OLD NATIONAL BANCORP /IN/
Form 10-Q
August 01, 2014
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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 June 30, 2014

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

For the transition period from __________ to __________

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

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

(812) 464-1294

(Registrant s telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 105,851,000 shares outstanding at June 30, 2014.

OLD NATIONAL BANCORP

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CONSOLIDATED BALANCE SHEETS

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

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

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

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

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

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

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

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

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

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

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

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

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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. The allowance for loan losses, valuation of purchased loans, FDIC indemnification asset, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of June 30, 2014 and 2013, and December 31, 2013, and the results of its operations for the three and six months ended June 30, 2014 and 2013. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2013.

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

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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FASB ASC 205 and 360 In April 2014, the FASB issued an update (ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity) impacting FASB ASC 205, Presentation of Financial Statements, and FASB ASC 360, Property, Plant, and Equipment. The amendments in this update change the requirements for reporting discontinued operations. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity s operations and financial results. An entity will have to present, for each comparative period, the assets and liabilities of a disposal group that includes discontinued operations separately in the asset and liability sections of the statement of financial position. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

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

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

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

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NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

2014 Acquisitions

Tower Financial Corporation

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

The total purchase price for Tower was $110.4 million, consisting of $31.7 million of cash and the issuance of 5.6 million shares of Old National Common Stock valued at $78.7 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, while $5.7 million of transaction and integration costs associated with the acquisition were expensed as incurred.

Based on management s preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on assumptions that are subject to change, the purchase price for the Tower acquisition is allocated as follows (in thousands):

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

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

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The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Banking and Wealth Management segments, as described in Note 20 of these consolidated financial statement footnotes.

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

United Bancorp, Inc.

On January 8, 2014, Old National announced that it had entered into an agreement to acquire United Bancorp, Inc. (United) through a stock and cash merger. The acquisition contemplated by this agreement was completed effective July 31, 2014 (the Closing Date). United was a Michigan bank holding company with United Bank & Trust as its wholly-owned subsidiary. Headquartered in Ann Arbor, Michigan, United operated eighteen banking centers and as of June 30, 2014, United had total loans of approximately $665 million, $770 milion of deposits and approximately $688 million in trust assets under management. The merger doubles Old National s presence in Michigan to 36 total branches and Old National believes that it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable Old National to achieve economies of scale in these areas.

The total purchase price for United was $157.8 million, consisting of $34.0 million of cash, the issuance of 9.1 million shares of Old National Common Stock valued at $122.0 million, and the assumption of United s options and stock appreciation rights, valued at $1.8 million. This acquisition will be accounted for under the acquisition method of accounting. Accordingly, the Company is in the process of conducting assessments of net assets acquired and determining the fair values of these identifiable assets acquired and liabilities assumed as of the acquisition date. Transaction and integration costs of $2.7 million associated with the acquisition were expensed during the second quarter and remaining integration costs will be expensed in future quarters as incurred.

Summary of Unaudited Pro-forma Information

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

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

(1) Net interest income plus noninterest income.

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

Pending Acquisitions

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

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On July 28, 2014, Old National announced that it had entered into an agreement to acquire Grand Rapids, Michigan-based Founders Financial Corporation (Founders) through a stock and cash merger. Founders is a bank holding company with Founders Bank & Trust as its wholly-owned subsidiary. Founders Bank & Trust operates four full-service banking centers in Kent County. At June 30, 2014, Founders had total assets of approximately $466 million and $378 million of deposit liabilities. Pursuant to the merger agreement, shareholders of Founders will receive 3.25 shares of Old National common stock and $38.00 in cash for each share of Founders common stock. Based upon the July 25, 2014, closing price of $13.87 per share of Old National common stock, the transaction is valued at approximately $88.2 million. The transaction is subject to approval by regulatory authorities and Founders shareholders, as well as the satisfaction of customary closing conditions.

2013 Acquisitions

Bank of America

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

During the three months ended June 30, 2014, the Company finalized its valuation of all assets and liabilities acquired, resulting in no material change to purchase accounting adjustments. A summary of the final purchase price allocation is as follows (in thousands):

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

The acquired identifiable intangible asset is core deposit intangible and the estimated fair value is approximately $3.5 million. The core deposit intangible asset will be amortized over an estimated useful life of 7 years and is included in the Banking segment, as described in Note 20 of these consolidated financial statement footnotes. The goodwill recorded in the transaction will be deductible for tax purposes and is included in the Banking segment.

