

OLD NATIONAL BANCORP /IN/  
Form 10-Q  
October 31, 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 September 30, 2014**

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

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

**Commission File Number 1-15817**

**OLD NATIONAL BANCORP**

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

**INDIANA**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**35-1539838**  
**(I.R.S. Employer**  
**Identification No.)**

**One Main Street**  
**Evansville, Indiana**  
**(Address of principal executive offices)**

**47708**  
**(Zip Code)**

**(812) 464-1294**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock. The Registrant has one class of common stock (no par value) with 113,984,000 shares outstanding at September 30, 2014.

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## OLD NATIONAL BANCORP

## CONSOLIDATED BALANCE SHEETS

| (dollars and shares in thousands, except per share data)  | September 30,<br>2014<br>(unaudited) | December 31,<br>2013 | September 30,<br>2013<br>(unaudited) |
|---|--------------------------------------|----------------------|--------------------------------------|
| <b>Assets</b>   |                                      |                      |                                      |
| Cash and due from banks   | \$ 205,853                           | \$ 190,606           | \$ 217,902                           |
| Money market and other interest-earning investments   | 25,599                               | 16,117               | 29,508                               |
| Total cash and cash equivalents   | 231,452                              | 206,723              | 247,410                              |
| Trading securities at fair value  | 3,839                                | 3,566                | 3,331                                |
| Investment securities available-for-sale, at fair value:  |                                      |                      |                                      |
| U.S. Treasury   | 11,140                               | 13,113               | 28,301                               |
| U.S. Government-sponsored entities and agencies   | 628,331                              | 435,588              | 391,737                              |
| Mortgage-backed securities  | 1,226,476                            | 1,306,670            | 1,409,217                            |
| States and political subdivisions   | 273,568                              | 268,795              | 275,798                              |
| Other securities  | 370,946                              | 348,035              | 269,244                              |
| Total investment securities available-for-sale  | 2,510,461                            | 2,372,201            | 2,374,297                            |
| Investment securities held-to-maturity, at amortized cost (fair value \$901,717, \$780,758 and \$778,552, respectively) | 848,033                              | 762,734              | 758,194                              |
| Federal Home Loan Bank stock, at cost   | 45,656                               | 40,584               | 40,584                               |
| Residential loans held for sale, at fair value  | 12,875                               | 7,705                | 7,918                                |
| Loans:  |                                      |                      |                                      |
| Commercial  | 1,647,889                            | 1,373,415            | 1,381,216                            |
| Commercial real estate  | 1,614,563                            | 1,160,890            | 1,165,766                            |
| Residential real estate   | 1,546,939                            | 1,359,569            | 1,344,350                            |
| Consumer credit, net of unearned income   | 1,274,699                            | 971,258              | 930,343                              |
| Covered loans, net of discount  | 158,345                              | 217,832              | 250,801                              |
| Total loans   | 6,242,435                            | 5,082,964            | 5,072,476                            |
| Allowance for loan losses   | (44,693)                             | (41,741)             | (42,306)                             |
| Allowance for loan losses covered loans   | (3,586)                              | (5,404)              | (5,012)                              |
| Net loans   | 6,194,156                            | 5,035,819            | 5,025,158                            |
| FDIC indemnification asset  | 28,000                               | 88,513               | 91,558                               |
| Premises and equipment, net   | 130,229                              | 108,306              | 104,643                              |
| Accrued interest receivable   | 56,961                               | 50,205               | 48,375                               |
| Goodwill  | 491,407                              | 352,729              | 352,729                              |
| Other intangible assets   | 39,043                               | 25,957               | 26,596                               |
| Company-owned life insurance  | 316,198                              | 275,121              | 273,638                              |
| Assets held for sale  | 8,705                                | 9,056                | 9,351                                |
| Other real estate owned and repossessed personal property   | 8,173                                | 7,562                | 9,609                                |

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|  |                      |              |              |
|--|----------------------|--------------|--------------|
| Other real estate owned covered  | <b>9,454</b>         | 13,670       | 18,248       |
| Other assets   | <b>245,110</b>       | 221,293      | 260,440      |
| Total assets   | <b>\$ 11,179,752</b> | \$ 9,581,744 | \$ 9,652,079 |
| <b>Liabilities</b>   |                      |              |              |
| Deposits:  |                      |              |              |
| Noninterest-bearing demand   | <b>\$ 2,371,049</b>  | \$ 2,026,490 | \$ 1,975,153 |
| Interest-bearing:  |                      |              |              |
| NOW  | <b>2,069,507</b>     | 1,775,938    | 1,711,252    |
| Savings  | <b>2,178,094</b>     | 1,941,652    | 1,962,407    |
| Money market   | <b>547,069</b>       | 448,848      | 451,378      |
| Time   | <b>1,041,583</b>     | 1,017,975    | 1,108,217    |
| Total deposits   | <b>8,207,302</b>     | 7,210,903    | 7,208,407    |
| Short-term borrowings  | <b>495,262</b>       | 462,332      | 418,971      |
| Other borrowings   | <b>871,716</b>       | 556,388      | 633,875      |
| Accrued expenses and other liabilities   | <b>198,292</b>       | 189,481      | 231,570      |
| Total liabilities  | <b>9,772,572</b>     | 8,419,104    | 8,492,823    |
| <b>Shareholders Equity</b>   |                      |              |              |
| Preferred stock, 2,000 shares authorized, no shares issued or outstanding  |                      |              |              |
| Common stock, \$1 stated value, 150,000 shares authorized, 113,984, 99,859 and 100,693 shares issued and outstanding, respectively |                      |              |              |
|  | <b>113,984</b>       | 99,859       | 100,693      |
| Capital surplus  | <b>1,077,939</b>     | 900,254      | 910,964      |
| Retained earnings  | <b>245,874</b>       | 206,993      | 192,529      |
| Accumulated other comprehensive income (loss), net of tax  | <b>(30,617)</b>      | (44,466)     | (44,930)     |
| Total shareholders equity  | <b>1,407,180</b>     | 1,162,640    | 1,159,256    |
| Total liabilities and shareholders equity  | <b>\$ 11,179,752</b> | \$ 9,581,744 | \$ 9,652,079 |

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

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

| (dollars and shares in thousands, except per share data)    | Three Months<br>Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                |
|---|--|---------------|------------------------------------|----------------|
|   | 2014                                   | 2013          | 2014                               | 2013           |
| <b>Interest Income</b>                                      |  |               |                                    |                |
| Loans including fees:                                       |  |               |                                    |                |
| Taxable   | \$ 91,080                              | \$ 61,307     | \$ 221,929                         | \$ 188,748     |
| Nontaxable  | 2,608                                  | 2,448         | 7,647                              | 7,007          |
| Investment securities:                                      |  |               |                                    |                |
| Taxable   | 14,923                                 | 15,141        | 46,139                             | 45,422         |
| Nontaxable  | 6,001                                  | 4,990         | 16,674                             | 14,473         |
| Money market and other interest-earning investments         | 6                                      | 8             | 22                                 | 28             |
| <b>Total interest income</b>                                | <b>114,618</b>                         | <b>83,894</b> | <b>292,411</b>                     | <b>255,678</b> |
| <b>Interest Expense</b>                                     |  |               |                                    |                |
| Deposits  | 3,321                                  | 4,390         | 9,946                              | 14,674         |
| Short-term borrowings                                       | 76                                     | 95            | 226                                | 575            |
| Other borrowings  | 2,854                                  | 1,413         | 5,912                              | 4,192          |
| <b>Total interest expense</b>                               | <b>6,251</b>                           | <b>5,898</b>  | <b>16,084</b>                      | <b>19,441</b>  |
| <b>Net interest income</b>                                  | <b>108,367</b>                         | <b>77,996</b> | <b>276,327</b>                     | <b>236,237</b> |
| Provision for loan losses                                   | 2,591                                  | (1,724)       | 2,228                              | (4,572)        |
| <b>Net interest income after provision for loan losses</b>  | <b>105,776</b>                         | <b>79,720</b> | <b>274,099</b>                     | <b>240,809</b> |
| <b>Noninterest Income</b>                                   |  |               |                                    |                |
| Wealth management fees                                      | 7,190                                  | 5,534         | 20,486                             | 17,602         |
| Service charges on deposit accounts                         | 12,481                                 | 13,929        | 35,436                             | 36,793         |
| Debit card and ATM fees                                     | 6,805                                  | 6,246         | 19,017                             | 17,986         |
| Mortgage banking revenue                                    | 1,735                                  | 957           | 3,627                              | 3,823          |
| Insurance premiums and commissions                          | 9,761                                  | 8,853         | 31,534                             | 29,114         |
| Investment product fees                                     | 4,684                                  | 4,474         | 12,669                             | 12,131         |
| Company-owned life insurance                                | 1,832                                  | 2,713         | 4,942                              | 5,971          |
| Net securities gains  | 2,713                                  | 186           | 4,961                              | 2,994          |
| Total other-than-temporary impairment losses                |  |               | (100)                              |                |
| Loss recognized in other comprehensive income               |  |               |                                    |                |
| <b>Impairment losses recognized in earnings</b>             |  |               | <b>(100)</b>                       |                |
| Gain (loss) on derivatives                                  | 41                                     | 24            | 291                                | 156            |
| Recognition of deferred gain on sale leaseback transactions | 1,524                                  | 1,566         | 4,571                              | 4,941          |

