

OLD NATIONAL BANCORP /IN/  
Form 10-Q  
May 01, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2015**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-15817**

**OLD NATIONAL BANCORP**

**(Exact name of Registrant as specified in its charter)**

**INDIANA**  
**(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  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  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

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

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

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## OLD NATIONAL BANCORP

## CONSOLIDATED BALANCE SHEETS

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

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

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

**Table of Contents****OLD NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

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

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

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

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

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

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



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## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

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

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

**Table of Contents****OLD NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

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

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

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**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. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of March 31, 2015 and 2014, and December 31, 2014, and the results of its operations for the three months ended March 31, 2015 and 2014. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National's Annual Report for the year ended December 31, 2014.

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

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

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

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

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

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

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

**FASB ASC 310** In August 2014, the FASB issued an update (ASU No. 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure) impacting FASB ASC 310-40, Receivables - Troubled Debt Restructuring by Creditors. This update affects creditors that hold government-guaranteed mortgage loans. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure. (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim. (3) At the

time of foreclosure, the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

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

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

**NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY****Acquisitions***Tower Financial Corporation*

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

The total purchase price for Tower was \$110.4 million, consisting of \$31.7 million of cash and the issuance of 5.6 million shares of Old National Common Stock valued at \$78.7 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired

and liabilities assumed at their estimated acquisition date fair values, while \$5.6 million of transaction and integration costs associated with the acquisition were expensed as incurred.

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

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

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

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

	<b>Estimated Fair Value (in millions)</b>	<b>Estimated Useful Lives (Years)</b>
Core deposit intangible	\$ 4.6	7
Trust customer relationship intangible	\$ 3.8	12

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

(in thousands)

Fair Value of Acquired Loans at Acquisition Date	Gross Contract Amounts Received at Acquisition	Best Estimate of Contractual Cash Flows Not Expected to
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			Date	be Collected
Acquired receivables subject to ASC 310-30	\$ 12,855	\$ 22,746	\$ 5,826	
Acquired receivables not subject to ASC 310-30	\$ 358,199	\$ 450,865	\$ 42,302	

*United Bancorp, Inc.*

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

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

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

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

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

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

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

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

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

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

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

*LSB Financial Corp.*

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

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

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

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

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

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

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

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

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

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

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

*Founders Financial Corporation*

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

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

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

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

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

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

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

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

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

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

**Table of Contents***Mutual Underwriters Insurance*

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

**Divestitures**

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

**NOTE 4 - NET INCOME PER SHARE**

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

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

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

**Table of Contents****NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

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

(dollars in thousands)	Changes in AOCI by Component (a)					Total
	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		
<b>2015</b>						
Balance at January 1, 2015	\$ (748)	\$ (15,776)	\$ (5,935)	\$ (9,096)		\$ (31,555)
Other comprehensive income (loss) before reclassifications	11,515		(3,489)			8,026
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(1,688)	403	115	457		(713)
Net current-period other comprehensive income (loss)	9,827	403	(3,374)	457		7,313
Balance at March 31, 2015	\$ 9,079	\$ (15,373)	\$ (9,309)	\$ (8,639)		\$ (24,242)
<b>2014</b>						
Balance at January 1, 2014	\$ (21,108)	\$ (16,767)	\$ (190)	\$ (6,401)		\$ (44,466)
Other comprehensive income (loss) before reclassifications	7,415		(1,200)			6,215
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(282)	270		333		321
Net current-period other comprehensive income (loss)	7,133	270	(1,200)	333		6,536
Balance at March 31, 2014	\$ (13,975)	\$ (16,497)	\$ (1,390)	\$ (6,068)		\$ (37,930)

(a) All amounts are net of tax. Amounts in parentheses indicate debits.

(b) See tables below for details about reclassifications.

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

Reclassifications out of Accumulated Other Comprehensive Income (Loss)		
Three Months Ended March 31, 2015 (a)		
Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement of Net Income is Presented
Unrealized gains and losses on available-for-sale securities		
	\$ 2,683	Net securities gains
		Impairment losses
	2,683	Total before tax
	(995)	Tax (expense) or benefit
	\$ 1,688	Net of tax
Unrealized gains and losses on held-to-maturity securities		
	\$ (337)	Interest income/(expense)
	(66)	Tax (expense) or benefit
	\$ (403)	Net of tax
Gains and losses on cash flow hedges		
Interest rate contracts	\$ (186)	Interest income/(expense)
	71	Tax (expense) or benefit
	\$ (115)	Net of tax
Amortization of defined benefit pension items		
Actuarial gains/(losses)	\$ (738)	Salaries and employee benefits
	281	Tax (expense) or benefit
	\$ (457)	Net of tax
Total reclassifications for the period	\$ 713	Net of tax

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



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

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

**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 March 31, 2015 and December 31, 2014 and the corresponding amounts of unrealized gains and losses therein:

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



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

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

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

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

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

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

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

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

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.

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

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

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

**Pooled Trust Preferred Securities**

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

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



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

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

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

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

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

less than the amortized cost of the security, and an other-than-temporary-impairment charge of \$100 thousand was recorded for this security in the first quarter of 2014.

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

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

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

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

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

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

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

**NOTE 8 LOANS AND ALLOWANCE FOR CREDIT LOSSES**

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

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The composition of loans by lending classification was as follows:

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

(1) Includes direct finance leases of \$18.9 million at March 31, 2015 and \$19.3 million at December 31, 2014. The risk characteristics of each loan portfolio segment are as follows:

**Commercial**

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

**Commercial real estate**

These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be adversely affected by conditions in the real estate markets or in the general economy. The properties securing Old National's commercial real estate portfolio are diverse in terms of type and geographic location. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, Old National avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of

owner-occupied commercial real estate loans versus non-owner occupied loans.

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

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### Residential

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, Old National typically establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

### Consumer

Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

### Covered Loans

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

### Allowance for loan losses

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

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

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

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

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

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

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

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

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
<b>2015</b>						
<b>Allowance for loan losses:</b>						
Balance at January 1, 2015	\$ 20,670	\$ 17,348	\$ 6,869	\$ 2,962	\$	\$ 47,849
Charge-offs	44	710	(1,604)	(374)		(1,224)
Recoveries	1,182	167	875	28		2,252
Provision	2,807	(4,418)	1,309	303		1
Balance at March 31, 2015	\$ 24,703	\$ 13,807	\$ 7,449	\$ 2,919	\$	\$ 48,878
<b>2014</b>						
<b>Allowance for loan losses:</b>						
Balance at January 1, 2014	\$ 16,565	\$ 22,401	\$ 4,940	\$ 3,239	\$	\$ 47,145
Charge-offs	(1,147)	(168)	(1,125)	21		(2,419)
Recoveries	792	1,095	821	82		2,790
Provision	3,296	(4,018)	742	17		37
Balance at March 31, 2014	\$ 19,506	\$ 19,310	\$ 5,378	\$ 3,359	\$	\$ 47,553