2013 Divestitures

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

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

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

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NOTE 4 NET INCOME PER SHARE

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

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

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

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

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

(2) Options to purchase 832 shares and 1,294 shares outstanding at June 30, 2014 and 2013, respectively, were excluded in the computation of net income per diluted share for the second quarter ended June 30, 2014 and 2013, respectively, because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive. Options to purchase 832 and 1,202 shares outstanding at June 30, 2014 and 2013, respectively, were excluded in the computation of net income per diluted share for the six months ended June 30, 2014 and 2013, respectively, because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

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NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

Changes in Accumulated Other Comprehensive Income (Loss) by Component

For the Three Months Ended June 30, 2014 (a)

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Balance at April 1, 2014	$ (13,975)	$ (16,497)	$ (1,390)	$ (6,068)	$ (37,930)
Other comprehensive income (loss) before reclassifications	7,192		(1,951)		5,241
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(1,061)	167		242	(652)
Net current-period other comprehensive income (loss)	6,131	167	(1,951)	242	4,589
Balance at June 30, 2014	$ (7,844)	$ (16,330)	$ (3,341)	$ (5,826)	$ (33,341)

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

Changes in Accumulated Other Comprehensive Income (Loss) by Component

For the Six Months Ended June 30, 2014 (a)

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Balance at January 1, 2014	$ (21,108)	$ (16,767)	$ (190)	$ (6,401)	$ (44,466)
Other comprehensive income (loss) before reclassifications	14,607		(3,151)		11,456
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(1,343)	437		575	(331)

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

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

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Reclassifications out of Accumulated Other Comprehensive Income (Loss)

For the Three Months Ended June 30, 2014 (a)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$	1,689	Net securities gains
			Impairment losses
		1,689	Total before tax
		(628)	Tax (expense) or benefit
	$	1,061	Net of tax
Unrealized gains and losses onheld-to-maturity securities	$	(225)	Interest income/(expense)
		58	Tax (expense) or benefit
	$	(167)	Net of tax
Amortization of defined benefit pension items			
Acturial gains/(losses)	$	(591)	(b)
		349	Tax (expense) or benefit
	$	(242)	Net of tax
Total reclassifications for the period	$	652	Net of tax

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

Reclassifications out of Accumulated Other Comprehensive Income (Loss)

For the Six Months Ended June 30, 2014 (a)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented

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

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

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

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

	Changes in Accumulated Other Comprehensive Income (Loss) by Component For the Three Months Ended June 30, 2013 (a)				
(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Balance at April 1, 2013	$ 29,661	$ 3,163	$	$ (12,006)	$ 20,818
Other comprehensive income (loss) before reclassifications	(45,343)		525		(44,818)
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(1,091)	(107)		177	(1,021)
Net current-period other comprehensive income (loss)	(46,434)	(107)	525	177	(45,839)
Balance at June 30, 2013	$ (16,773)	$ 3,056	$ 525	$ (11,829)	$ (25,021)

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

	Changes in Accumulated Other Comprehensive Income by Component For the Six Months Ended June 30, 2013 (a)				
(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Balance at January 1, 2013	$ 39,054	$ 3,269	$	$ (12,522)	$ 29,801
Other comprehensive income (loss) before reclassifications	(54,089)		525		(53,564)
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(1,738)	(213)		693	(1,258)

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

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

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Reclassifications out of Accumulated Other Comprehensive Income (Loss)

For the Three Months Ended June 30, 2013

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$	1,789	Net securities gains
			Impairment losses
		1,789	Total before tax
		(698)	Tax (expense) or benefit
	$	1,091	Net of tax
Unrealized gains and losses on held-to-maturity securities	$	177	Interest income/(expense)
		(70)	Tax (expense) or benefit
	$	107	Net of tax
Amortization of defined benefit pension items			
Acturial gains/(losses)	$	(842)	(b)
		665	Tax (expense) or benefit
	$	(177)	Net of tax
Total reclassifications for the period	$	1,021	Net of tax

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

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement Where Net Income is Presented
	$	2,808	Net securities gains

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

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

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NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at June 30, 2014 and December 31, 2013 and the corresponding amounts of unrealized gains and losses therein:

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

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

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

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The following table summarizes the investment securities with unrealized losses at June 30, 2014 and December 31, 2013 by aggregated major security type and length of time in a continuous unrealized loss position:

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

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

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

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $3.7 million at June 30, 2014 and $3.6 million at December 31, 2013.