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|  |                  |           |                  |           |
|--|------------------|-----------|------------------|-----------|
| Gain on branch divestitures deposit premium                  |                  |           |                  | 2,244     |
| Change in FDIC indemnification asset                         | <b>(19,103)</b>  | (2,140)   | <b>(36,916)</b>  | (5,916)   |
| Other income   | <b>4,755</b>     | 5,413     | <b>14,116</b>    | 12,475    |
| <b>Total noninterest income</b>                              | <b>34,418</b>    | 47,755    | <b>114,634</b>   | 140,314   |
| <b>Noninterest Expense</b>                                   |                  |           |                  |           |
| Salaries and employee benefits                               | <b>54,634</b>    | 51,777    | <b>161,064</b>   | 151,460   |
| Occupancy  | <b>12,723</b>    | 12,584    | <b>36,377</b>    | 36,697    |
| Equipment  | <b>3,330</b>     | 3,306     | <b>9,520</b>     | 8,979     |
| Marketing  | <b>2,382</b>     | 2,201     | <b>7,001</b>     | 5,340     |
| Data processing  | <b>6,401</b>     | 5,704     | <b>18,464</b>    | 16,595    |
| Communication  | <b>2,615</b>     | 2,655     | <b>7,569</b>     | 7,924     |
| Professional fees  | <b>5,332</b>     | 3,140     | <b>12,657</b>    | 9,643     |
| Loan expense   | <b>1,653</b>     | 1,886     | <b>4,411</b>     | 5,471     |
| Supplies   | <b>793</b>       | 666       | <b>2,270</b>     | 1,884     |
| FDIC assessment  | <b>1,671</b>     | 1,857     | <b>4,557</b>     | 3,627     |
| Other real estate owned expense                              | <b>758</b>       | 1,465     | <b>2,771</b>     | 4,016     |
| Amortization of intangibles                                  | <b>2,519</b>     | 1,859     | <b>6,359</b>     | 6,224     |
| Other expense  | <b>5,154</b>     | 7,558     | <b>13,301</b>    | 15,897    |
| <b>Total noninterest expense</b>                             | <b>99,965</b>    | 96,658    | <b>286,321</b>   | 273,757   |
| <b>Income before income taxes</b>                            | <b>40,229</b>    | 30,817    | <b>102,412</b>   | 107,366   |
| Income tax expense   | <b>11,095</b>    | 6,869     | <b>27,995</b>    | 30,995    |
| <b>Net income</b>  | <b>\$ 29,134</b> | \$ 23,948 | <b>\$ 74,417</b> | \$ 76,371 |
| Net income per common share basic                            | <b>\$ 0.26</b>   | \$ 0.24   | <b>\$ 0.71</b>   | \$ 0.76   |
| Net income per common share diluted                          | <b>0.26</b>      | 0.23      | <b>0.70</b>      | 0.75      |
| Weighted average number of common shares outstanding-basic   | <b>111,428</b>   | 100,645   | <b>105,086</b>   | 100,901   |
| Weighted average number of common shares outstanding-diluted | <b>111,947</b>   | 101,131   | <b>105,559</b>   | 101,351   |
| Dividends per common share                                   | <b>\$ 0.11</b>   | \$ 0.10   | <b>\$ 0.33</b>   | \$ 0.30   |

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

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## OLD NATIONAL BANCORP

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

| (dollars in thousands)   | Three Months<br>Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|--|-----------|------------------------------------|-----------|
|  | 2014                                   | 2013      | 2014                               | 2013      |
| Net income   | \$ 29,134                              | \$ 23,948 | \$ 74,417                          | \$ 76,371 |
| Other comprehensive income (loss):   |  |           |                                    |           |
| Change in securities available-for-sale:   |  |           |                                    |           |
| Unrealized holding gains (losses) for the period   | 5,772                                  | (29,839)  | 29,274                             | (117,224) |
| Reclassification for securities transferred to held-to-maturity  |  | 31,005    |                                    | 31,005    |
| Reclassification adjustment for securities gains realized in income  | (2,713)                                | (186)     | (4,961)                            | (2,994)   |
| Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income              |  |           | 100                                |           |
| Income tax effect  | (1,222)                                | 272       | (9,312)                            | 34,638    |
| Unrealized gains on available-for-sale securities  | 1,837                                  | 1,252     | 15,101                             | (54,575)  |
| Change in securities held-to-maturity:   |  |           |                                    |           |
| Fair value adjustment for securities transferred from available-for-sale   |  | (31,005)  |                                    | (31,005)  |
| Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income | 395                                    | 193       | 1,017                              | (161)     |
| Income tax effect  | (126)                                  | 10,725    | (311)                              | 10,866    |
| Changes from securities held-to-maturity   | 269                                    | (20,087)  | 706                                | (20,300)  |
| Cash flow hedges:  |  |           |                                    |           |
| Net unrealized derivative gains (losses) on cash flow hedges   | 1,090                                  | (2,609)   | (3,993)                            | (1,735)   |
| Income tax effect  | (676)                                  | 1,009     | 1,256                              | 660       |
| Changes from cash flow hedges  | 414                                    | (1,600)   | (2,737)                            | (1,075)   |
| Defined benefit pension plans:   |  |           |                                    |           |
| Amortization of net loss recognized in income  | 329                                    | 849       | 1,272                              | 2,551     |
| Income tax effect  | (125)                                  | (323)     | (493)                              | (1,332)   |
| Changes from defined benefit pension plans   | 204                                    | 526       | 779                                | 1,219     |
| Other comprehensive income (loss), net of tax  | 2,724                                  | (19,909)  | 13,849                             | (74,731)  |
| Comprehensive income   | \$ 31,858                              | \$ 4,039  | \$ 88,266                          | \$ 1,640  |