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The following table provides Old National's recorded investment in financing receivables by portfolio segment at March 31, 2015 and December 31, 2014 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
<b>March 31, 2015</b>						
<b>Allowance for loan losses:</b>						
Individually evaluated for impairment	\$ 9,986	\$ 1,838	\$	\$	\$	\$ 11,824
Collectively evaluated for impairment	13,635	10,830	7,180	2,905		34,550
Noncovered loans acquired with deteriorated credit quality	486	1,139	63	14		1,702
Covered loans acquired with deteriorated credit quality	596		206			802
<b>Total allowance for loan losses</b>	<b>\$ 24,703</b>	<b>\$ 13,807</b>	<b>\$ 7,449</b>	<b>\$ 2,919</b>	<b>\$</b>	<b>\$ 48,878</b>
<b>Loans and leases outstanding:</b>						
Individually evaluated for impairment	\$ 48,295	\$ 53,094	\$	\$	\$	\$ 101,389
Collectively evaluated for impairment	1,625,819	1,728,376	1,456,851	1,625,370		6,436,416
Loans acquired with deteriorated credit quality	2,735	35,068	6,233	131		44,167
Covered loans acquired with deteriorated credit quality	5,255	33,540	11,671	20,101		70,567
<b>Total loans and leases outstanding</b>	<b>\$ 1,682,104</b>	<b>\$ 1,850,078</b>	<b>\$ 1,474,755</b>	<b>\$ 1,645,602</b>	<b>\$</b>	<b>\$ 6,652,539</b>
<b>December 31, 2014</b>						
<b>Allowance for loan losses:</b>						
Individually evaluated for impairment	\$ 7,280	\$ 2,945	\$	\$	\$	\$ 10,225
Collectively evaluated for impairment	12,163	13,354	6,519	2,945		34,981
Noncovered loans acquired with deteriorated credit quality	406	1,049	67	17		1,539
Covered loans acquired with deteriorated credit quality	821		283			1,104
<b>Total allowance for loan losses</b>	<b>\$ 20,670</b>	<b>\$ 17,348</b>	<b>\$ 6,869</b>	<b>\$ 2,962</b>	<b>\$</b>	<b>\$ 47,849</b>
<b>Loans and leases outstanding:</b>						
	\$ 38,485	\$ 45,335	\$	\$	\$	\$ 83,820

Individually evaluated for impairment					
Collectively evaluated for impairment	1,598,352	1,631,794	1,359,537	1,519,171	6,108,854
Loans acquired with deteriorated credit quality	2,770	37,394	7,073	133	47,370
Covered loans acquired with deteriorated credit quality	7,160	37,384	12,507	21,106	78,157
Total loans and leases outstanding	\$ 1,646,767	\$ 1,751,907	\$ 1,379,117	\$ 1,540,410	\$ 6,318,201

**Table of Contents****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.

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

As of March 31, 2015 and December 31, 2014, the risk category of loans, excluding covered loans, by class of loans is as follows:

(dollars in thousands)

Corporate Credit Exposure Credit Risk Profile by Internally Assigned Grade	Commercial		Commercial Real Estate-		Commercial Real Estate-	
	Construction		Other			
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014
Grade:						
Pass	\$ 1,490,032	\$ 1,442,904	\$ 137,433	\$ 119,958	\$ 1,456,118	\$ 1,374,191
Criticized	77,490	89,775	3,495	2,229	102,945	102,805
Classified - substandard	49,070	58,461	3,588	5,866	38,602	38,659
Classified - nonaccrual	50,641	38,003	6,195	6,499	63,031	59,771

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Classified - doubtful	<b>1,042</b>	457			<b>2,172</b>	1,132
Total	<b>\$ 1,668,275</b>	\$ 1,629,600	<b>\$ 150,711</b>	\$ 134,552	<b>\$ 1,662,868</b>	\$ 1,576,558

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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 March 31, 2015 and December 31, 2014, excluding covered loans:

(dollars in thousands)	Heloc	Consumer Auto	Other	Residential
<b>March 31, 2015</b>				
Performing	\$ 370,047	\$ 895,946	\$ 136,653	\$ 1,610,932
Nonperforming	3,073	1,262	1,510	14,422
Total	\$ 373,120	\$ 897,208	\$ 138,163	\$ 1,625,354
<b>December 31, 2014</b>				
Performing	\$ 357,205	\$ 845,708	\$ 101,811	\$ 1,505,188
Nonperforming	3,115	1,261	1,527	13,968
Total	\$ 360,320	\$ 846,969	\$ 103,338	\$ 1,519,156

**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.

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The following table shows Old National's impaired loans, excluding covered loans, which are individually evaluated as of March 31, 2015 and December 31, 2014, respectively. 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)	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>
<b>March 31, 2015</b>			
With no related allowance recorded:			
Commercial	\$ 27,873	\$ 28,194	\$
Commercial Real Estate - Construction	2,330	2,333	
Commercial Real Estate - Other	43,508	45,594	
Consumer	776	851	
Residential	906	1,012	
With an allowance recorded:			
Commercial	15,559	15,567	8,715
Commercial Real Estate - Construction	234	234	10
Commercial Real Estate - Other	7,022	9,263	1,828
Consumer	1,441	1,441	72
Residential	1,475	1,475	74
Total Loans	\$ 101,124	\$ 105,964	\$ 10,699
<b>December 31, 2014</b>			
With no related allowance recorded:			
Commercial	\$ 25,483	\$ 25,854	\$
Commercial Real Estate - Construction	2,168	1,397	
Commercial Real Estate - Other	28,637	30,723	
Consumer	685	748	
Residential	588	658	
With an allowance recorded:			
Commercial	7,471	10,488	4,883
Commercial Real Estate - Construction	98	98	11
Commercial Real Estate - Other	14,432	16,503	2,934
Consumer	1,543	1,543	77
Residential	1,476	1,476	74
Total Loans	\$ 82,581	\$ 89,488	\$ 7,979

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The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the three months ended March 31, 2015 and 2014 are included in the table below.

(dollars in thousands)	<b>Average Recorded Investment</b>	<b>Interest Income Recognized (1)</b>
<b>Three Months Ended March 31, 2015</b>		
With no related allowance recorded:		
Commercial	\$ 26,849	\$ 42
Commercial Real Estate - Construction	2,250	3
Commercial Real Estate - Other	38,801	85
Consumer	731	1
Residential	747	
With an allowance recorded:		
Commercial	11,516	48
Commercial Real Estate - Construction	166	
Commercial Real Estate - Other	10,728	1
Consumer	1,492	20
Residential	1,475	61
Total Loans	\$ 94,755	\$ 261
<b>Three Months Ended March 31, 2014</b>		
With no related allowance recorded:		
Commercial	\$ 17,151	\$ 33
Commercial Real Estate - Construction	1,007	
Commercial Real Estate - Other	17,542	54
Consumer	394	2
Residential	116	
With an allowance recorded:		
Commercial	11,045	54
Commercial Real Estate - Construction		
Commercial Real Estate - Other	19,851	112
Consumer	975	12
Residential	2,185	17
Total Loans	\$ 70,266	\$ 284

(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.

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 noncovered 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.

