 ratio of 3.25%. At June 30, 2014, under-performing assets related to covered assets acquired in the Integra Bank acquisition were approximately $32.7 million, which included approximately $21.3 million of nonaccrual loans, $0.2 million of past due loans and renegotiated loans and $11.2 million of other real estate owned. The nonaccrual covered loans are categorized in this manner because the collection of principal or interest is doubtful. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

Nonaccrual loans were $118.0 million at June 30, 2014, compared to $189.8 million at June 30, 2013, and $128.4 million at December 31, 2013. Nonaccrual loans decreased primarily as a result of decreases in our acquired covered nonaccrual loans and our commercial real estate loan portfolio. Nonaccrual loans, however, have remained at elevated levels since the acquisition of Monroe Bancorp and the FDIC-assisted acquisition of Integra in 2011. In addition, nonaccrual loans at June 30, 2014 include $20.8 million of loans related to loans acquired from Tower Financial Corporation in April 2014. Because the acquired loans from Monroe Bancorp, Integra Bank, Indiana Community Bancorp, the Bank of America branches and Tower Financial Corporation were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. As a percent of nonaccrual loans (excluding covered loans), the allowance for loan losses was 43.94% at June 30, 2014, compared to 33.90% at June 30, 2013 and 43.19% at December 31, 2013. Included in nonaccrual loans at June 30, 2014 and December 31, 2013 were $35.5 million and $38.3 million, respectively, of purchased credit impaired loans that were included in the nonaccrual category because the collection of principal or interest is doubtful. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets. We would expect our nonaccrual loans to remain at elevated levels until management can work through and resolve these purchased credit impaired loans.

Total classified and criticized assets were $389.5 million at June 30, 2014, a decrease of $92.8 million from June 30, 2013, and an increase of $6.6 million from December 31, 2013. Included in criticized and classified assets at June 30, 2014, is $42.6 million related to the acquisition of Tower Financial Corporation. Other classified assets include $41.5 million, $49.6 million and $43.9 million of investment securities that fell below investment grade rating at June 30, 2014, June 30, 2013 and December 31, 2013, respectively.

Old National may choose to restructure the contractual terms of certain loans. The decision to restructure a loan, versus aggressively enforcing the collection of the loan, may benefit Old National by increasing the ultimate probability of collection.

Any loans that are modified are reviewed by Old National to identify if a troubled debt restructuring (TDR) has occurred, which is when for economic or legal reasons related to a borrower s financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. During the six months ended June 30, 2014, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate of new debt with similar risk, or a permanent reduction of the recorded investment of the loan.

Loans modified in a troubled debt restructuring are typically placed on nonaccrual status until the Company determines the future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate a period of performance according to the restructured terms for six months.

If we are unable to resolve a nonperforming loan issue, the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based on quantitative benchmarks or subjectively based upon certain events or particular circumstances. It is our policy to charge off small commercial loans scored through our small business credit center with contractual balances under $250,000 that have been placed on nonaccrual status or became ninety days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

For commercial and industrial troubled debt restructurings, an allocated reserve is established within the allowance for loan losses for the difference between the carrying value of the loan and its computed fair value. To determine the fair value of the loan, one of the following methods is selected: (1) the present value of expected cash flows discounted at the loan s original effective interest rate, (2) the loan s observable market price, or (3) the fair value of the collateral value, if the loan is collateral dependent. The allocated reserve is established as the difference between the carrying value of the loan and the collectable value. If there are significant changes in the amount or timing of the loan s expected future cash flows, impairment is recalculated and the valuation allowance is adjusted accordingly.

When a consumer or residential loan is identified as a troubled debt restructuring, the loan is written down to its collateral value less selling costs.

At June 30, 2014, our troubled debt restructurings consisted of $18.6 million of commercial loans, $20.4 million of commercial real estate loans, $2.0 million of consumer loans and $2.5 million of residential loans, totaling $43.5 million. Approximately $22.2 million of the troubled debt restructuring at June 30, 2014 were included with nonaccrual loans. As of June 30, 2014, Old National had allocated specific reserves of $2.7 million to commercial loans and $2.1 million to commercial real estate loans for loans that have been modified in troubled debt restructurings. At December 31, 2013, our troubled debt restructurings consisted of $22.5 million of commercial loans, $22.6 million of commercial real estate loans, $1.4 million of consumer loans and $2.4 million of residential loans, totaling $48.9 million. Approximately $33.1 million of the troubled debt restructuring at December 31, 2013 were included with nonaccrual loans. As of December 31, 2013, Old National had allocated specific reserves of $2.1 million to commercial loans and $2.0 million to commercial real estate loans for loans that have been modified in troubled debt restructurings.