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





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## OLD NATIONAL BANCORP

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

| (dollars and shares<br>in thousands)      | Common<br>Stock | Capital<br>Surplus | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Total<br>Shareholders<br>Equity |
|---|-----------------|--------------------|----------------------|---|---------------------------------|
| <b>Balance, December 31, 2012</b>         | \$ 101,179      | \$ 916,918         | \$ 146,667           | \$ 29,801   | \$ 1,194,565                    |
| Net income                                |                 |                    | 76,371               |   | 76,371                          |
| Other comprehensive income (loss)         |                 |                    |                      | (74,731)  | (74,731)                        |
| Dividends common stock                    |                 |                    | (30,275)             |   | (30,275)                        |
| Common stock issued                       | 17              | 197                |                      |   | 214                             |
| Common stock repurchased                  | (839)           | (10,285)           |                      |   | (11,124)                        |
| Stock based compensation expense          |                 | 3,154              |                      |   | 3,154                           |
| Stock activity under incentive comp plans | 336             | 980                | (234)                |   | 1,082                           |
| <b>Balance, September 30, 2013</b>        | \$ 100,693      | \$ 910,964         | \$ 192,529           | \$ (44,930)   | \$ 1,159,256                    |
| <b>Balance, December 31, 2013</b>         | \$ 99,859       | \$ 900,254         | \$ 206,993           | \$ (44,466)   | \$ 1,162,640                    |
| Net income                                |                 |                    | 74,417               |   | 74,417                          |
| Other comprehensive income (loss)         |                 |                    |                      | 13,849  | 13,849                          |
| Acquisition Tower Financial               | 5,626           | 73,101             |                      |   | 78,727                          |
| Acquisition United Bancorp                | 9,117           | 114,689            |                      |   | 123,806                         |
| Dividends common stock                    |                 |                    | (35,266)             |   | (35,266)                        |
| Common stock issued                       | 17              | 220                |                      |   | 237                             |
| Common stock repurchased                  | (1,147)         | (14,137)           |                      |   | (15,284)                        |
| Stock based compensation expense          |                 | 2,698              |                      |   | 2,698                           |
| Stock activity under incentive comp plans | 512             | 1,114              | (270)                |   | 1,356                           |
| <b>Balance, September 30, 2014</b>        | \$ 113,984      | \$ 1,077,939       | \$ 245,874           | \$ (30,617)   | \$ 1,407,180                    |

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

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

| (dollars in thousands)  | Nine Months Ended<br>September 30, |                |
|---|------------------------------------|----------------|
|   | 2014                               | 2013           |
| <b>Cash Flows From Operating Activities</b>   |                                    |                |
| Net income  | \$ 74,417                          | \$ 76,371      |
| Adjustments to reconcile net income to cash provided by operating activities:               |                                    |                |
| Depreciation  | 9,023                              | 8,259          |
| Amortization of other intangible assets   | 6,359                              | 6,224          |
| Net premium amortization on investment securities   | 10,872                             | 13,190         |
| Amortization of FDIC indemnification asset  | 36,916                             | 5,916          |
| Stock compensation expense  | 2,698                              | 3,154          |
| Provision for loan losses   | 2,228                              | (4,572)        |
| Net securities gains  | (4,961)                            | (2,994)        |
| Impairment on available-for-sale securities   | 100                                |                |
| Gain on branch divestitures   |                                    | (2,244)        |
| Recognition of deferred gain on sale leaseback transactions                                 | (4,571)                            | (4,941)        |
| Gain on derivatives   | (291)                              | (156)          |
| Net gains on sales of other assets  | (1,935)                            | (1,496)        |
| Increase in cash surrender value of company owned life insurance                            | (4,939)                            | (3,009)        |
| Proceeds from sale of residential real estate loans   | 105,257                            | 125,027        |
| Residential real estate loans originated for sale   | (106,596)                          | (117,074)      |
| Increase in interest receivable   | (1,770)                            | (1,382)        |
| Decrease in other real estate owned   | 5,754                              | 9,459          |
| Decrease in other assets  | 4,675                              | 15,172         |
| Increase (decrease) in accrued expenses and other liabilities                               | 1,636                              | (4,856)        |
| <b>Total adjustments</b>  | <b>60,455</b>                      | <b>43,677</b>  |
| Net cash flows provided by operating activities   | <b>134,872</b>                     | <b>120,048</b> |
| <b>Cash Flows From Investing Activities</b>   |                                    |                |
| Net cash and cash equivalents of acquired banks and branches                                | 7,198                              | 530,000        |
| Purchases of investment securities available-for-sale                                       | (291,692)                          | (1,034,369)    |
| Purchases of investment securities held-to-maturity   | (103,299)                          | (21,181)       |
| Proceeds from maturities, prepayments and calls of investment securities available-for-sale | 316,532                            | 506,517        |
| Proceeds from sales of investment securities available-for-sale                             | 155,876                            | 169,287        |
| Proceeds from maturities, prepayments and calls of investment securities held-to-maturity   | 13,762                             | 20,347         |
| Proceeds on branch divestitures   |                                    | (144,236)      |
| Proceeds from sale of loans and leases  |                                    | 114,527        |

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|  |                  |          |
|--|------------------|----------|
| Purchases of Federal Home Loan Bank stock                        |                  | (2,657)  |
| Reimbursements under FDIC loss share agreements                  | <b>24,814</b>    | 19,415   |
| Net principal collected from (loans made to) loan customers      | <b>(157,764)</b> | 16,228   |
| Proceeds from sale of premises and equipment and other assets    | <b>118</b>       | 3,078    |
| Purchases of premises and equipment and other assets             | <b>(15,130)</b>  | (15,222) |
| <b>Net cash flows provided by (used in) investing activities</b> | <b>(49,585)</b>  | 161,734  |

**Cash Flows From Financing Activities**

|  |                  |           |
|--|------------------|-----------|
| Net increase (decrease) in deposits and short-term borrowings: |                  |           |
| Deposits   | <b>(295,804)</b> | (485,517) |
| Short-term borrowings  | <b>3,612</b>     | (170,844) |
| Payments for maturities on other borrowings                    | <b>(193,600)</b> | (837)     |
| Payments related to retirement of debt                         |                  | (50,993)  |
| Proceeds from issuance of other borrowings                     | <b>475,000</b>   | 450,000   |
| Cash dividends paid on common stock                            | <b>(35,266)</b>  | (30,275)  |
| Common stock repurchased                                       | <b>(15,284)</b>  | (11,124)  |
| Proceeds from exercise of stock options, including tax benefit | <b>547</b>       | 944       |
| Common stock issued  | <b>237</b>       | 214       |
| <b>Net cash flows used in financing activities</b>             | <b>(60,558)</b>  | (298,432) |

|  |                |          |
|--|----------------|----------|
| Net increase (decrease) in cash and cash equivalents | <b>24,729</b>  | (16,650) |
| Cash and cash equivalents at beginning of period     | <b>206,723</b> | 264,060  |

**Cash and cash equivalents at end of period** **\$ 231,452** \$ 247,410

Supplemental cash flow information:

|  |                  |            |
|--|------------------|------------|
| Total interest paid  | <b>\$ 15,425</b> | \$ 20,626  |
| Total taxes paid (net of refunds)                                  | <b>\$ 14,405</b> | \$ 11,782  |
| Securities transferred from available-for-sale to held-to-maturity | <b>\$</b>        | \$ 357,788 |

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

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**Table of Contents****OLD NATIONAL BANCORP****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National ) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, valuation of purchased loans, FDIC indemnification asset, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of September 30, 2014 and 2013, and December 31, 2013, and the results of its operations for the three and nine months ended September 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. 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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**FASB ASC 310** In August 2014, the FASB issued an update (ASU No. 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure) impacting FASB ASC 310-40, Receivables—Troubled Debt Restructuring by Creditors. This update affects creditors that hold government-guaranteed mortgage loans. The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure. (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim. (3) At the time of foreclosure, the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update 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 205** In August 2014, the FASB issued an update (ASU No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern) impacting FASB ASC 205-40, Presentation of Financial Statements—Going Concern. This update requires management to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Management's evaluation should be based on relevant conditions and events that are known and reasonably knowable at the date the financial statements are issued. Substantial doubt about an entity's ability to continue as a going concern exists when relevant conditions and events, considered in the aggregate, indicate that it is probable that an entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. If the substantial doubt is alleviated as a result of consideration of management's plans, the entity should disclose information that enables financial statement users to understand the principal conditions or events that raised substantial doubt, management's evaluation of the conditions and management's plans to alleviate the substantial doubt. If substantial doubt exists about an entity's ability to continue as a going concern, and the substantial doubt is not alleviated after consideration of management's plans, an entity should include a statement in the footnotes indicating that there is substantial doubt about the entity's ability to continue as a going concern. The amendments in this update become effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

**NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY****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.

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

|  |                   |
|--|-------------------|
| Cash and cash equivalents                                      | \$ 56,345         |
| Investment securities  | 142,759           |
| Loans held for sale  | 474               |
| Loans  | 371,054           |
| Premises and equipment   | 8,516             |
| Accrued interest receivable                                    | 2,371             |
| Other real estate owned  | 473               |
| Company-owned life insurance                                   | 21,281            |
| Other assets   | 15,200            |
| Deposits   | (527,995)         |
| Short-term borrowings  | (18,898)          |
| Other borrowings   | (21,113)          |
| Accrued expenses and other liabilities                         | (4,681)           |
| Net tangible assets acquired                                   | 45,786            |
| Definite-lived intangible assets acquired                      | 8,382             |
| Goodwill   | 56,203            |
| <b>Total estimated fair value of consideration transferred</b> | <b>\$ 110,371</b> |

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively. During the third quarter of 2014, adjustments were made to the purchase price allocations that affected the amounts allocated to goodwill and other assets.

Of the total purchase price, \$45.8 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 segment, as described in Note 21 of these consolidated financial statement footnotes.

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

|                         | <b>Estimated<br/>Fair Value<br/>(in millions)</b> | <b>Estimated<br/>Useful Lives (Years)</b> |
|-------------------------|---|---|
| Core deposit intangible | \$ 4.6  | 7   |

|  |        |    |
|--|--------|----|
| Trust customer relationship intangible | \$ 3.8 | 12 |
|--|--------|----|

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

|  | Fair Value<br>of Acquired Loans<br>at Acquisition Date | Gross Contractual<br>Amounts Receivable<br>at<br>Acquisition<br>Date | Best Estimate<br>of Contractual Cash<br>Flows<br>Not<br>Expected to<br>be<br>Collected |
|--|--|--|--|
| (in thousands)                                 |  |  |  |
| Acquired receivables subject to ASC 310-30     | \$ 12,855  | \$ 22,746  | \$ 5,826   |
| Acquired receivables not subject to ASC 310-30 | \$ 358,199   | \$ 450,865   | \$ 10,879  |

*United Bancorp, Inc.*

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

The total purchase price for United was \$157.8 million, consisting of \$34.0 million of cash, the issuance of 9.1 million shares of Old National Common Stock valued at \$122.0 million, and the assumption of United's options and stock appreciation rights, valued at \$1.8 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. To date, transaction and integration costs of \$6.5 million associated with the acquisition have been expensed and remaining integration costs will be expensed in future quarters as incurred.

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

|   |            |
|---|------------|
| Cash and cash equivalents                               | \$ 16,447  |
| Investment securities                                   | 157,765    |
| Loans held for sale                                     | 1,073      |
| Loans   | 631,747    |
| Premises and equipment                                  | 7,741      |
| Accrued interest receivable                             | 2,614      |
| Other real estate owned                                 | 1,676      |
| Company-owned life insurance                            | 14,857     |
| Other assets  | 16,568     |
| Deposits  | (763,681)  |
| Short-term borrowings                                   | (10,420)   |
| Other borrowings  | (12,515)   |
| Accrued expenses and other liabilities                  | (8,337)    |
| Net tangible assets acquired                            | 55,535     |
| Definite-lived intangible assets acquired               | 10,763     |
| Loan servicing rights                                   | 8,983      |
| Goodwill  | 82,475     |
| Total estimated fair value of consideration transferred | \$ 157,756 |

Of the total purchase price, \$55.5 million has been allocated to net tangible assets acquired, \$9.0 million has been allocated to loan servicing rights and \$10.8 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 segment, as described in Note 21 of these consolidated financial statement footnotes.

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

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

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

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| (in thousands)                                    | Fair Value<br>of Acquired Loans<br>at Acquisition Date | Gross Contractual<br>Amounts Receivable<br>at Acquisition Date | Best Estimate at Acquisition<br>Date of Contractual Cash Flows<br>Not Expected<br>to be Collected |
|---|--|--|---|
| Acquired receivables<br>subject to ASC 310-30     | \$ 8,391   | \$ 15,483  | \$ 5,487  |
| Acquired receivables not<br>subject to ASC 310-30 | \$ 623,356   | \$ 798,967   | \$ 89,430   |

**Table of Contents***Summary of Unaudited Pro-forma Information*

The unaudited pro-forma information below for the periods ended September 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.

| (dollars in thousands) | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|------------------------|---|-------------|--|-------------|
|                        | <b>2014</b>                                 | <b>2013</b> | <b>2014</b>                                | <b>2013</b> |
| Revenue (1)            | \$ 147,850                                  | \$ 148,471  | \$ 436,446                                 | \$ 444,710  |
| Net income             | \$ 32,083                                   | \$ 29,517   | \$ 94,944                                  | \$ 85,379   |

(1) Net interest income plus noninterest income.

2014 supplemental pro-forma earnings were adjusted to exclude \$3.2 million and \$11.8 million of acquisition-related costs incurred during the three and nine months ended September 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 has received regulatory and shareholder approval and is expected to close November 1, 2014, subject to customary closing conditions.

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. Subsequent to quarter-end, the transaction received regulatory and shareholder approval, but is still subject to 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 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.

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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 21 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.

Table of Contents**NOTE 4 NET INCOME PER SHARE**

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

| (dollars and shares in thousands,<br>except per share data) | <b>Three Months Ended<br/>September 30,<br/>2014</b>    | <b>Three Months Ended<br/>September 30,<br/>2013</b>    |
|---|---|---|
| <b>Basic Earnings Per Share</b>                             |   |   |
| Net income  | \$ 29,134   | \$ 23,948   |
| Weighted average common shares outstanding                  | 111,428   | 100,645   |
| <b>Basic Earnings Per Share</b>                             | <b>\$ 0.26</b>  | <b>\$ 0.24</b>  |
| <b>Diluted Earnings Per Share</b>                           |   |   |
| Net income  | \$ 29,134   | \$ 23,948   |
| Weighted average common shares outstanding                  | 111,428   | 100,645   |
| Effect of dilutive securities:                              |   |   |
| Restricted stock (1)  | 446   | 454   |
| Stock options (2)   | 73  | 32  |
| Weighted average shares outstanding                         | 111,947   | 101,131   |
| <b>Diluted Earnings Per Share</b>                           | <b>\$ 0.26</b>  | <b>\$ 0.23</b>  |
| <br>  |   |   |
|   | <b>Nine Months<br/>Ended<br/>September<br/>30, 2014</b> | <b>Nine Months<br/>Ended<br/>September<br/>30, 2013</b> |
| (dollars and shares in thousands,<br>except per share data) |   |   |
| <b>Basic Earnings Per Share</b>                             |   |   |
| Net income  | \$ 74,417   | \$ 76,371   |
| Weighted average common shares outstanding                  | 105,086   | 100,901   |
| <b>Basic Earnings Per Share</b>                             | <b>\$ 0.71</b>  | <b>\$ 0.76</b>  |
| <b>Diluted Earnings Per Share</b>                           |   |   |
| Net income  | \$ 74,417   | \$ 76,371   |
| Weighted average common shares outstanding                  | 105,086   | 100,901   |
| Effect of dilutive securities:                              |   |   |
| Restricted stock (1)  | 428   | 424   |
| Stock options (2)   | 45  | 26  |
| Weighted average shares outstanding                         | 105,559   | 101,351   |
| <b>Diluted Earnings Per Share</b>                           | <b>\$ 0.70</b>  | <b>\$ 0.75</b>  |

(1)

No shares of restricted stock awards or restricted stock units were excluded in the computation of net income per diluted share for the third quarter ended September 30, 2014 and 2013, respectively, because the effect would be antidilutive. 0 and 6 shares of restricted stock and restricted stock units were excluded in the computation of net income per diluted share for the nine months ended September 30, 2014 and 2013, respectively, because the effect would be antidilutive.