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

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available-for-sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*). However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-10 (EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transfer in Securitized Financial Assets*).

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

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

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

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

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Pooled Trust Preferred Securities

At June 30, 2014, our securities portfolio contained three pooled trust preferred securities with a fair value of $6.4 million and unrealized losses of $11.6 million. One of the pooled trust preferred securities in our portfolio falls within the scope of FASB ASC 325-10 (EITF 99-20) and has a fair value of $0.2 million with an unrealized loss of $3.8 million at June 30, 2014. This security was rated A3 at inception, but at June 30, 2014, this security is rated D. The issuers in this security are primarily banks, but some of the pools do include a limited number of insurance companies. We use the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress this CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the six months ended June 30, 2014, our model indicated no other-than-temporary-impairment losses on this security. At June 30, 2014, we have no intent to sell any securities that are in an unrealized loss position nor is it expected that we would be required to sell any securities.

Two of our pooled trust preferred securities with a fair value of $6.2 million and unrealized losses of $7.8 million at June 30, 2014 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

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

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

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

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

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Trust preferred securities June 30, 2014 (Dollars in Thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2014	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a Percent of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
Pooled trust preferred securities:										
Reg Div Funding 2004	B-2	D	$ 4,012	$ 223	$ (3,789)	$	24/42	37.6%	8.1%	0.0%
Pretsl XXVII LTD	B	Caa3	4,596	1,701	(2,895)		35/47	20.5%	5.7%	39.4%
Trapeza Ser 13A	A2A	B+	9,433	4,498	(4,935)		46/61	22.0%	0.4%	54.7%
			18,041	6,422	(11,619)					
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BB+	960	1,018	58					
First Empire Cap (M&T)		BB+	2,914	3,053	139					
Fleet Cap Tr V (BOA)		BB+	3,377	2,975	(402)					
JP Morgan Chase Cap XIII		BBB	4,739	4,325	(414)					
NB-Global		BB+	743	850	107					
Chase Cap II		BBB	786	860	74					
			13,519	13,081	(438)					
Total			$ 31,560	$ 19,503	$ (12,057)	$				

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

On July 19, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act contains provisions (the Volcker Rule) prohibiting certain investments which can be held by a bank holding company. A limited partnership held by Old National falls under these restrictions and will have to be divested by July 2015, unless a request of up to two 1-year extensions is approved. The estimated sales proceeds for this security would be less than the amortized cost of the security, and an other-than-temporary-impairment charge of $100 thousand was recorded for this security in the first quarter of 2014.

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

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

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

NOTE 7 LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At June 30, 2014 and December 31, 2013, Old National had residential loans held for sale of $11.4 million and $7.7 million, respectively.

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

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

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

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

NOTE 8 LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The composition of loans by lending classification was as follows:

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

(1) Includes direct finance leases of $23.4 million at June 30, 2014 and $27.8 million at December 31, 2013.

Portfolio loans, or loans Old National intends to hold for investment purposes, are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the principal balances of loans outstanding.

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

Commercial

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

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Commercial real estate

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

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

Residential

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

Consumer

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

Covered Loans

On July 29, 2011, Old National acquired the banking operations of Integra in an FDIC assisted transaction. As part of the purchase and assumption agreement, Old National and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), OREO and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million. As of June 30, 2014, we do not expect losses to exceed $275.0 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has previously reimbursed Old National under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

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Allowance for loan losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, historical loss experience, and assessments of the impact of current economic conditions on the portfolio.

The allowance is increased through a provision charged to operating expense. Loans deemed to be uncollectible are charged to the allowance. Recoveries of loans previously charged-off are added to the allowance.

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

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

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

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

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

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

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

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

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

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

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

Credit Quality

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

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

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

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

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

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

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

(dollars in thousands)

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

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

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

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

Impaired Loans

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

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

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

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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 June 30, 2014 and 2013 are included in the tables below.

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

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

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

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

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

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

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

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

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

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

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

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

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

Loan Participations

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

Troubled Debt Restructurings

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Purchased credit impaired (PCI) loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool. As of June 30, 2014, it has not been necessary to remove any loans from PCI accounting.

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

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

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

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

Purchased Impaired Loans (non-covered loans)

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

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

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

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

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

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

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

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

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

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

(1) Includes covered and noncovered.

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

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NOTE 9 COVERED LOANS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(dollars in thousands)	2014	2013
Balance at January 1,	**$ 88,513**	$ 116,624
Adjustments not reflected in income:		