The terms of certain other loans were modified during the six months ended June 30, 2014 that did not meet the definition of a troubled debt restructuring. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

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. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool. As of June 30, 2014, it has not been necessary to remove any loans from PCI accounting.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR, and therefore impaired, until it is paid in full, otherwise settled, sold or charged off. However, our policy also permits for loans to be removed from troubled debt restructuring status in the years following the restructuring if the following two conditions are met: (1) the restructuring agreement specifies an interest rate equal to or greater than the rate that the Company was willing to accept at the time of the restructuring for a new loan with comparable risk, and (2) the loan is not impaired based on the terms specified by the restructuring agreement.

Allowance for Loan Losses and Reserve for Unfunded Commitments

Loan charge-offs, net of recoveries, totaled $1.0 million for the three months ended June 30, 2014, as compared to $0.5 million for the three months ended June 30, 2013. Loan charge-offs, net of recoveries, totaled $0.6 million for the six months ended June 30, 2014, as compared to $2.6 million for the six months ended June 30, 2013. Annualized, net charge-offs to average loans were 0.07% and 0.02% for the three and six months ended June 30, 2014, as compared to 0.04% and 0.10% for the three and six months ended June 30, 2013. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

Table of Contents

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. At June 30, 2014, the allowance for loan losses was $46.2 million, a decrease of $3.1 million compared to $49.3 million at June 30, 2013, and a decrease of $0.9 million compared to $47.1 million at December 31, 2013. Over the last twelve months, charge-offs have remained low and we continue to see positive trends in credit quality. Continued loan growth in future periods could result in an increase in provision expense. As a percentage of total loans excluding loans held for sale, the allowance was 0.83% at June 30, 2014, compared to 0.95% at June 30, 2013, and 0.93% at December 31, 2013. The decrease from June 30, 2013 is primarily a result of the $1.7 million of provision expense recapture during the third quarter of 2013, combined with the acquisition of Tower. The acquired loans from Tower were recorded at fair value pursuant to ASC 805, and accordingly no allowance was recorded at the acquisition date. The provision for loan losses for the six months ended June 30, 2014, was a credit of $363 thousand compared to a credit of $2.8 million for the six months ended June 30, 2013.

Because the acquired loans from Monroe Bancorp, Integra Bank, Indiana Community Bancorp, the Bank of America branches and Tower Financial Corp were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. We would expect that as the fair value mark is accreted into income over future periods, a reserve will be established to absorb credit deterioration or adverse changes in expected cash flows. Through June 30, 2014, $1.5 million, $3.9 million, $0.1 million and $0.2 million had been reserved for these purchased credits from Monroe Bancorp, Integra Bank, Indiana Community Bancorp and Tower Financial Corp, respectively.

The following table provides additional details of the following components of the allowance for loan losses, including FAS 5/ASC 450 (Accounting for Contingencies), FAS 114/ASC 310-40 (Accounting by Creditors for Impairment of a Loan) and SOP 03-3/ASC 310-30 (Accounting for Certain Loans or Debt Securities Acquired in a Transfer):

			Purchased Loans					
	Legacy		Covered			Non-covered		
(dollars in thousands)	FAS 5	FAS 114	FAS 5	FAS 114	SOP 03-3	FAS 5	FAS 114	SOP 03-3
Loan balance	$ 4,633,399	$ 54,571	$ 68,992	$ 6,007	$ 96,149	$ 622,035	$ 17,890	$ 39,825
Remaining purchase discount			4,325		65,521	33,737	6,294	24,317
Allowance, January 1, 2014	30,826	8,346	1,552		3,852			2,569
Charge-offs	(534)	(3,281)	(35)	(558)	(284)	(367)	(98)	(405)
Recoveries	457	3,161	11	109	74	129	716	275
Provision expense	2,249	(796)	(637)	1,732	(2,158)	238	(314)	(677)
Allowance, June 30, 2014	$ 32,998	$ 7,430	$ 891	$ 1,283	$ 1,484	$	$ 304	$ 1,762

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. The $3.5 million reserve for unfunded loan commitments at June 30, 2014 is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was $2.7 million at December 31, 2013. The reserve for unfunded loan commitments increased primarily due to the acquisition of Tower Financial.

Table of Contents

Market Risk

Market risk is the risk that the estimated fair value of our assets, liabilities, and derivative financial instruments will decline as a result of changes in interest rates or financial market volatility, or that our net income will be significantly reduced by interest rate changes.

The objective of our interest rate management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

Potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Our earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Federal Reserve Board.

In managing interest rate risk, we, through the Funds Management Committee, a committee of the Board of Directors, establish guidelines, for asset and liability management, including measurement of short and long-term sensitivities to changes in interest rates. Based on the results of our analysis, we may use different techniques to manage changing trends in interest rates including:

- adjusting balance sheet mix or altering interest rate characteristics of assets and liabilities;
- changing product pricing strategies;
- modifying characteristics of the investment securities portfolio; or
- using derivative financial instruments, to a limited degree.