- (2) Options to purchase 988 shares and 1,013 shares outstanding at September 30, 2014 and 2013, respectively, were excluded in the computation of net income per diluted share for the third quarter ended September 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 976 and 1,025 shares outstanding at September 30, 2014 and 2013, respectively, were excluded in the computation of net income per diluted share for the nine months ended September 30, 2014 and 2013, respectively, because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

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

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

## Changes in Accumulated Other Comprehensive Income (Loss) by Component

| (dollars in thousands)  | For the Three Months Ended September 30, 2014 (a)            |  |                                      |                               |  | Total       |
|---|--|--|--------------------------------------|-------------------------------|--|-------------|
|   | Unrealized Gains and Losses on Available-for-Sale Securities | Unrealized Gains and Losses on Held-to-Maturity Securities | Gains and Losses on Cash Flow Hedges | Defined Benefit Pension Plans |  |             |
| Balance at July 1, 2014   | \$ (7,844)   | \$ (16,330)  | \$ (3,341)                           | \$ (5,826)                    |  | \$ (33,341) |
| Other comprehensive income (loss) before reclassifications                  | 3,466  |  | 414                                  |                               |  | 3,880       |
| Amounts reclassified from accumulated other comprehensive income (loss) (b) | (1,629)  | 269  |                                      | 204                           |  | (1,156)     |
| Net current-period other comprehensive income (loss)                        | 1,837  | 269  | 414                                  | 204                           |  | 2,724       |
| Balance at September 30, 2014   | \$ (6,007)   | \$ (16,061)  | \$ (2,927)                           | \$ (5,622)                    |  | \$ (30,617) |

(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

| (dollars in thousands)  | For the Nine Months Ended September 30, 2014 (a)             |  |                                      |                               |  | Total       |
|---|--|--|--------------------------------------|-------------------------------|--|-------------|
|   | Unrealized Gains and Losses on Available-for-Sale Securities | Unrealized Gains and Losses on Held-to-Maturity Securities | Gains and Losses on Cash Flow Hedges | Defined Benefit Pension Plans |  |             |
| Balance at January 1, 2014  | \$ (21,108)  | \$ (16,767)  | \$ (190)                             | \$ (6,401)                    |  | \$ (44,466) |
| Other comprehensive income (loss) before reclassifications                  | 18,117   |  | (2,737)                              |                               |  | 15,380      |
| Amounts reclassified from accumulated other comprehensive income (loss) (b) | (3,016)  | 706  |                                      | 779                           |  | (1,531)     |

|  |            |             |            |            |             |
|--|------------|-------------|------------|------------|-------------|
| Net current-period other comprehensive income (loss) | 15,101     | 706         | (2,737)    | 779        | 13,849      |
| Balance at September 30, 2014                        | \$ (6,007) | \$ (16,061) | \$ (2,927) | \$ (5,622) | \$ (30,617) |

(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 September 30, 2014 (a)                               |  |   |
|---|--|---|
| Details about Accumulated<br>Other Comprehensive<br>Income<br>(Loss) Components | Amount Reclassified from<br>Accumulated Other<br>Comprehensive Income (Loss) | Affected Line Item in the<br>Statement Where Net<br>Income is Presented |
| Unrealized gains and losses<br>on available-for-sale<br>securities              | \$ 2,713   | Net securities gains<br>Impairment losses                               |
|   | 2,713  | Total before tax  |
|   | (1,084)  | Tax (expense) or benefit  |
|   | \$ 1,629   | Net of tax  |
| Unrealized gains and losses<br>on held-to-maturity<br>securities                | \$ (395)   | Interest income/(expense)   |
|   | 126  | Tax (expense) or benefit  |
|   | \$ (269)   | Net of tax  |
| Amortization of defined<br>benefit pension items                                |  |   |
| Actuarial gains/(losses)  | \$ (329)   | (b)   |
|   | 125  | Tax (expense) or benefit  |
|   | \$ (204)   | Net of tax  |
| Total reclassifications for<br>the period                                       | \$ 1,156   | 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 15 for additional details on our pension plans.

## Reclassifications out of Accumulated Other Comprehensive Income (Loss)

| For the Nine Months Ended September 30, 2014 (a)                                |   |   |
|---|---|---|
| Details about Accumulated<br>Other Comprehensive<br>Income<br>(Loss) Components | Amount Reclassified from<br>Accumulated<br>Other<br>Comprehensive Income (Loss) | Affected Line Item in the<br>Statement Where Net<br>Income is Presented |

|                                  |            |                           |
|----------------------------------|------------|---------------------------|
| Unrealized gains and losses      |            |                           |
| on available-for-sale securities | \$ 4,961   | Net securities gains      |
|                                  | (100)      | Impairment losses         |
|                                  | 4,861      | Total before tax          |
|                                  | (1,845)    | Tax (expense) or benefit  |
|                                  | \$ 3,016   | Net of tax                |
| Unrealized gains and losses      |            |                           |
| on held-to-maturity securities   | \$ (1,017) | Interest income/(expense) |
|                                  | 311        | Tax (expense) or benefit  |
|                                  | \$ (706)   | Net of tax                |
| Amortization of defined          |            |                           |
| benefit pension items            |            |                           |
| Actuarial gains/(losses)         | \$ (1,272) | (b)                       |
|                                  | 493        | Tax (expense) or benefit  |
|                                  | \$ (779)   | Net of tax                |
| Total reclassifications for the  |            |                           |
| period                           | \$ 1,531   | 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 15 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 nine months ended September 30, 2013 and summarizes the significant amounts reclassified out of each component of AOCI:

| Changes in Accumulated Other Comprehensive Income (Loss) by Component<br>For the Three Months Ended September 30, 2013 (a) |  |  |  |  |             |
|--|--|--|--|--|-------------|
| (dollars in thousands)   | Unrealized Gains<br>and<br>Losses on<br>Available-for-Sale<br>Securities | Unrealized Gains<br>and Losses<br>on<br>Held-to-Maturity<br>Securities | Gains and<br>Losses<br>on<br>Cash Flow<br>Hedges | Defined<br>Benefit<br>Pension<br>Plans | Total       |
| Balance at July 1, 2013  | \$ (16,773)  | \$ 3,056   | \$ 525   | \$ (11,829)                            | \$ (25,021) |
| Other comprehensive income (loss) before reclassifications   | 1,500  | (20,224)   | (1,600)  |  | (20,324)    |
| Amounts reclassified from accumulated other comprehensive income (loss) (b)  | (248)  | 137  |  | 526                                    | 415         |
| Net current-period other comprehensive income (loss)   | 1,252  | (20,087)   | (1,600)  | 526                                    | (19,909)    |
| Balance at September 30, 2013  | \$ (15,521)  | \$ (17,031)  | \$ (1,075)                                       | \$ (11,303)                            | \$ (44,930) |