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Old National's past due financing receivables as of March 31, 2015 and December 31, 2014 are as follows:

(dollars in thousands)	Recorded Investment				Total Past Due	Current
	30-59 Days Past Due	60-89 Days Past Due	> 90 Days and Accruing	Nonaccrual		
<b>March 31, 2015</b>						
Commercial	\$ 2,486	\$ 1,774	\$	\$ 51,683	\$ 55,943	\$ 1,612,332
Commercial Real Estate:						
Construction	927			6,195	7,122	143,589
Other	2,271	2,096		65,203	69,570	1,593,298
Consumer:						
Heloc	839	140		3,073	4,052	370,027
Auto	2,441	490	83	1,263	4,277	892,913
Other	727	223	44	1,510	2,504	134,718
Residential	10,191	847		14,422	25,460	1,599,894
Covered loans	1,089	524	15	12,543	14,171	122,669
Total loans	\$ 20,971	\$ 6,094	\$ 142	\$ 155,892	\$ 183,099	\$ 6,469,440
<b>December 31, 2014</b>						
Commercial	\$ 649	\$ 813	\$ 33	\$ 38,460	\$ 39,955	\$ 1,589,645
Commercial Real Estate:						
Construction				6,499	6,499	128,053
Other	3,834	1,468	138	60,903	66,343	1,510,215
Consumer:						
Heloc	577	376		3,115	4,068	356,252
Auto	3,349	695	203	1,261	5,508	841,461
Other	969	129	83	1,527	2,708	100,630
Residential	11,606	3,959	1	13,968	29,534	1,489,622
Covered loans	1,477	584		15,124	17,185	130,523
Total loans	\$ 22,461	\$ 8,024	\$ 458	\$ 140,857	\$ 171,800	\$ 6,146,401

**Loan Participations**

Old National has loan participations, which qualify as participating interests, with other financial institutions. At March 31, 2015, these loans totaled \$309.3 million, of which \$170.5 million had been sold to other financial institutions and \$138.8 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

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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 90 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 value. To determine the 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 March 31, 2015, our TDRs consisted of \$15.3 million of commercial loans, \$15.4 million of commercial real estate loans, \$2.5 million of consumer loans and \$2.4 million of residential loans, totaling \$35.6 million. Approximately \$23.1 million of the TDRs at March 31, 2015 were included with nonaccrual loans. At December 31, 2014, our TDRs consisted of \$15.2 million of commercial loans, \$15.2 million of commercial real estate loans, \$2.5 million of consumer loans and \$2.1 million of residential loans, totaling \$35.0 million. Approximately \$22.1 million of the TDRs at December 31, 2014 were included with nonaccrual loans.

As of March 31, 2015 and December 31, 2014, Old National has allocated \$1.6 million and \$2.8 million of specific reserves to customers whose loan terms have been modified in TDRs, respectively. As of March 31, 2015, Old National had committed to lend an additional \$1.6 million to customers with outstanding loans that are classified as TDRs.

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The pre-modification and post-modification outstanding recorded investments of loans modified as TDRs during the three months ended March 31, 2015 and 2014 are the same since the loan modifications did not involve the forgiveness of principal. Old National did not record any charge-offs at the modification date. The following table presents loans by class modified as TDRs that occurred during the three months ended March 31, 2015:

(dollars in thousands)	Number of Loans	Pre-modification	Post-modification
		Outstanding Recorded Investment	Outstanding Recorded Investment
<b>Troubled Debt Restructuring:</b>			
Commercial	<b>11</b>	<b>\$ 1,741</b>	<b>\$ 1,741</b>
Commercial Real Estate - construction	<b>5</b>	<b>1,187</b>	<b>1,187</b>
Commercial Real Estate - other	<b>5</b>	<b>385</b>	<b>385</b>
Residential	<b>2</b>	<b>366</b>	<b>366</b>
Consumer - other	<b>6</b>	<b>161</b>	<b>161</b>
<b>Total</b>	<b>29</b>	<b>\$ 3,840</b>	<b>\$ 3,840</b>

The TDRs described above resulted in immaterial changes in the allowance for loan losses and charge-offs during the three months ended March 31, 2015.

The following table presents loans by class modified as TDRs that occurred during the three months ended March 31, 2014:

(dollars in thousands)	Number of Loans	Pre-modification	Post-modification
		Outstanding Recorded Investment	Outstanding Recorded Investment
<b>Troubled Debt Restructuring:</b>			
Commercial	7	\$ 188	\$ 188
Commercial Real Estate - construction	1	484	484
Commercial Real Estate - other	3	246	246
Residential	1	22	22
Consumer - other	9	294	294
<b>Total</b>	<b>21</b>	<b>\$ 1,234</b>	<b>\$ 1,234</b>

The TDRs described above resulted in immaterial changes in the allowance for loan losses and charge-offs during the three months ended March 31, 2014.

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

There were three commercial loans and one commercial real estate loan totaling \$0.3 million that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the three months ended March 31, 2015.

There were four commercial loans and two commercial real estate loans totaling \$1.4 million that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the three months ended March 31, 2014.

The terms of certain other loans were modified during the three months ended March 31, 2015 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 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

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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.

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 March 31, 2015, 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, recent guidance also permits for loans to be removed from TDR status under these circumstances: (1) at the time of the subsequent restructuring, the borrower is not experiencing financial difficulties, and this is documented by a current credit evaluation at the time of the restructuring, (2) under the terms of the subsequent restructuring agreement, the institution has granted no concession to the borrower; and (3) the subsequent restructuring agreement includes market terms that are no less favorable than those that would be offered for a comparable new loan. For loans subsequently restructured that have cumulative principal forgiveness, the loan should continue to be measured in accordance with ASC 310-10,

Receivables Overall. However, consistent with ASC 310-40-50-2, Troubled Debt Restructurings by Creditors, Creditor Disclosure of Troubled Debt Restructurings, the loan would not be required to be reported in the years following the restructuring if the subsequent restructuring meets both of these criteria: (1) has an interest rate at the time of the subsequent restructuring that is not less than a market interest rate; and (2) is performing in compliance with its modified terms after the subsequent restructuring.

The following table presents activity in TDRs for the three months ended March 31, 2015 and 2014:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
<b>2015</b>					
Troubled debt restructuring:					
Balance at January 1, 2015	\$ 15,205	\$ 15,226	\$ 2,459	\$ 2,063	\$ 34,953
(Charge-offs)/recoveries	586	248	(11)	(15)	808
Payments	(2,198)	(1,608)	(164)	(33)	(4,003)
Additions	1,741	1,573	174	352	3,840
Balance at March 31, 2015	\$ 15,334	\$ 15,439	\$ 2,458	\$ 2,367	\$ 35,598
<b>2014</b>					
Troubled debt restructuring:					
Balance at January 1, 2014	\$ 22,443	\$ 22,639	\$ 1,441	\$ 2,344	\$ 48,867
(Charge-offs)/recoveries	123	121	(30)	1	215
Payments	(1,133)	(2,531)	(49)	(28)	(3,741)
Additions	188	730	294	22	1,234

Balance at March 31, 2014	\$ 21,621	\$ 20,959	\$ 1,656	\$ 2,339	\$46,575
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**Purchased Impaired Loans (noncovered 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

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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)	March 31, 2015	December 31, 2014
Commercial	\$ 2,735	\$ 2,770
Commercial real estate	35,068	37,394
Consumer	6,233	7,073
Residential	131	133
Carrying amount	\$ 44,167	\$ 47,370
Carrying amount, net of allowance	\$ 42,465	\$ 45,831
Allowance for loan losses	\$ 1,702	\$ 1,539

The outstanding balance of noncovered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was \$132.7 million at March 31, 2015 and \$135.9 million at December 31, 2014.

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 recorded as loan interest income totaled \$2.9 million during the three months ended March 31, 2015 and \$6.4 million during the three months ended March 31, 2014. 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)	Integra							Total
	Monroe	Noncovered	IBT	Tower	United	LSB	Founders	
Balance at January 1, 2015	\$ 3,564	\$ 1,389	\$ 13,354	\$ 4,559	\$ 1,516	\$ 2,409	\$	\$ 26,791
New loans purchased							1,812	1,812
Accretion of income	(362)	(147)	(1,403)	(322)	(225)	(293)	(128)	(2,880)
Reclassifications from (to)								
nonaccretable difference	9	71	519	(163)	466	755		1,657
Disposals/other adjustments				32	40			72

Balance at March 31, 2015	\$ 3,211	\$ 1,313	\$ 12,470	\$ 4,106	\$ 1,797	\$ 2,871	\$ 1,684	\$ 27,452
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Included in Old National's allowance for loan losses is \$1.7 million related to the purchased loans disclosed above at March 31, 2015, compared to \$1.5 million at December 31, 2014. An immaterial amount of allowance for loan losses were reversed during 2014 related to these loans.