A key element in our ongoing process is to measure and monitor interest rate risk using a Net Interest Income at Risk simulation to model the interest rate sensitivity of the balance sheet and to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income over a one-year and a two-year cumulative horizon. The model assumes a semi-static balance sheet and measures the impact on net interest income relative to a base case scenario of hypothetical changes in interest rates over 24 months. The scenarios include prepayment assumptions, changes in the level of interest rates, the shape of the yield curve, and spreads between market interest rates in order to capture the impact from re-pricing, yield curve, option, and basis risks.

Our simulation scenarios assume the following market interest rates with an instantaneous shift from current interest rates.

Hypothetical LIBOR/Swap Yield Curves, June 30, 2014

	3-Month	6-Month	1-Year	2-Year	3-Year	5-Year	10-Year	20-Year	30-Year
+ 3.00%	3.23%	3.33%	3.55%	3.58%	4.00%	4.70%	5.63%	6.21%	6.33%
+ 2.00%	2.23%	2.33%	2.55%	2.58%	3.00%	3.70%	4.63%	5.21%	5.33%
+ 1.00%	1.23%	1.33%	1.55%	1.58%	2.00%	2.70%	3.63%	4.21%	4.33%
Yield Curve at 6/30	0.23%	0.33%	0.55%	0.58%	1.00%	1.70%	2.63%	3.21%	3.33%
- 1.00%	NA	NA	NA	NA	NA	NA	NA	NA	NA
100 bp flattening of curve									
Short end	1.23%	1.33%	1.55%	1.58%	1.00%	1.70%	2.63%	3.43%	3.54%
Long end	0.23%	0.33%	0.55%	0.58%	1.00%	1.70%	1.63%	2.21%	2.33%
100 bp steepening of curve									
Short end	0.00%	0.00%	0.00%	0.00%	1.00%	1.70%	2.63%	3.21%	3.33%
Long end	0.23%	0.33%	0.55%	0.58%	1.00%	1.70%	3.63%	4.21%	4.33%

A key element in the measurement and modeling of interest rate risk are the re-pricing assumptions of our transaction deposit accounts, which have no contractual maturity dates. We assume this deposit base is comprised of both core and more volatile balances and consists of both non-interest bearing and interest bearing accounts. Core deposit balances are assumed to be less interest rate sensitive and provide longer term funding. Volatile balances are assumed to be more interest rate sensitive and shorter in term. As part of our semi-static balance sheet modeling, we assume interest rates paid on the volatile deposits move in conjunction with changes in interest rates, in order to retain these deposits. This may include current non-interest bearing accounts.

Table of Contents

Results of our simulation modeling project that our net interest income could change as follows over one-year and two-year horizons, relative to our base case scenarios at June 30, 2014.

	Changes in Net Interest Income One Year Horizon					
	6/30/2014			6/30/2013		
Immediate Change in the Level of Interest Rates	Net Interest Income (000s)	$ Change (000s)	% Change	Net Interest Income (000s)	$ Change (000s)	% Change
+ 3.00%	268,572	(10,655)	-3.82%	228,535	(37,321)	-14.04%
+ 2.00%	273,121	(6,106)	-2.19%	243,247	(22,609)	-8.50%
+ 1.00%	276,203	(3,025)	-1.08%	258,170	(7,685)	-2.89%
Yield Curve	279,227		0.00%	265,856		0.00%
- 1.00%	NA	NA	NA	NA	NA	NA
100 bp flattening of curve						
Short end	274,429	(4,799)	-1.72%	256,150	(9,705)	-3.65%
Long end	277,173	(2,055)	-0.74%	262,488	(3,368)	-1.27%
100 bp steepening of curve						
Short end	277,470	(1,758)	-0.63%	265,108	(748)	-0.28%
Long end	280,733	1,506	0.54%	268,273	2,417	0.91%

	Changes in Net Interest Income Two Year Cumulative Horizon					
	6/30/2014			6/30/2013		
Immediate Change in the Level of Interest Rates	Net Interest Income (000s)	$ Change (000s)	% Change	Net Interest Income (000s)	$ Change (000s)	% Change
+ 3.00%	563,089	9,961	1.80%	473,292	(52,591)	-10.00%
+ 2.00%	561,668	8,540	1.54%	498,625	(27,258)	-5.18%
+ 1.00%	557,676	4,547	0.82%	521,021	(4,862)	-0.92%
Yield Curve	553,128		0.00%	525,883		0.00%
- 1.00%	NA	NA	NA	NA	NA	NA
100 bp flattening of curve						
Short end	551,485	(1,644)	-0.30%	513,298	(12,585)	-2.39%
Long end	546,559	(6,570)	-1.19%	514,056	(11,827)	-2.25%
100 bp steepening of curve						
Short end	546,042	(7,087)	-1.28%	521,518	(4,365)	-0.83%
Long end	558,350	5,222	0.94%	534,263	8,380	1.59%

Old National also has longer term interest rate risk exposure, which may not be appropriately measured by Net Interest Income at Risk modeling. We use Economic Value of Equity (EVE) sensitivity analysis to evaluate the impact of long term cash flows on earnings and capital. EVE modeling involves discounting present values of all cash flows under different interest rate scenarios. The discounted present value of all cash flows represents our economic value of equity. The amount of base case economic value and its sensitivity to shifts in interest rates provide a measure of the longer term re-pricing and option risk in the balance sheet. EVE simulation results are shown below, relative to base case.