(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<br>For the Nine Months Ended September 30, 2013 (a) |  |  |  |  |           |
|--|--|--|--|--|-----------|
| (dollars in thousands)   | Unrealized Gains<br>and<br>Losses on<br>Available-for-Sale<br>Securities | Unrealized Gains<br>and Losses<br>on<br>Held-to-Maturity<br>Securities | Gains and<br>Losses<br>on<br>Cash Flow<br>Hedges | Defined<br>Benefit<br>Pension<br>Plans | Total     |
| Balance at January 1, 2013   | \$ 39,054  | \$ 3,269   | \$   | \$ (12,522)                            | \$ 29,801 |
| Other comprehensive income (loss) before reclassifications   | (52,589)   | (20,224)   | (1,075)  |  | (73,888)  |
| Amounts reclassified from accumulated other comprehensive income (loss) (b)  | (1,986)  | (76)   |  | 1,219                                  | (843)     |
| Net current-period other comprehensive income (loss)   | (54,575)   | (20,300)   | (1,075)  | 1,219                                  | (74,731)  |

|                               |             |             |            |             |             |
|-------------------------------|-------------|-------------|------------|-------------|-------------|
| Balance at September 30, 2013 | \$ (15,521) | \$ (17,031) | \$ (1,075) | \$ (11,303) | \$ (44,930) |
|-------------------------------|-------------|-------------|------------|-------------|-------------|

- (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 September 30, 2013

Amount Reclassified from

| Details about Accumulated<br>Other Comprehensive Income<br>(Loss) Components | Accumulated<br>Other<br>Comprehensive Income (Loss) | Affected Line Item in the Statement<br>Where Net<br>Income is Presented |
|--|---|---|
| Unrealized gains and losses on<br>available-for-sale securities              | \$ 186  | Net securities gains<br>Impairment losses                               |
|  | 186   | Total before tax  |
|  | 62  | Tax (expense) or benefit  |
|  | \$ 248  | Net of tax  |
| Unrealized gains and losses on<br>held-to-maturity securities                | \$ (193)  | Interest income/(expense)   |
|  | 56  | Tax (expense) or benefit  |
|  | \$ (137)  | Net of tax  |
| Amortization of defined<br>benefit pension items                             |   |   |
| Actuarial gains/(losses)   | \$ (849) (b)  |   |
|  | 323   | Tax (expense) or benefit  |
|  | \$ (526)  | Net of tax  |
| Total reclassifications for the<br>period                                    | \$ (415)  | 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 15 for additional details on our pension plans.

## Reclassifications out of Accumulated Other Comprehensive Income (Loss)

For the Nine Months Ended September 30, 2013

Amount Reclassified from

| Details about Accumulated<br>Other Comprehensive Income<br>(Loss) Components | Accumulated<br>Other<br>Comprehensive Income (Loss) | Affected Line Item in the Statement<br>Where Net<br>Income is Presented |
|--|---|---|
| Unrealized gains and losses on<br>available-for-sale securities              | \$ 2,994  | Net securities gains  |

| Impairment losses               |            |                           |
|---------------------------------|------------|---------------------------|
|                                 | 2,994      | Total before tax          |
|                                 | (1,008)    | Tax (expense) or benefit  |
|                                 | \$ 1,986   | Net of tax                |
| Unrealized gains and losses on  |            |                           |
| held-to-maturity securities     | \$ 161     | Interest income/(expense) |
|                                 | (85)       | Tax (expense) or benefit  |
|                                 | \$ 76      | Net of tax                |
| Amortization of defined benefit |            |                           |
| pension items                   |            |                           |
| Actuarial gains/(losses)        | \$ (2,551) | (b)                       |
|                                 | 1,332      | Tax (expense) or benefit  |
|                                 | \$ (1,219) | Net of tax                |
| Total reclassifications for the |            |                           |
| period                          | \$ 843     | 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 15 for additional details on our pension plans.

**Table of Contents****NOTE 6 INVESTMENT SECURITIES**

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

| (dollars in thousands)                          | Amortized<br>Cost   | Unrealized<br>Gains | Unrealized<br>Losses | Fair Value          |
|---|---------------------|---------------------|----------------------|---------------------|
| <b>September 30, 2014</b>                       |                     |                     |                      |                     |
| <b>Available-for-sale</b>                       |                     |                     |                      |                     |
| U.S. Treasury                                   | \$ 10,990           | \$ 150              | \$                   | \$ 11,140           |
| U.S. Government-sponsored entities and agencies | 639,376             | 818                 | (11,863)             | 628,331             |
| Mortgage-backed securities Agency               | 1,228,025           | 16,286              | (17,835)             | 1,226,476           |
| States and political subdivisions               | 261,430             | 12,820              | (682)                | 273,568             |
| Pooled trust preferred securities               | 18,025              |                     | (10,880)             | 7,145               |
| Other securities                                | 362,284             | 4,956               | (3,439)              | 363,801             |
| <b>Total available-for-sale securities</b>      | <b>\$ 2,520,130</b> | <b>\$ 35,030</b>    | <b>\$ (44,699)</b>   | <b>\$ 2,510,461</b> |
| <b>Held-to-maturity</b>                         |                     |                     |                      |                     |
| U.S. Government-sponsored entities and agencies | \$ 168,084          | \$ 7,166            | \$                   | \$ 175,250          |
| Mortgage-backed securities Agency               | 26,006              | 1,091               |                      | 27,097              |
| States and political subdivisions               | 653,943             | 45,477              | (50)                 | 699,370             |
| <b>Total held-to-maturity securities</b>        | <b>\$ 848,033</b>   | <b>\$ 53,734</b>    | <b>\$ (50)</b>       | <b>\$ 901,717</b>   |
| <b>December 31, 2013</b>                        |                     |                     |                      |                     |
| <b>Available-for-sale</b>                       |                     |                     |                      |                     |
| 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             |
| <b>Total available-for-sale securities</b>      | <b>\$ 2,406,283</b> | <b>\$ 31,900</b>    | <b>\$ (65,982)</b>   | <b>\$ 2,372,201</b> |
| <b>Held-to-maturity</b>                         |                     |                     |                      |                     |
| 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)<br>Maturity | September 30, 2014 |              | Weighted |
|------------------------------------|--------------------|--------------|----------|
|                                    | Amortized          | Fair         | Average  |
|                                    | Cost               | Value        | Yield    |
| <b>Available-for-sale</b>          |                    |              |          |
| Within one year                    | \$ 32,124          | \$ 32,793    | 4.55%    |
| One to five years                  | 368,457            | 373,509      | 2.17     |
| Five to ten years                  | 594,766            | 590,070      | 2.32     |
| Beyond ten years                   | 1,524,783          | 1,514,089    | 2.30     |
| Total                              | \$ 2,520,130       | \$ 2,510,461 | 2.32%    |
| <b>Held-to-maturity</b>            |                    |              |          |
| Within one year                    | \$ 1,507           | \$ 1,520     | 3.13%    |
| One to five years                  | 25,154             | 26,425       | 3.91     |
| Five to ten years                  | 182,573            | 189,635      | 3.37     |
| Beyond ten years                   | 638,799            | 684,137      | 5.49     |
| Total                              | \$ 848,033         | \$ 901,717   | 4.99%    |