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

(dollars in thousands)	Monroe	Integra Bank (1)	IBT	Tower	United	LSB	Founders
Contractually required payments	\$ 94,714	\$ 921,856	\$ 118,535	\$ 22,746	\$ 15,483	\$ 24,493	\$ 11,103
Nonaccretable difference	(45,157)	(226,426)	(53,165)	(5,826)	(5,487)	(9,903)	(2,684)
Cash flows expected to be collected at acquisition	49,557	695,430	65,370	16,920	9,996	14,590	8,419
Accretable yield	(6,971)	(98,487)	(11,945)	(4,065)	(1,605)	(2,604)	(1,812)
Fair value of acquired loans at acquisition	\$ 42,586	\$ 596,943	\$ 53,425	\$ 12,855	\$ 8,391	\$ 11,986	\$ 6,607

(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.

**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 \$136.8 million at March 31, 2015, compared to \$147.7 million at December 31, 2014. The composition of covered loans by lending classification was as follows:

(dollars in thousands)	At March 31, 2015		Total Covered Purchased Loans
	Loans Accounted for Under ASC 310-30 (Purchased Credit Impaired)	Loans excluded from ASC 310-30 (1) (Not Purchased Credit Impaired)	
Commercial	\$ 5,255	\$ 8,574	\$ 13,829
Commercial real estate	33,540	2,959	36,499
Residential	20,101	147	20,248
Consumer	11,671	54,593	66,264
Covered loans	70,567	66,273	136,840
Allowance for loan losses	(802)	(1,401)	(2,203)
Covered loans, net	\$ 69,765	\$ 64,872	\$ 134,637

(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 \$233.4 million at March 31, 2015 and \$241.9 million at December 31, 2014.

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The following table is a roll-forward of acquired impaired loans accounted for under ASC 310-30 for the three months ended March 31, 2015 and 2014:

(dollars in thousands)	Contractual Cash Flows (1)	Nonaccretable Difference	Accretable Yield	Carrying Amount (2)
<b>2015</b>				
Balance at January 1, 2015	\$ 124,809	\$ (12,014)	\$ (35,742)	\$ 77,053
Principal reductions and interest payments	(9,566)	(702)		(10,268)
Accretion of loan discount			3,344	3,344
Changes in contractual and expected cash flows due to remeasurement	(498)	3,695	(3,132)	65
Removals due to foreclosure or sale	(433)	133	(129)	(429)
<b>Balance at March 31, 2015</b>	<b>\$ 114,312</b>	<b>\$ (8,888)</b>	<b>\$ (35,659)</b>	<b>\$ 69,765</b>
<b>2014</b>				
Balance at January 1, 2014	\$ 251,042	\$ (46,793)	\$ (73,211)	\$ 131,038
Principal reductions and interest payments	(25,353)	(221)		(25,574)
Accretion of loan discount			11,339	11,339
Changes in contractual and expected cash flows due to remeasurement	(3,159)	18,105	(13,412)	1,534
Removals due to foreclosure or sale	(3,133)	1,302	(2,006)	(3,837)
<b>Balance at March 31, 2014</b>	<b>\$ 219,397</b>	<b>\$ (27,607)</b>	<b>\$ (77,290)</b>	<b>\$ 114,500</b>

(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:

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(dollars in thousands)	2015	2014
Balance at January 1,	\$ 35,742	\$ 73,211
Accretion of income	(3,344)	(11,339)
Reclassifications from (to) nonaccretable difference	3,132	13,412
Disposals/other adjustments	129	2,006
Balance at March 31,	\$ 35,659	\$ 77,290

At March 31, 2015, the \$20.0 million loss sharing asset is comprised of a \$16.6 million FDIC indemnification asset and a \$3.4 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 March 31, 2015, \$8.1 million of the FDIC indemnification asset is related to expected indemnification payments and \$8.5 million is expected to be amortized and reported in

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noninterest income as an offset to future accreted interest income. At March 31, 2014, \$22.4 million of the FDIC indemnification asset was related to expected indemnification payments and \$38.2 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.

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 three months ended March 31, 2015 and 2014:

(dollars in thousands)	2015	2014
Balance at January 1,	\$ 20,603	\$ 88,513
Adjustments not reflected in income:		
Cash received from FDIC		(15,989)
Other	389	518
Adjustments reflected in income:		
(Amortization) accretion	(1,986)	(5,203)
Higher (lower) loan loss expectations		(412)
Write-downs/(gain) on sale of other real estate	1,018	(1,728)
Balance at March 31,	\$ 20,024	\$ 65,699

**NOTE 10 OTHER REAL ESTATE OWNED**

The following table presents activity in other real estate owned for the three months ended March 31, 2015 and 2014:

(dollars in thousands)	Other Real Estate Owned (1)	Other Real Estate Owned, Covered
<b>2015</b>		
Balance at January 1, 2015	\$ 7,241	\$ 9,121
Additions	1,906	360
Sales	(428)	(2,556)
Gains (losses)/Write-downs	(237)	159

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Balance at March 31, 2015	\$	<b>8,482</b>	\$	<b>7,084</b>
<b>2014</b>				
Balance at January 1, 2014	\$	7,562	\$	13,670
Additions		1,341		4,443
Sales		(938)		(4,688)
Gains (losses)/Write-downs		(336)		(507)
Balance at March 31, 2014	\$	7,629	\$	12,918

(1) Includes repossessed personal property of \$0.2 million at March 31, 2015 and \$0.3 million at March 31, 2014.

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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 March 31, 2015, 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.

**NOTE 11 - GOODWILL AND OTHER INTANGIBLE ASSETS**

The following table shows the changes in the carrying amount of goodwill by segment for the three months ended March 31, 2015 and 2014:

(dollars in thousands)	<b>Banking</b>	<b>Insurance</b>	<b>Other</b>	<b>Total</b>
Balance at January 1, 2015	<b>\$ 490,972</b>	<b>\$ 39,873</b>	<b>\$</b>	<b>\$ 530,845</b>
Goodwill acquired during the period	<b>55,969</b>	<b>1,090</b>		<b>57,059</b>
<b>Balance at March 31, 2015</b>	<b>\$ 546,941</b>	<b>\$ 40,963</b>	<b>\$</b>	<b>\$ 587,904</b>
Balance at January 1, 2014	\$ 312,856	\$ 39,873	\$	\$ 352,729
Goodwill acquired during the period				
Balance at March 31, 2014	\$ 312,856	\$ 39,873	\$	\$ 352,729

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2014 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 first quarter of 2015, Old National recorded \$56.2 million of goodwill associated with the acquisition of Founders that was allocated to the Banking segment. Also during the first quarter of 2015, Old National recorded a \$0.3 million decrease to goodwill associated with the acquisition of LSB that was allocated to the Banking segment and an increase of \$1.1 million of goodwill associated with the acquisition of Mutual Underwriters that was allocated to the Insurance segment. See Note 3 to the consolidated financial statements for detail regarding goodwill recorded in 2014 associated with acquisitions.