Table of Contents

	Economic Value of Equity					
	6/30/2014			6/30/2013		
Immediate Change in the Level of Interest Rates	Economic Value of Equity (millions)	$ Change (millions)	% Change	Economic Value of Equity (millions)	$ Change (millions)	% Change
+ 3.00%	1,055	(130)	-10.98%	758	(192)	-20.19%
+ 2.00%	1,108	(78)	-6.56%	833	(117)	-12.28%
+ 1.00%	1,158	(28)	-2.34%	929	(21)	-2.19%
Yield Curve	1,185			950		
- 1.00%	NA	NA	NA	NA	NA	NA

Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect our net interest income and the economic value of equity, we recognize that model outputs are not guarantees of actual results. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand its overall sensitivity to market interest rate changes.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. We also provide derivatives to our commercial customers in connection with managing interest rate risk. Our derivatives had an estimated fair value loss of $1.5 million at June 30, 2014, compared to an estimated fair value gain of $2.4 million at December 31, 2013. See Note 17 to the consolidated financial statements for further discussion of derivative financial instruments.

Liquidity Risk

Liquidity risk arises from the possibility that we may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. The Funds Management Committee of the Board of Directors establishes liquidity risk guidelines and, along with the Balance Sheet Management Committee, monitors liquidity risk. The objective of liquidity management is to ensure we have the ability to fund balance sheet growth and meet deposit and debt obligations in a timely and cost-effective manner. Management monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts. We maintain strategic and contingency liquidity plans to ensure sufficient available funding to satisfy requirements for balance sheet growth, properly manage capital markets funding sources and to address unexpected liquidity requirements.

Loan repayments and maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of investment securities and prepayments of loans and mortgage-related securities are strongly influenced by interest rates, the housing market, general and local economic conditions, and competition in the marketplace. We continually monitor marketplace trends to identify patterns that might improve the predictability of the timing of deposit flows or asset prepayments.

A time deposit maturity schedule for Old National Bank is shown in the following table for June 30, 2014.

Time Deposit Maturity Schedule, June 30, 2014

Maturity Bucket	Amount (000s)	Rate
2014	$ 375,156	0.52%
2015	302,422	1.10%
2016	176,140	2.74%

2017	49,906	0.84%
2018	39,323	1.17%
2019 and beyond	41,982	1.65%

Table of Contents

Our ability to acquire funding at competitive prices is influenced by rating agencies views of our credit quality, liquidity, capital and earnings. All of the rating agencies place us in an investment grade that indicates a low risk of default. For both Old National and Old National Bank:

Moody s Investor Service maintains Old National Bank s Long Term Rating at A2 with a stable outlook and stable Short Term ratings of P-1.

Dominion Bond Rating Services (DBRS) confirmed our ratings (A, R-1) and stable outlook on November 11, 2013. Subsequent to the confirmation, DBRS withdrew the ratings at its own discretion.

The senior debt ratings of Old National and Old National Bank at June 30, 2014, are shown in the following table.

SENIOR DEBT RATINGS

	Moody s Investor Service	
	Long term	**Short term**
Old National Bancorp	N/A	N/A
Old National Bank	A2	P-1

N/A = not applicable

Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposit and short-term and medium-term bank notes as well. As of June 30, 2014, Old National Bancorp and its subsidiaries had the following availability of liquid funds and borrowings.

(dollars in thousands)	Parent Company	Subsidiaries
Available liquid funds:		
Cash and due from banks	$ 35,040	$ 201,653
Unencumbered government-issued debt securities		1,255,650
Unencumbered investment grade municipal securities		657,711
Unencumbered corporate securities		100,541
Unencumbered other securities		
Availability of borrowings:		
Amount available from Federal Reserve discount window*		451,014
Amount available from Federal Home Loan Bank Indianapolis*		359,293
Amount available under other credit facilities		
Total available funds	$ 35,040	$ 3,025,862

* Based on collateral pledged

The Parent Company (Old National Bancorp) has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company can obtain funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt and equity markets. At June 30, 2014, the Parent Company s other borrowings outstanding were $45.0 million.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. Prior regulatory approval to pay dividends was not required in 2013 or 2014 and is not currently required.

Table of Contents

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.382 billion and standby letters of credit of $68.7 million at June 30, 2014. At June 30, 2014, approximately $1.303 billion of the loan commitments had fixed rates and $79 million had floating rates, with the floating rates ranging from 0% to 21%. At December 31, 2013, loan commitments were $1.271 billion and standby letters of credit were $62.0 million. The term of these off-balance sheet arrangements is typically one year or less.