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

| (dollars in thousands)  | Less than 12 months |                   | 12 months or longer |                   | Total        |                   |
|---|---------------------|-------------------|---------------------|-------------------|--------------|-------------------|
|   | Fair Value          | Unrealized Losses | Fair Value          | Unrealized Losses | Fair Value   | Unrealized Losses |
| <b>September 30, 2014</b>   |                     |                   |                     |                   |              |                   |
| <b>Available-for-Sale</b>   |                     |                   |                     |                   |              |                   |
| U.S. Government-sponsored entities and agencies                     | \$ 157,499          | \$ (797)          | \$ 320,049          | \$ (11,066)       | \$ 477,548   | \$ (11,863)       |
| Mortgage-backed securities Agency States and political subdivisions | 82,856              | (393)             | 482,381             | (17,442)          | 565,237      | (17,835)          |
| Pooled trust preferred securities                                   | 7,373               | (39)              | 12,528              | (643)             | 19,901       | (682)             |
| Other securities  |                     |                   | 7,145               | (10,880)          | 7,145        | (10,880)          |
|   | 122,533             | (1,018)           | 45,689              | (2,421)           | 168,222      | (3,439)           |
| Total available-for-sale  | \$ 370,261          | \$ (2,247)        | \$ 867,792          | \$ (42,452)       | \$ 1,238,053 | \$ (44,699)       |
| <b>Held-to-Maturity</b>   |                     |                   |                     |                   |              |                   |
| States and political subdivisions                                   | \$ 16,667           | \$ (50)           | \$                  | \$                | \$ 16,667    | \$ (50)           |
| Total held-to-maturity  | \$ 16,667           | \$ (50)           | \$                  | \$                | \$ 16,667    | \$ (50)           |
| <b>December 31, 2013</b>  |                     |                   |                     |                   |              |                   |
| <b>Available-for-Sale</b>   |                     |                   |                     |                   |              |                   |
| 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 States and political subdivisions | 668,018             | (23,455)          | 41,200              | (3,112)           | 709,218      | (26,567)          |
| Pooled trust preferred securities                                   | 45,077              | (1,620)           | 2,812               | (95)              | 47,889       | (1,715)           |
| Other securities  |                     |                   | 8,037               | (11,178)          | 8,037        | (11,178)          |
|   | 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)       |
| <b>Held-to-Maturity</b>   |                     |                   |                     |                   |              |                   |
| Mortgage-backed securities Agency States and political subdivisions | \$ 21,370           | \$ (1)            | \$                  | \$                | \$ 21,370    | \$ (1)            |
|   | 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 \$223.7 million and \$334.4 million for the nine months ended September 30, 2014 and 2013, respectively. Gains of \$5.2 million and \$2.9 million were realized on these sales during 2014 and 2013, respectively and offsetting losses of \$0.5 million and \$0.3 million were realized on these sales during 2014 and 2013, respectively. Also included in net securities gains for the first nine months of 2014 is \$238 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 nine months of 2013 was \$194 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 nine 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 \$3.8 million at September 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.

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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 nine months of 2014. There was no other-than-temporary-impairment recorded in the first nine months of 2013.

As of September 30, 2014, Old National's securities portfolio consisted of 1,614 securities, 178 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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**Table of Contents****Pooled Trust Preferred Securities**

At September 30, 2014, our securities portfolio contained three pooled trust preferred securities with a fair value of \$7.1 million and unrealized losses of \$10.9 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 September 30, 2014. This security was rated A3 at inception, but at September 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 nine months ended September 30, 2014, our model indicated no other-than-temporary-impairment losses on this security. At September 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 \$6.9 million and unrealized losses of \$7.1 million at September 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 nine months ended September 30, 2013, the three securities subject to FASB ASC 325-10 accounted for \$5.4 million of the unrealized losses in the pooled trust preferred securities category. Our analysis indicated no other-than-temporary-impairment losses on these securities.

Two of our pooled trust preferred securities with a fair value of \$6.0 million and unrealized losses of \$8.1 million at September 30, 2013 were not subject to FASB ASC 325-10. These securities were evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

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

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

**Table of Contents****Trust preferred securities****September 30, 2014****(Dollars in Thousands)**

|  |       |                                |                   |               |                               |                            | Actual<br>Deferrals and<br>Defaults<br># of Issuers<br>as a<br>Percent | Expected<br>Defaults<br>as a<br>%<br>of<br>Remaining<br>Performing<br>Collateral | Excess<br>Subordination<br>as a<br>%<br>of<br>Current<br>Performing<br>Collateral |                                     |
|--|-------|--------------------------------|-------------------|---------------|-------------------------------|----------------------------|--|--|---|-------------------------------------|
|  | Class | Lowest<br>Credit<br>Rating (1) | Amortized<br>Cost | Fair<br>Value | Unrealized<br>Gain/<br>(Loss) | Realized<br>Losses<br>2014 | Currently<br>Performing/<br>Remaining                                  | of<br>Original<br>Collateral   | Remaining<br>Performing<br>Collateral   | Current<br>Performing<br>Collateral |
| <b>Pooled trust preferred securities:</b>        |       |                                |                   |               |                               |                            |  |  |   |                                     |
| Reg Div<br>Funding 2004<br>Pretsl XXVII<br>LTD   | B-2   | D                              | \$ 4,012          | \$ 226        | \$ (3,786)                    | \$                         | 24/42  | 37.6%  | 8.1%  | 0.0%                                |
| Trapeza Ser<br>13A                               | A2A   | B+                             | 9,437             | 4,449         | (4,988)                       |                            | 48/61  | 18.3%  | 5.3%  | 49.1%                               |
|  |       |                                | 18,025            | 7,145         | (10,880)                      |                            |  |  |   |                                     |
| <b>Single Issuer trust preferred securities:</b> |       |                                |                   |               |                               |                            |  |  |   |                                     |
| First Empire<br>Cap (M&T)                        |       | BB+                            | 960               | 1,012         | 52                            |                            |  |  |   |                                     |
| First Empire<br>Cap (M&T)                        |       | BB+                            | 2,915             | 3,037         | 122                           |                            |  |  |   |                                     |
| Fleet Cap Tr V<br>(BOA)                          |       | BB                             | 3,379             | 3,045         | (334)                         |                            |  |  |   |                                     |
| JP Morgan<br>Chase Cap<br>XIII                   |       | BBB                            | 4,742             | 4,350         | (392)                         |                            |  |  |   |                                     |
| NB-Global<br>Chase Cap II                        |       | BBB                            | 747               | 870           | 123                           |                            |  |  |   |                                     |
|  |       |                                | 13,533            | 13,194        | (339)                         |                            |  |  |   |                                     |
| Total  |       |                                | \$ 31,558         | \$ 20,339     | \$ (11,219)                   | \$                         |  |  |   |                                     |

(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.

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

| (dollars in thousands) | Vintage | Credit Rating (1) | Amortized Cost  | Amount of other-than-temporary impairment recognized in earnings |                                      | Life-to-date    |
|------------------------|---------|-------------------|-----------------|--|--------------------------------------|-----------------|
|                        |         |                   |                 | Nine months ended September 30, 2014                             | Nine months ended September 30, 2013 |                 |
| Reg Div Funding        | 2004    | D                 | \$ 4,012        | \$   | \$                                   | \$ 5,685        |
| Limited partnership    |         |                   | 685             | 100  |                                      | 100             |
| <b>Total</b>           |         |                   | <b>\$ 4,697</b> | <b>\$ 100</b>  | <b>\$</b>                            | <b>\$ 5,785</b> |

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

**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 September 30, 2014 and December 31, 2013, Old National had residential loans held for sale of \$12.9 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 nine 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 September 30, 2014, there were no loans held for sale under this arrangement.

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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 September 30, 2014, Old National does not intend to sell its nontaxable finance leases.