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The gross carrying amount and accumulated amortization of other intangible assets at March 31, 2015 and December 31, 2014 was as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
<b>March 31, 2015</b>			
Amortized intangible assets:			
Core deposit	\$ 60,103	\$ (38,833)	\$ 21,270
Customer business relationships	30,552	(21,915)	8,637
Customer trust relationships	16,547	(3,853)	12,694
Customer loan relationships	4,413	(3,276)	1,137
<b>Total intangible assets</b>	<b>\$ 111,615</b>	<b>\$ (67,877)</b>	<b>\$ 43,738</b>
<b>December 31, 2014</b>			
Amortized intangible assets:			
Core deposit	\$ 57,149	\$ (36,950)	\$ 20,199
Customer business relationships	27,942	(21,438)	6,504
Customer trust relationships	13,986	(3,232)	10,754
Customer loan relationships	4,413	(3,176)	1,237
<b>Total intangible assets</b>	<b>\$ 103,490</b>	<b>\$ (64,796)</b>	<b>\$ 38,694</b>

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 first quarter of 2015, Old National increased core deposit intangibles by \$5.5 million related to the Founders acquisition that is included in the Banking segment. Also during the first quarter of 2015, Old National increased customer business relationships intangibles by \$2.6 million related to the Mutual Underwriters acquisition that is included in the Insurance segment. See Note 21 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 during the three months ended March 31, 2015 or 2014. Total amortization expense associated with intangible assets was \$3.1 million for the three months ended March 31, 2015 and \$1.8 million for the three months ended March 31, 2014.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2015 remaining	\$ 8,619
2016	9,825
2017	7,547

2018	5,786
2019	4,347
Thereafter	7,614
<b>Total</b>	<b>\$ 43,738</b>

**NOTE 12 LOAN SERVICING RIGHTS**

Loan servicing rights were assumed in Old National's acquisitions of United on July 31, 2014 and Founders on January 1, 2015. See Note 3 to the consolidated financial statements for detail regarding loan servicing rights recorded associated with these acquisitions.

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At March 31, 2015, loan servicing rights derived from loans sold with servicing retained totaled \$9.5 million and were included in other assets in the consolidated balance sheet, compared to \$9.5 million at December 31, 2014. Loans serviced for others are not reported as assets. The principal balance of loans serviced for others was \$1.2 billion at March 31, 2015, compared to \$1.1 billion at December 31, 2014. Approximately 95% of the loans serviced for others at March 31, 2015 were residential mortgage loans. Custodial escrow balances maintained in connection with serviced loans were \$5.9 million at March 31, 2015 and \$16.5 million at December 31, 2014.

The following table summarizes the activity related to loan servicing rights and the related valuation allowance for the three months ended March 31, 2015 and 2014:

(dollars in thousands)	2015	2014
Balance at January 1,	\$ 9,584	\$
Additions	956	
Amortization	(518)	
Balance before valuation allowance at March 31,	10,022	
Valuation allowance:		
Balance at January 1,	(50)	
Additions	(437)	
Balance at March 31,	(487)	
Loan servicing rights, net	\$ 9,535	\$

At March 31, 2015, the fair value of servicing rights was \$9.6 million. Fair value at March 31, 2015 was determined using a discount rate of 12% and a weighted average prepayment speed of 215% PSA. At December 31, 2014, the fair value of servicing rights was \$9.5 million. Fair value at December 31, 2014 was determined using a discount rate of 12% and a weighted average prepayment speed of 192% PSA.

**NOTE 13 SHORT-TERM BORROWINGS**

The following table presents the distribution of Old National's short-term borrowings and related weighted-average interest rates as of March 31, 2015:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements / Sweeps	Total
<b>2015</b>			
Outstanding at March 31, 2015	\$ 93,492	\$ 369,515	\$ 463,007
Average amount outstanding	102,641	350,970	453,611
Maximum amount outstanding at any month-end	93,492	369,515	
Weighted average interest rate:			

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During three months ended March 31, 2015	<b>0.18%</b>	<b>0.06%</b>	<b>0.09%</b>
At March 31, 2015	<b>0.16</b>	<b>0.06</b>	<b>0.08</b>

**Table of Contents****NOTE 14 - FINANCING ACTIVITIES**

The following table summarizes Old National's and its subsidiaries' other borrowings at March 31, 2015 and December 31, 2014:

(dollars in thousands)	March 31, 2015	December 31, 2014
<b>Old National Bancorp:</b>		
Senior unsecured bank notes (fixed rate 4.125%) maturing August 2024	\$ 175,000	\$ 175,000
Junior subordinated debentures (variable rates of 1.61% to 2.02%) maturing March 2035 to June 2037	45,000	45,000
ASC 815 fair value hedge and other basis adjustments	(4,776)	(4,884)
<b>Old National Bank:</b>		
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 0.29% to 6.76% and variable rates 0.39% to 0.41%) maturing May 2015 to January 2025	599,874	649,987
Capital lease obligation	4,083	4,099
ASC 815 fair value hedge and other basis adjustments	1,399	900
 Total other borrowings	 \$ 870,580	 \$ 920,102

Contractual maturities of other borrowings at March 31, 2015 were as follows:

(dollars in thousands)	
Due in 2015	\$ 50,047
Due in 2016	117,376
Due in 2017	95,887
Due in 2018	145,477
Due in 2019	3,258
Thereafter	461,912
ASC 815 fair value hedge and other basis adjustments	(3,377)
 Total	 \$ 870,580

**SENIOR NOTES**

In August 2014, Old National issued \$175.0 million of senior unsecured notes with a 4.125% interest rate. These notes pay interest on February 15 and August 15, with payment commencing February 15, 2015. The notes mature on August 15, 2024.

## **FEDERAL HOME LOAN BANK**

Federal Home Loan Bank ( FHLB ) advances had weighted-average rates of 0.87% and 0.77% at March 31, 2015 and December 31, 2014, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 149% of outstanding debt.

## **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.

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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 have 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.

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 have 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 have 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.

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At March 31, 2015, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2015 remaining	\$ 307
2016	410
2017	410
2018	410
2019	429
Thereafter	8,836
<b>Total minimum lease payments</b>	<b>10,802</b>
Less amounts representing interest	6,719
<b>Present value of net minimum lease payments</b>	<b>\$ 4,083</b>

**NOTE 15 - 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 \$361 thousand to the Retirement Plan in 2015.

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 \$27 thousand to cover benefit payments from the Restoration Plan during the three months ended March 31, 2015. Old National expects to contribute an additional \$82 thousand to cover benefit payments from the Restoration Plan during the remainder of 2015.

The net periodic benefit cost and its components were as follows for the three months ended March 31:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2014</b>
(dollars in thousands)		
Interest cost	\$ 415	\$ 439
Expected return on plan assets	(512)	(560)
Recognized actuarial loss	531	329
Settlement	206	

Net periodic benefit cost	\$ 640	\$ 208
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**NOTE 16 - STOCK-BASED COMPENSATION**

At March 31, 2015, Old National had 5.0 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.

**Table of Contents***Restricted Stock Awards*

The Company granted 71 thousand time-based restricted stock awards to certain key officers during the three months ended March 31, 2015, 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 March 31, 2015, unrecognized compensation expense was estimated to be \$3.0 million for unvested restricted stock awards.

Old National recorded expense of \$0.2 million, net of tax, during the three months ended March 31, 2015 and 2014 related to the vesting of restricted stock awards.

*Restricted Stock Units*

The Company granted 279 thousand shares of performance based restricted stock units to certain key officers during the three months ended March 31, 2015, 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 March 31, 2015, unrecognized compensation expense was estimated to be \$5.9 million.