During the second quarter of 2007, we entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of $8.0 million at June 30, 2014.

CONTRACTUAL OBLIGATIONS

The following table presents our significant fixed and determinable contractual obligations at June 30, 2014:

CONTRACTUAL OBLIGATIONS

	Payments Due In				
(dollars in thousands)	One Year or Less (1)	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without stated maturity	$ 6,570,074	$	$	$	$ 6,570,074
IRAs, consumer and brokered certificates of deposit	375,156	478,562	89,229	41,982	984,929
Short-term borrowings	467,578				467,578
Other borrowings	405,728	117,458	191,583	187,246	902,015
Fixed interest payments (2)	3,488	13,042	8,668	23,423	48,621
Operating leases	15,991	62,870	61,461	234,255	374,577
Other long-term liabilities (3)	374				374

(1) For the remaining six months of fiscal 2014.
(2) Our subordinated notes, certain trust preferred securities and certain Federal Home Loan Bank advances have fixed rates ranging from 0.16% to 8.34%. All of our other long-term debt is at Libor based variable rates at June 30, 2014. The projected variable interest assumes no increase in Libor rates from June 30, 2014.
(3) Amount expected to be contributed to the pension plans in 2014. Amounts for 2015 and beyond are unknown at this time.

We rent certain premises and equipment under operating leases. See Note 18 to the consolidated financial statements for additional information on long-term lease arrangements.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 17 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 18 to the consolidated financial statements.

In addition, liabilities recorded under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FASB ASC 740-10 is included in Note 16 to the consolidated financial statements.

Table of Contents

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2013. Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations.

The following accounting policies materially affect our reported earnings and financial condition and require significant judgments and estimates. Management has reviewed these critical accounting estimates and related disclosures with our Audit Committee.

Goodwill and Intangibles

Description. For acquisitions, we are required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value. These often involve estimates based on third-party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under FASB ASC 350 (SFAS No. 142 *Goodwill and Other Intangible Assets*), goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

Judgments and Uncertainties. The determination of fair values is based on valuations using management s assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors.

Effect if Actual Results Differ From Assumptions. Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying values of goodwill or intangible assets and could result in impairment losses affecting our financials as a whole and the individual lines of business in which the goodwill or intangibles reside.

Acquired Impaired Loans

Description. Loans acquired with evidence of credit deterioration since inception and for which it is probable that all contractual payments will not be received are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). These loans are recorded at fair value at the time of acquisition, with no carryover of the related allowance for loan losses. Fair value of acquired loans is determined using a discounted cash flow methodology based on assumptions about the amount and timing of principal and interest payments, principal prepayments and principal defaults and losses, and current market rates. In recording the acquisition date fair values of acquired impaired loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans).

Over the life of the acquired loans, we continue to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. We evaluate at each balance sheet date whether the present value of our pools of loans determined using the effective interest rates has decreased significantly and if so, recognize a provision for loan loss in our consolidated statement of income. For any significant increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the pool s remaining life.

Table of Contents

Judgments and Uncertainties. These cash flow evaluations are inherently subjective as they require management to make estimates about expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

Effect if Actual Results Differ From Assumptions. Changes in these factors, as well as changing economic conditions will likely impact the carrying value of these acquired loans as well as the carrying value of any associated indemnification assets, as the FDIC will reimburse us for losses incurred on certain acquired loans, but the shared-loss agreements may not fully offset the financial effects of such a situation.

FDIC Indemnification Asset

Description. The FDIC Indemnification Asset results from the loss share agreement associated with our FDIC-assisted acquisition of Integra in 2011. This asset is measured separately from the related covered assets (loans and OREO) as it is not contractually embedded in those assets and is not transferable should we choose to dispose of the covered assets. The FDIC indemnification asset represents the discounted amount of estimated reimbursable losses from the FDIC for losses on covered assets. Pursuant to the terms of the loss sharing agreements, covered assets are subject to stated loss thresholds whereby the FDIC will reimburse Old National for 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0%, and 80% of losses in excess of $467.2 million. The loss sharing agreements provide for five years of coverage on non-single family loans and ten years of coverage on single family loans. Recoveries associated with non-single family loans are shared with the FDIC for three years beyond the loss share coverage period. The FDIC indemnification asset was recorded at its estimated fair value at the time of the FDIC-assisted transaction. The fair value was estimated using the projected cash flows related to the loss sharing agreements based on the expected reimbursements for losses and the applicable loss sharing percentages. These cash flows are discounted to reflect the uncertainty of the timing of the loss sharing reimbursement from the FDIC.

Accounting for the FDIC indemnification asset is closely related to the accounting for the underlying indemnified assets. We re-estimate the expected indemnification asset cash flows in conjunction with the periodic re-estimation of cash flows on covered loans accounted for under ASC Topic 310-30 and ASC Topic 310-20. Improvements in the credit quality or cash flow expectations of covered loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the indemnification asset, with such decreases being amortized into income over (1) the remaining life of the loans or (2) the life of the loss share agreements, whichever is shorter. Declines in cash flow expectations on covered loans generally result in an increase in expected indemnification cash flows and are reflected as both FDIC loss sharing income and an increase to the indemnification asset.

Judgments and Uncertainties. The cash flow evaluations are inherently subjective as they require management to make estimates about the amount and timing of expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

Effect if Actual Results Differ From Assumptions. Changes in these factors, as well as changing economic conditions will likely impact the carrying value of the indemnification asset. The estimated timing of our expected losses may be wrong and fall outside our coverage period resulting in impairment of our indemnification asset.

Allowance for Loan Losses

Description. The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses 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 represents management s best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

Table of Contents

The allowance is increased through a provision charged to operating expense. Uncollectible loans are charged-off through the allowance. Recoveries of loans previously charged-off are added to the allowance. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. Our policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. We monitor the quality of our loan portfolio on an on-going basis and use a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining the allowance for loan losses. We record provisions for loan losses based on current loans outstanding, grade changes, mix of loans and expected losses. A detailed loan loss evaluation on an individual loan basis for our highest risk loans is performed quarterly. Management follows the progress of the economy and how it might affect our borrowers in both the near and the intermediate term. We have a formalized and disciplined independent loan review program to evaluate loan administration, credit quality and compliance with corporate loan standards. This program includes periodic reviews and regular reviews of problem loan reports, delinquencies and charge-offs.

Judgments and Uncertainties. We use migration analysis as a tool to determine the adequacy of the allowance for loan losses for performing commercial 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.

We calculate 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 are 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 are 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 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.

Effect if Actual Results Differ From Assumptions. The allowance represents management s best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

Management s analysis of probable losses in the portfolio at June 30, 2014, resulted in a range for allowance for loan losses of $13.5 million. The range pertains to general (FASB ASC 310, Receivables/SFAS 5) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, Receivables/SFAS 114) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy, our projection of FAS 5 loss rates inherent in the portfolio, and our selection of representative historical periods, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of $1.5 million and an increase of $7.3 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and are not intended to represent actual results.

Table of Contents

Derivative Financial Instruments

Description. As part of our overall interest rate risk management, we use derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by FASB ASC 815 (SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*) (ASC Topic 815), changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments we use have an active market and indications of fair value can be readily obtained. We are not using the short-cut method of accounting for any fair value derivatives.

Judgments and Uncertainties. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items.

Effect if Actual Results Differ From Assumptions. To the extent hedging relationships are found to be effective, as determined by ASC Topic 815, changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. However, if in the future the derivative financial instruments used by us no longer qualify for hedge accounting treatment, all changes in fair value of the derivative would flow through the consolidated statements of income in other noninterest income, resulting in greater volatility in our earnings.

Income Taxes

Description. We are subject to the income tax laws of the U.S., its states and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. FASB ASC 740-10 (FIN 48) prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 13 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.

Judgments and Uncertainties. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.

Effect if Actual Results Differ From Assumptions. Although management believes that the judgments and estimates used are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would result in a reduction in our effective income tax rate in the period of resolution.

Valuation of Securities

Description. The fair value of our securities is determined with reference to price estimates. In the absence of observable market inputs related to items such as cash flow assumptions or adjustments to market rates, management judgment is used. Different judgments and assumptions used in pricing could result in different estimates of value.

When the fair value of a security is less than its amortized cost for an extended period, we consider whether there is an other-than-temporary-impairment in the value of the security. If, in management s judgment, an other-than-temporary-impairment exists, the portion of the loss in value attributable to credit quality is transferred from accumulated other comprehensive loss as an immediate reduction of current earnings and the cost basis of the security is written down by this amount.

We consider the following factors when determining an other-than-temporary-impairment for a security or investment:

The length of time and the extent to which the fair value has been less than amortized cost;

The financial condition and near-term prospects of the issuer;

The underlying fundamentals of the relevant market and the outlook for such market for the near future;

Our intent to sell the debt security or whether it is more likely than not that we will be required to sell the debt security before its anticipated recovery; and

When applicable for purchased beneficial interests, the estimated cash flows of the securities are assessed for adverse changes.

Quarterly, securities are evaluated for other-than-temporary-impairment in accordance with FASB ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), and FASB ASC 325-10 (Emerging Issues Task Force No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets*) and FASB ASC 320-10 (FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). An impairment that is an other-than-temporary-impairment is a decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment. Other-than-temporary-impairments result in reducing the security s carrying value by the amount of credit loss. The credit component of the other-than-temporary-impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income.

Judgments and Uncertainties. The determination of other-than-temporary-impairment is a subjective process, and different judgments and assumptions could affect the timing and amount of loss realization. In addition, significant judgments are required in determining valuation and impairment, which include making assumptions regarding the estimated prepayments, loss assumptions and interest cash flows.