Old National recorded \$0.5 million of stock based compensation expense, net of tax, during the three months ended March 31, 2015. Old National recorded \$0.5 million of stock based compensation expense, net of tax, during the three months ended March 31, 2014.

*Stock Options*

Old National has not granted stock options since 2009. However, Old National did acquire stock options through prior year acquisitions. Old National did not record any stock based compensation expense related to stock options during the three months ended March 31, 2015 or 2014.

*Stock Appreciation Rights*

Old National has never granted stock appreciation rights. However, Old National did acquire stock appreciation rights through a prior year acquisition. Old National did not record any stock-based compensation expense related to these stock appreciation rights during the three months ended March 31, 2015 or 2014.

**NOTE 17 - 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 months ended March 31:

(dollars in thousands)	Three Months Ended March 31,	
	2015	2014
Provision at statutory rate of 35%	\$ 10,546	\$ 12,513

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Tax-exempt income	<b>(3,852)</b>	(3,137)
State income taxes	<b>1,277</b>	643
Interim period effective rate adjustment	<b>1,506</b>	(2,025)
State statutory rate change		1,122
Other, net	<b>(252)</b>	126
<b>Income tax expense</b>	<b>\$ 9,225</b>	<b>\$ 9,242</b>
Effective tax rate	<b>30.6%</b>	25.9%

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In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at March 31, 2015 and 2014 based on the current estimate of the effective annual rate.

The higher tax rate in the three months ended March 31, 2015 when compared to the three months ended March 31, 2014 is the result of an increase in the forecasted effective tax rate for 2015 as compared to 2014, as well as an increase in state income taxes due to the acquisition of Founders and the Indiana tax rate reductions in the first quarter of 2015.

No valuation allowance was recorded at March 31, 2015 or 2014 because, based on current expectations, Old National believes it will generate sufficient income in 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)	<b>2015</b>	<b>2014</b>
Balance at January 1,	<b>\$ 77</b>	<b>\$ 3,847</b>
Additions (reductions) based on tax positions related to the current year	<b>11</b>	<b>12</b>
Balance at March 31,	<b>\$ 88</b>	<b>\$ 3,859</b>

Approximately \$88 thousand of unrecognized tax benefits, net of interest, if recognized, would favorably affect the effective income tax rate in future periods.

**NOTE 18 - 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 \$708.0 million at March 31, 2015 and \$608.0 million at December 31, 2014. The March 31, 2015 balances consist of \$38.0 million notional amount of receive-fixed pay variable interest rate swaps on certain of its FHLB advances, \$625.0 million notional amount of pay-fixed, receive variable interest rate swaps on certain of its FHLB advances and \$45.0 million notional amount of receive-fixed pay variable interest rate swaps on certain of its commercial loans. The December 31, 2014 balances consist of \$38.0 million notional amount of receive-fixed pay variable interest rate swaps on certain of its FHLB advances, \$525.0 million notional amount of pay-fixed, receive variable interest rate swaps on certain of its FHLB advances and \$45.0 million notional amount of receive-fixed pay variable interest rate swaps on certain of its commercial loans. 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.

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 March 31, 2015, the notional amount of the interest rate lock commitments was \$62.7 million and forward commitments were \$52.1 million. At December 31, 2014, the notional amount of the interest rate lock commitments was \$19.7 million and

forward commitments were \$29.1 million. 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 \$419.2 million and \$419.2 million, respectively, at March 31, 2015. At December 31, 2014, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were \$435.6 million and \$435.6 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include

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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.

Amounts reported in AOCI related to cash flow hedges will be reclassified to interest income or interest expense as interest payments are received or paid on the Company's derivative instruments. During the next 12 months, the Company estimates that \$0.6 million will be reclassified to interest income and \$3.8 million will be reclassified to interest expense.

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

	Asset Derivatives			
	March 31, 2015		December 31, 2014	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 5,325	Other assets	\$ 4,278
<b>Total derivatives designated as hedging instruments</b>		<b>\$ 5,325</b>		<b>\$ 4,278</b>
<b>Derivatives not designated as hedging instruments</b>				
Interest rate contracts	Other assets	\$ 15,032	Other assets	\$ 13,780
Mortgage contracts	Other assets	1,611	Other assets	514
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 16,643</b>		<b>\$ 14,294</b>
Total derivative assets		<b>\$ 21,968</b>		<b>\$ 18,572</b>

	Liability Derivatives			
	March 31, 2015		December 31, 2014	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value

**Derivatives designated as hedging instruments**

Interest rate contracts	Other liabilities	<b>\$ 15,935</b>	Other liabilities	\$ 9,951
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**Total derivatives designated as hedging instruments**

		<b>\$ 15,935</b>		\$ 9,951
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**Derivatives not designated as hedging instruments**

Interest rate contracts	Other liabilities	<b>\$ 15,169</b>	Other liabilities	\$ 13,917
Mortgage contracts	Other liabilities	<b>155</b>	Other liabilities	

**Total derivatives not designated as hedging instruments**

		<b>\$ 15,324</b>		\$ 13,917
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Total derivative liabilities		<b>\$ 31,259</b>		\$ 23,868
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The effect of derivative instruments on the consolidated statement of income for the three months ended March 31, 2015 and 2014 are as follows:

(dollars in thousands)	Location of Gain or (Loss) Recognized in Income on Derivative	Three Months Ended March 31,	
		2015	2014
		Amount of Gain or (Loss) Recognized in Income on Derivative	
<b>Derivatives in Fair Value Hedging Relationships</b>			
Interest rate contracts (1)	Interest income / (expense)	\$ 23	\$ 359
Interest rate contracts (2)	Other income / (expense)	59	106
<b>Total</b>		<b>\$ 82</b>	<b>\$ 465</b>
			<b>Amount of Gain or (Loss) Recognized in Income on Derivative</b>
	<b>Location of Gain or (Loss) Recognized in Income on Derivative</b>		
<b>Derivatives Not Designated as Hedging Instruments</b>			
Interest rate contracts (3)	Other income / (expense)	\$	\$ 73
Mortgage contracts	Mortgage banking revenue	788	80
<b>Total</b>		<b>\$ 788</b>	<b>\$ 153</b>

- (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.

**NOTE 19 - 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.

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Old National sought an interlocutory appeal on the issue of class certification on April 2, 2013, which was subsequently denied. On June 11, 2013, Old National moved for summary judgment asserting the law as applied to the material facts not in dispute should result in judgment in favor of Old National. On September 16, 2013, a hearing was held on the summary judgment motion and the Motion was denied by the Circuit Court on April 14, 2014. Subsequently, Old National sought and was granted leave to appeal the denial of its Motion for Summary Judgment. On July 11, 2014, the Indiana Court of Appeals accepted the appeal and the parties fully briefed the matter as of February 23, 2015. On April 23, 2015, the Court of Appeals affirmed in part and reversed in part the Circuit Court's denial of Old National's Motion for Summary Judgment and remanded the case to the Circuit Court for further proceedings. Specifically, the Court of Appeals rejected Old National's contention that all of plaintiffs' claims were preempted by federal law but did agree that plaintiffs' state law claims of conversion, unconscionability and unjust enrichment were unsupported under Indiana law. The dismissal of these claims remove any claims which would entitle plaintiffs to treble damages. The Court of Appeals determined Old National had not negated plaintiffs' state law claim for breach of a duty of good faith and fair dealing as to the deposit account agreement and remanded that contractual claim back to the Circuit Court. Old National expects to file a Petition to Transfer the Case to the Indiana Supreme Court within the statutory timeframes. 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.