Effect if Actual Results Differ From Assumptions. Actual credit deterioration could be more or less severe than estimated. Upon subsequent review, if cash flows have significantly improved, the discount would be amortized into earnings over the remaining life of the debt security in a prospective manner based on the amount and timing of future cash flows. Additional credit deterioration resulting in an adverse change in cash flows would result in additional other-than-temporary impairment loss recorded in the income statement.

FORWARD-LOOKING STATEMENTS

In this report, we have made various statements regarding current expectations or forecasts of future events, which speak only as of the date the statements are made. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are also made from time-to-time in press releases and in oral statements made by the officers of Old National Bancorp (Old National, or the Company). Forward-looking statements are identified by the words expect, may, could, intend, project, believe, anticipate and similar expressions. Forward-looking statements also include, but are not limited to, statements regarding estimated cost savings, plans and objectives for future operations, the Company s business and growth strategies, including future acquisitions of banks, regulatory developments, and expectations about performance as well as economic and market conditions and trends.

Table of Contents

Such forward-looking statements are based on assumptions and estimates, which although believed to be reasonable, may turn out to be incorrect. Therefore, undue reliance should not be placed upon these estimates and statements. We can not assure that any of these statements, estimates, or beliefs will be realized and actual results may differ from those contemplated in these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised to consult further disclosures we may make on related subjects in our filings with the SEC. In addition to other factors discussed in this report, some of the important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include the following:

- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry;
- expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;
- unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;
- failure to properly understand risk characteristics of newly entered markets;
- increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- governmental legislation and regulation, including changes in accounting regulation or standards;
- our ability to execute our business plan;
- a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;

changes in the securities markets; and

changes in fiscal, monetary and tax policies.

Investors should consider these risks, uncertainties and other factors in addition to risk factors included in our other filings with the SEC.

ITEM 3. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management s Discussion and Analysis of Financial Condition and Results of Operations-Market Risk and Liquidity Risk.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures. Old National s principal executive officer and principal financial officer have concluded that Old National s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by Old National in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to Old National s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Controls. Management, including the principal executive officer and principal financial officer, does not expect that Old National s disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be only reasonable assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting. There were no changes in Old National s internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, Old National s internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the Risk Factors section of the Company s annual report on Form 10-K for the year ended December 31, 2013.

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

(c) **ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publically Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
04/01/14 - 04/30/14		$		1,884,309
05/01/14 - 05/31/14				1,884,309
06/01/14 - 06/30/14	1,540	13.53	1,540	1,882,769
Quarter-to-date 06/30/14	1,540	$ 13.53	1,540	1,882,769

On January 23, 2014, the Board of Directors approved the repurchase of up to 2.0 million shares of stock over a twelve month period beginning January 23, 2014 and ending January 31, 2015. During the first six months of 2014, Old National repurchased a limited number of shares associated with employee share-based incentive programs but did not repurchase any shares on the open market.

ITEM 5. OTHER INFORMATION

(a) None

(b) There have been no material changes in the procedure by which security holders recommend nominees to the Company s board of directors.

ITEM 6. EXHIBITS

Exhibit No.	Description

2.1	Purchase and Assumption Agreement Whole Bank All Deposits, among Federal Deposit Insurance Corporation, receiver of Integra Bank National Association, Evansville, Indiana, the Federal Deposit Insurance Corporation and Old National Bank, dated July 29, 2011 (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2011).
2.2	Purchase and Assumption Agreement dated as of January 8, 2013 by and between Old National Bancorp and Bank of America, National Association (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2013).
2.3	Agreement and Plan of Merger dated as of September 9, 2013 by and between Old National Bancorp and Tower Financial Corporation (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 10, 2013).

Table of Contents

2.4	Agreement and Plan of Merger dated as of January 7, 2014 by and between Old National Bancorp and United Bancorp, Inc. (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 8, 2014).
2.5	Agreement and Plan of Merger dated as of June 3, 2014 by and between Old National Bancorp and LSB Financial Corp. (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2014).
2.6	Agreement and Plan of Merger dated as of July 25, 2014 by and between Old National Bancorp and Founders Financial Corporation (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2014).
3.1	Third Amended and Restated Articles of Incorporation of Old National, amended October 25, 2013 (incorporated by reference to Exhibit 3.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 28, 2013).
3.2	Amended and restated By-Laws of Old National Bancorp, amended June 2, 2014 (incorporated by reference to Exhibit 3.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 2, 2014).
3.3	Amended and Restated By-Laws of Old National Bancorp, amended July 24, 2014 (incorporated by reference to Exhibit 3.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 25, 2014).
4.1	Senior Indenture between Old National and The Bank of New York Trust Company (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One, NA)), as trustee, dated as of July 23, 1997 (incorporated by reference to Exhibit 4.3 to Old National s Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004).
4.2	Form of Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.1 to Old National s Registration Statement on Form S-3, Registration No. 333-87573, filed with the Securities and Exchange Commission on September 22, 1999).
4.3	First Indenture Supplement dated as of May 20, 2005, between Old National and J.P. Morgan Trust Company, as trustee, providing for the issuance of its 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).
4.4	Form of 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).
10.1	Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.2	Second Amendment to the Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(b) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*