## **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. Old National does not have any material sub-lease agreements.

As of March 31, 2015 and December 31, 2014, Old National had \$66.6 million and \$68.3 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 \$1.700 billion and standby letters of credit of \$60.0 million at March 31, 2015. At March 31, 2015, approximately \$1.619 billion of the loan commitments had fixed rates and \$80.9 million had floating rates, with the floating interest rates ranging from 0% to 21%. At December 31, 2014, loan commitments were \$1.584 billion and standby letters of credit were \$65.3 million. These commitments are not reflected in the consolidated financial statements. At March 31, 2015 and December 31, 2014, the allowance for unfunded loan commitments totaled \$2.8 million and \$4.4 million, respectively.

At March 31, 2015 and December 31, 2014, Old National had credit extensions of \$16.0 million and \$13.0 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At March 31, 2015 and December 31, 2014, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$14.5 million and \$11.5 million, respectively. Old National did not provide collateral for the remaining credit extensions.

## **NOTE 20 - 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

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typically one year or less. At March 31, 2015, the notional amount of standby letters of credit was \$60.0 million, which represented the maximum amount of future funding requirements, and the carrying value was \$0.4 million. At December 31, 2014, the notional amount of standby letters of credit was \$65.3 million, which represented the maximum amount of future funding requirements, and the carrying value was \$0.4 million.

Old National entered into a risk participation in an interest rate swap during the second quarter of 2007, which had a notional amount of \$7.6 million at March 31, 2015. Old National entered into an additional risk participation in an interest rate swap during the third quarter of 2014, which had a notional amount of \$13.2 million at March 31, 2015.

## **NOTE 21 SEGMENT INFORMATION**

Our business segments are defined as Banking, Insurance, 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, trust and investment advisory 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 handle service claims for self-insured clients.

### 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 comparable 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.

During the third quarter of 2014, Old National merged American National Trust & Investment Management Corp. into Old National Bank. As part of the merger, Old National re-evaluated its business segments and, as of September 30, 2014, Old National changed the composition of its reportable segments to those described above and restated all prior period information. The Wealth Management segment has been aggregated into the banking segment as this business has never been quantitatively significant. In addition, wealth management and banking have the same customers and distribution channels, similar products and services as well as similar economic performance.



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Selected business segment financial information is shown in the following table for the three months ended March 31:

(dollars in thousands)	Banking	Insurance	Other	Total
<b>Three months ended March 31, 2015</b>				
Net interest income	\$ 93,078	\$ 2	\$ (2,087)	\$ 90,993
Noninterest income	42,839	11,987	469	55,295
Noncash items:				
Depreciation and software amortization	4,656	34	158	4,848
Provision for loan losses	1			1
Amortization of intangibles	2,605	476		3,081
Income tax expense (benefit)	9,297	615	(687)	9,225
Segment profit	24,783	964	(4,841)	20,906
Segment assets	11,804,609	60,700	85,998	11,951,307
<b>Three months ended March 31, 2014</b>				
Net interest income	\$ 83,554	\$ 3	\$ (79)	\$ 83,478
Noninterest income	28,260	11,976	327	40,563
Noncash items:				
Depreciation and software amortization	3,236	35	121	3,392
Provision for loan losses	37			37
Amortization of intangibles	1,430	407		1,837
Income tax expense (benefit)	11,224	803	(2,785)	9,242
Segment profit	23,501	1,873	1,136	26,510
Segment assets	9,412,745	63,180	68,855	9,544,780

The banking segment noninterest income increased for the three months ended March 31, 2015 when compared to the three months ended March 31, 2014 primarily due to fee income associated with the acquisitions of Tower in April 2014, United in July 2014, LSB in November 2014, and Founders in January 2015. Also contributing to the increase in noninterest income in the banking segment was a favorable variance in adjustments to the FDIC indemnification asset. Banking segment assets increased at March 31, 2015 when compared to March 31, 2014 primarily due to the acquisitions of Tower, United, LSB, and Founders.

**NOTE 22 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.

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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).

**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:

(dollars in thousands)	Fair Value Measurements at March 31, 2015 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Trading securities	\$ 3,964	\$ 3,964	\$	\$
Investment securities available-for-sale:				
U.S. Treasury	25,178	25,178		
U.S. government-sponsored entities and agencies	709,379		709,379	
Mortgage-backed securities - Agency States and political subdivisions	1,090,731		1,090,731	
Pooled trust preferred securities	340,630		340,630	
Other securities	6,553			6,553
Residential loans held for sale	372,999	31,941	341,058	
Derivative assets	24,344		24,344	
	21,968		21,968	
<b>Financial Liabilities</b>				
Derivative liabilities	31,259		31,259	

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(dollars in thousands)	Fair Value Measurements at December 31, 2014 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Trading securities	\$ 3,881	\$ 3,881	\$	\$
Investment securities available-for-sale:				
U.S. Treasury	15,166	15,166		
U.S. government-sponsored entities and agencies	685,951		685,951	
Mortgage-backed securities - Agency	1,241,662		1,241,662	
States and political subdivisions	314,541		314,216	325
Pooled trust preferred securities	6,607			6,607
Other securities	363,904	31,648	332,256	
Residential loans held for sale	15,562		15,562	
Derivative assets	18,572		18,572	
<b>Financial Liabilities</b>				
Derivative liabilities	23,868		23,868	

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 three months ended March 31, 2015:

(dollars in thousands)	Fair Value Measurements using Significant Unobservable Inputs (Level 3)	
	Pooled Trust Preferred Securities Available-for-Sale	State and Political Subdivisions
Balance at January 1, 2015	\$ 6,607	\$ 325
Accretion/(amortization) of discount or premium	5	
Sales/payments received	(264)	
Matured securities		(325)
Increase/(decrease) in fair value of securities	205	
Balance at March 31, 2015	\$ 6,553	\$

Included in the income statement is \$5 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.

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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 three months ended March 31, 2014:

	<b>Fair Value Measurements using Significant Unobservable Inputs (Level 3)</b>	
	<b>Pooled Trust Preferred Securities Available- for-Sale</b>	<b>State and Political Subdivisions</b>
(dollars in thousands)		
Balance at January 1, 2014	\$ 8,037	\$ 669
Accretion/(amortization) of discount or premium	4	1
Payments received	(963)	
Matured securities		(326)
Increase/(decrease) in fair value of securities	(299)	
Balance at March 31, 2014	\$ 6,779	\$ 344

Included in the income statement is \$5 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 tables below provide quantitative information about significant unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy as of March 31, 2015 and December 31, 2014:

Quantitative Information about Level 3 Fair Value Measurements				
(dollars in thousands)	Fair Value at March 31, 2015	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Pooled trust preferred securities	\$ 6,553	Discounted cash flow	Constant prepayment rate (a)	0.00%
			Additional asset defaults (b)	2.3% - 5.3%(3.2%)
			Expected asset recoveries (c)	0.0% - 13.9%(3.7%)

- (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%.

Quantitative Information about Level 3 Fair Value Measurements				
(dollars in thousands)	Fair Value at Dec. 31, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Pooled trust preferred securities	\$ 6,607	Discounted cash flow	Constant prepayment rate (a) Additional asset defaults (b) Expected asset recoveries (c)	0.00% 4.4% - 11.2% (8.2%) 0.7% - 7.0% (1.8%)
State and political subdivision securities	325	Discounted cash flow	No unobservable inputs Illiquid local municipality issuance Old National owns 100% Carried at par	N/A

- (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 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.