98

10.3	2005 Directors Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(c) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.4	Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(d) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.5	Second Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(e) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.6	Third Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(f) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.7	2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(g) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.8	Summary of Old National Bancorp s Outside Director Compensation Program (incorporated by reference to Old National s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).*
10.9	Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
10.10	Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).*
10.11	Form of 2007 Non-qualified Stock Option Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(y) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).*
10.12	Lease Agreement, dated December 20, 2006 between ONB One Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(aa) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.13	Lease Agreement, dated December 20, 2006 between ONB 123 Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ab) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.14	Lease Agreement, dated December 20, 2006 between ONB 4th Street Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ac) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.15	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).

99

Table of Contents

10.16	Lease Supplement No. 1 dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, Old National Bank and ONB Insurance Group, Inc. (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.17	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #2, LLC, and Old National Bank (incorporated by reference to Exhibit 99.4 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.18	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #3, LLC, and Old National Bank (incorporated by reference to Exhibit 99.5 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.19	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #4, LLC, and Old National Bank (incorporated by reference to Exhibit 99.6 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.20	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #5, LLC, and Old National Bank (incorporated by reference to Exhibit 99.7 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.21	Form of Lease Agreement dated October 19, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007).
10.22	Form of Lease Agreement dated December 27, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (as incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2007).
10.23	Form of 2008 Non-qualified Stock Option Award Agreement (incorporated by reference to Exhibit 99.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).*
10.24	Old National Bancorp Code of Conduct (incorporated by reference to Exhibit 14.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2008).
10.25	Form of 2009 Executive Stock Option Agreement between Old National and certain key associates (incorporated by reference to Old National s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).*
10.26	Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National s Registration Statement on Form S-3, Registration No. 333-161394 filed with the Securities and Exchange Commission on August 17, 2009).
10.27	Form of Employment Agreement for Robert G. Jones (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).*
10.28	Form of Employment Agreement for Barbara A Murphy, Christopher A. Wolking, Allen R. Mounts and Daryl D. Moore (incorporated by reference to Exhibit 10.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).*
10.29	Employment Agreement for James A. Sandgren (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2014).*

10.30	Form of 2011 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(av) of Old National s Annual Report on Form 10-K for the year ended December 31, 2010).*
10.31	Form of 2011 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(aw) of Old National s Annual Report on Form 10-K for the year ended December 31, 2010).*
10.32	Form of 2011 Service Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(ax) of Old National s Annual Report on Form 10-K for the year ended December 31, 2010).*
10.33	Form of Amended Severance/Change of Control Agreement for Jeffrey L. Knight (incorporated by reference to Exhibit 10(bb) of Old National s Annual Report on Form 10-K for the year ended December 31, 2011).*
10.34	Form of 2012 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(bc) of Old National s Annual Report on Form 10-K for the year ended December 31, 2011).*
10.35	Form of 2012 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(bd) of Old National s Annual Report on Form 10-K for the year ended December 31, 2011).*
10.36	Form of 2012 Service Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(be) of Old National s Annual Report on Form 10-K for the year ended December 31, 2011).*
10.37	Old National Bancorp Amended and Restated 2008 Incentive Compensation Plan (incorporated by reference to Appendix I of Old National s Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2012).*
10.38	Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National s Registration Statement on Form S-3, Registration No. 333-183344 filed with the Securities and Exchange Commission on August 16, 2012).
10.39	Form of 2013 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(bg) of Old National s Annual Report on Form 10-K for the year ended December 31, 2012).*
10.40	Form of 2013 Performance Share Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(bh) of Old National s Annual Report on Form 10-K for the year ended December 31, 2012).*
10.41	Voting Agreement by and among directors of Tower Financial Corporation (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 10, 2013).
10.42	Voting Agreement by and among directors of United Bancorp, Inc. (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 8, 2014).
10.43	Form of 2014 Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(ap) of Old National s Annual Report on Form 10-K for the year

ended December 31, 2013).*

10.44	Form of 2014 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(aq) of Old National s Annual Report on Form 10-K for the year ended December 31, 2013).*
10.45	Voting Agreement by and among directors of LSB Financial Corp. (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2014).
10.46	Voting Agreement by and among directors of Founders Financial Corporation (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2014).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Old National Bancorp s Form 10-Q Report for the quarterly period ended June 30, 2014, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (Loss), (iv) the Consolidated Statements of Changes in Shareholders Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.**

* Management contract or compensatory plan or arrangement

** Furnished, not filed

Table of Contents

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.

OLD NATIONAL BANCORP

(Registrant)

By: /s/ Christopher A. Wolking
Christopher A. Wolking
Senior Executive Vice President and Chief
Financial Officer Duly Authorized Officer
and Principal Financial Officer

Date: August 1, 2014