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Assets measured at fair value on a non-recurring basis at March 31, 2015 are summarized below:

(dollars in thousands)	Fair Value Measurements at March 31, 2015 Using Significant			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Collateral Dependent Impaired Loans</b>				
Commercial loans	\$ 11,247	\$	\$	\$ 11,247
Commercial real estate loans	6,734			6,734
<b>Foreclosed Assets</b>				
Commercial real estate	5,015			5,015
Residential	176			176

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 \$29.7 million, with a valuation allowance of \$11.8 million at March 31, 2015. Old National recorded \$4.8 million of provision expense associated with these loans for the three months ended March 31, 2015.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of \$5.2 million at March 31, 2015. 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 \$1.1 million for the three months ended March 31, 2015.

Assets measured at fair value on a non-recurring basis at December 31, 2014 are summarized below:

(dollars in thousands)	Fair Value Measurements at December 31, 2014 Using Significant			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Collateral Dependent Impaired Loans</b>				
Commercial loans	\$ 6,816	\$	\$	\$ 6,816
Commercial real estate loans	13,011			13,011
<b>Foreclosed Assets</b>				
Commercial real estate	6,146			6,146
Residential	254			254

As of December 31, 2014, impaired commercial and commercial real estate loans had a principal amount of \$30.0 million, with a valuation allowance of \$10.2 million. Old National recorded \$5.4 million of provision expense associated with these loans in 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 \$6.4 million at December 31, 2014. There were write-downs of other real estate owned of \$2.6 million in 2014.

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The tables 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 March 31, 2015	Valuation Techniques	Unobservable Input Range (Weighted Average)
<b>Collateral Dependent Impaired Loans</b>			
Commercial loans	\$ 11,247	Fair value of collateral	Discount for type of property, age of appraisal and current status 0% - 65% (14%)
Commercial real estate loans	6,734	Fair value of collateral	Discount for type of property, age of appraisal and current status 0% - 44% (20%)
<b>Foreclosed Assets</b>			
Commercial real estate	5,015	Fair value of collateral	Discount for type of property, age of appraisal and current status 0% - 49% (18%)
Residential	176	Fair value of collateral	Discount for type of property, age of appraisal and current status 8% - 90% (49%)

Quantitative Information about Level 3 Fair Value Measurements			
(dollars in thousands)	Fair Value at Dec. 31, 2014	Valuation Techniques	Unobservable Input Range (Weighted Average)
<b>Collateral Dependent Impaired Loans</b>			
Commercial loans	\$ 6,816	Fair value of collateral	Discount for type of property, age of appraisal and current status 0% - 94% (24%)
Commercial real estate loans	13,011	Fair value of collateral	Discount for type of property, age of appraisal and current status 0% - 50% (29%)
<b>Foreclosed Assets</b>			
Commercial real estate	6,146	Fair value of collateral	Discount for type of property, age of appraisal and current status 2% - 93% (30%)
Residential	254	Fair value of collateral	Discount for type of property, age of appraisal and current status 8% - 81% (45%)

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 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 is \$39 thousand and \$43 thousand of interest income for loans held for sale for the three months ended March 31, 2015 and 2014, respectively.

**Table of Contents****Residential 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 March 31, 2015, 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:

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential loans held for sale	\$ 24,344	\$ 592	\$ 23,752

Accrued interest at period end is included in the fair value of the instruments.

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 months ended March 31, 2015:

**Changes in Fair Value for the Three Months ended March 31, 2015, 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	\$ 217	\$	\$	\$ 217

As of March 31, 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 was as follows.

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential loans held for sale	\$ 6,169	\$ 115	\$ 6,054

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 months ended March 31, 2014:

**Changes in Fair Value for the Three Months ended March 31, 2014, for Items**

**Measured at Fair Value Pursuant to Election of the Fair Value Option**

	<b>Other Gains and (Losses)</b>	<b>Interest Income</b>	<b>Interest (Expense)</b>	<b>Total Changes in Fair Values Included in Current Period Earnings</b>
(dollars in thousands)				
Residential loans held for sale	\$ (13)	\$	\$	\$ (13)

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The carrying amounts and estimated fair values of financial instruments, not previously presented in this note, at March 31, 2015 and December 31, 2014 are as follows:

(dollars in thousands)	Fair Value Measurements at March 31, 2015 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Cash, due from banks, federal funds sold and money market investments	\$ 215,313	\$ 215,313	\$	\$
Investment securities held-to-maturity:				
U.S. government-sponsored entities and agencies	166,343		172,636	
Mortgage-backed securities - Agency	21,548		22,470	
State and political subdivisions	648,147		704,547	
Federal Home Loan Bank/Federal Reserve stock	75,068		75,068	
Loans held for sale (a)	186,169		186,169	
Loans, net (including covered loans):				
Commercial	1,657,401			1,708,002
Commercial real estate	1,836,271			1,938,556
Residential real estate	1,642,683			1,936,855
Consumer credit	1,467,306			1,477,229
FDIC indemnification asset	20,024			10,639
Accrued interest receivable	62,503	50	21,157	41,296
<b>Financial Liabilities</b>				
Deposits:				
Noninterest-bearing demand deposits	\$ 2,553,801	\$ 2,553,801	\$	\$
NOW, savings and money market deposits	5,239,678	5,239,678		
Time deposits	1,134,041		1,139,301	
Short-term borrowings:				
Federal funds purchased	93,492	93,492		
Repurchase agreements	369,515	369,513		
Other borrowings:				
Senior unsecured bank notes	175,000		173,378	
Junior subordinated debentures	45,000		32,667	
Repurchase agreements	50,000		52,067	
Federal Home Loan Bank advances	599,874			608,756
Capital lease obligation	4,083		5,709	
Accrued interest payable	2,878		2,878	
Standby letters of credit	355			355

**Off-Balance Sheet Financial Instruments**

Commitments to extend credit	\$	\$	\$	\$	3,292
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- (a) Includes loans held for sale associated with branch sales. Excludes \$24.3 million of residential loans held for sale measured at fair value on a recurring basis.

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(dollars in thousands)	Fair Value Measurements at December 31, 2014 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets</b>				
Cash, due from banks, federal funds sold and money market investments	\$ 239,963	\$ 239,963	\$	\$
Investment securities held-to-maturity:				
U.S. government-sponsored entities and agencies	167,207		173,486	
Mortgage-backed securities - Agency	23,648		24,574	
State and political subdivisions	653,199		705,875	
Federal Home Loan Bank/Federal Reserve stock	71,175		71,175	
Loans held for sale (a)	197,928		197,928	
Loans, net (including covered loans):				
Commercial	1,626,097			1,646,144
Commercial real estate	1,734,559			1,744,126
Residential real estate	1,537,448			1,615,588
Consumer credit	1,372,248			1,380,835
FDIC indemnification asset	20,603			11,358
Accrued interest receivable	60,966	29	21,633	39,304
<b>Financial Liabilities</b>				
Deposits:				
Noninterest-bearing demand deposits	\$ 2,427,748	\$ 2,427,748	\$	\$
NOW, savings and money market deposits	4,973,898	4,973,898		
Time deposits	1,089,018		1,092,969	
Short-term borrowings:				
Federal funds purchased	195,188	195,188		
Repurchase agreements	356,121	356,120		
Other borrowings:				
Senior unsecured bank notes	175,000		179,792	
Junior subordinated debentures	45,000		32,754	
Repurchase agreements	50,000		51,994	
Federal Home Loan Bank advances	649,987			658,506