During the first nine months of 2013, commercial and commercial real estate loans held for investment of \$5.9 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 \$7.1 million, resulting in a charge-off of \$0.2 million, recoveries of \$0.4 million and other noninterest income of \$1.0 million. At September 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)                  | September 30,<br>2014 | December 31,<br>2013 |
|---|-----------------------|----------------------|
| Commercial (1)                          | \$ 1,647,889          | \$ 1,373,415         |
| Commercial real estate:                 |                       |                      |
| Construction                            | 149,346               | 88,630               |
| Other                                   | 1,465,217             | 1,072,260            |
| Residential real estate                 | 1,546,939             | 1,359,569            |
| Consumer credit:                        |                       |                      |
| Heloc                                   | 342,879               | 251,102              |
| Auto                                    | 782,341               | 620,473              |
| Other                                   | 149,479               | 99,683               |
| Covered loans                           | 158,345               | 217,832              |
| <b>Total loans</b>                      | <b>6,242,435</b>      | <b>5,082,964</b>     |
| Allowance for loan losses               | (44,693)              | (41,741)             |
| Allowance for loan losses covered loans | (3,586)               | (5,404)              |
| <b>Net loans</b>                        | <b>\$ 6,194,156</b>   | <b>\$ 5,035,819</b>  |

(1) Includes direct finance leases of \$20.4 million at September 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 September 30, 2014, we do not expect losses to exceed \$275.0 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has previously reimbursed Old National under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

**Table of Contents****Allowance for loan losses**

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

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

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

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

| (dollars in thousands)            | Commercial | Commercial<br>Real<br>Estate | Consumer | Residential | Unallocated | Total     |
|-----------------------------------|------------|------------------------------|----------|-------------|-------------|-----------|
| <b>2014</b>                       |            |                              |          |             |             |           |
| <b>Allowance for loan losses:</b> |            |                              |          |             |             |           |
| Beginning balance                 | \$ 18,826  | \$ 17,764                    | \$ 5,989 | \$ 3,573    | \$          | \$ 46,152 |
| Charge-offs                       | (452)      | (401)                        | (1,085)  | (192)       |             | (2,130)   |
| Recoveries                        | 610        | 445                          | 570      | 41          |             | 1,666     |
| Provision                         | 819        | 776                          | 795      | 201         |             | 2,591     |
| Ending balance                    | \$ 19,803  | \$ 18,584                    | \$ 6,269 | \$ 3,623    | \$          | \$ 48,279 |

| (dollars in thousands)            | Commercial | Commercial<br>Real<br>Estate | Consumer | Residential | Unallocated | Total     |
|-----------------------------------|------------|------------------------------|----------|-------------|-------------|-----------|
| <b>2013</b>                       |            |                              |          |             |             |           |
| <b>Allowance for loan losses:</b> |            |                              |          |             |             |           |
| Beginning balance                 | \$ 15,084  | \$ 26,595                    | \$ 4,844 | \$ 2,795    | \$          | \$ 49,318 |
| Charge-offs                       | (750)      | (432)                        | (1,822)  | (501)       |             | (3,505)   |
| Recoveries                        | 472        | 1,571                        | 1,132    | 54          |             | 3,229     |
| Provision                         | (286)      | (2,864)                      | 657      | 769         |             | (1,724)   |
| Ending balance                    | \$ 14,520  | \$ 24,870                    | \$ 4,811 | \$ 3,117    | \$          | \$ 47,318 |



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

| (dollars in thousands)            | Commercial | Commercial<br>Real<br>Estate | Consumer | Residential | Unallocated | Total     |
|-----------------------------------|------------|------------------------------|----------|-------------|-------------|-----------|
| <b>2014</b>                       |            |                              |          |             |             |           |
| <b>Allowance for loan losses:</b> |            |                              |          |             |             |           |
| Beginning balance                 | \$ 16,565  | \$ 22,401                    | \$ 4,940 | \$ 3,239    | \$          | \$ 47,145 |
| Charge-offs                       | (2,525)    | (1,608)                      | (3,168)  | (391)       |             | (7,692)   |
| Recoveries                        | 2,196      | 2,020                        | 2,232    | 150         |             | 6,598     |
| Provision                         | 3,567      | (4,229)                      | 2,265    | 625         |             | 2,228     |
| Ending balance                    | \$ 19,803  | \$ 18,584                    | \$ 6,269 | \$ 3,623    | \$          | \$ 48,279 |

| (dollars in thousands)            | Commercial | Commercial<br>Real<br>Estate | Consumer | Residential | Unallocated | Total     |
|-----------------------------------|------------|------------------------------|----------|-------------|-------------|-----------|
| <b>2013</b>                       |            |                              |          |             |             |           |
| <b>Allowance for loan losses:</b> |            |                              |          |             |             |           |
| Beginning balance                 | \$ 14,642  | \$ 31,289                    | \$ 5,155 | \$ 3,677    | \$          | \$ 54,763 |
| Charge-offs                       | (2,719)    | (3,233)                      | (5,336)  | (1,212)     |             | (12,500)  |
| Recoveries                        | 2,501      | 3,309                        | 3,540    | 277         |             | 9,627     |
| Provision                         | 96         | (6,495)                      | 1,452    | 375         |             | (4,572)   |
| Ending balance                    | \$ 14,520  | \$ 24,870                    | \$ 4,811 | \$ 3,117    | \$          | \$ 47,318 |

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

| (dollars in thousands)   | Commercial | CRE       | Consumer | Residential | Unallocated | Total     |
|--|------------|-----------|----------|-------------|-------------|-----------|
| <b>September 30, 2014</b>  |            |           |          |             |             |           |
| <b>Allowance for loan losses:</b>  |            |           |          |             |             |           |
| Ending balance: individually evaluated for impairment                      | \$ 7,554   | \$ 3,661  | \$       | \$          | \$          | \$ 11,215 |
| Ending balance: collectively evaluated for impairment                      | \$ 11,324  | \$ 13,929 | \$ 5,848 | \$ 3,584    | \$          | \$ 34,685 |
| Ending balance: noncovered loans acquired with deteriorated credit quality | \$ 226     | \$ 994    | \$ 90    | \$ 39       | \$          | \$ 1,349  |

|   |    |     |    |  |    |     |    |  |    |    |       |
|---|----|-----|----|--|----|-----|----|--|----|----|-------|
| Ending balance: covered loans<br>acquired with deteriorated credit<br>quality | \$ | 699 | \$ |  | \$ | 331 | \$ |  | \$ | \$ | 1,030 |
|---|----|-----|----|--|----|-----|----|--|----|----|-------|

|                                   |    |        |    |        |    |       |    |       |    |    |        |
|-----------------------------------|----|--------|----|--------|----|-------|----|-------|----|----|--------|
| Total allowance for credit losses | \$ | 19,803 | \$ | 18,584 | \$ | 6,269 | \$ | 3,623 | \$ | \$ | 48,279 |
|-----------------------------------|----|--------|----|--------|----|-------|----|-------|----|----|--------|

**Loans and leases outstanding:**

|  |    |        |    |        |    |  |    |  |    |    |        |
|--|----|--------|----|--------|----|--|----|--|----|----|--------|
| Ending balance: individually<br>evaluated for impairment | \$ | 47,429 | \$ | 51,633 | \$ |  | \$ |  | \$ | \$ | 99,062 |
|--|----|--------|----|--------|----|--|----|--|----|----|--------|

|  |    |           |    |           |    |           |    |           |    |    |           |
|--|----|-----------|----|-----------|----|-----------|----|-----------|----|----|-----------|
| Ending balance: collectively evaluated<br>for impairment | \$ | 1,607,178 | \$ | 1,535,955 | \$ | 1,323,939 | \$ | 1,546,934 | \$ | \$ | 6,014,006 |
|--|----|-----------|----|-----------|----|-----------|----|-----------|----|----|-----------|

|  |    |       |    |        |    |       |    |     |    |    |        |
|--|----|-------|----|--------|----|-------|----|-----|----|----|--------|
| Ending balance: loans acquired with<br>deteriorated credit quality | \$ | 4,363 | \$ | 30,616 | \$ | 8,117 | \$ | 155 | \$ | \$ | 43,251 |
|--|----|-------|----|--------|----|-------|----|-----|----|----|--------|

|   |    |       |    |        |    |        |    |        |    |    |        |
|---|----|-------|----|--------|----|--------|----|--------|----|----|--------|
| Ending balance: covered loans<br>acquired with deteriorated credit<br>quality | \$ | 8,180 | \$ | 41,361 | \$ | 13,664 | \$ | 22,911 | \$ | \$ | 86,116 |
|---|----|-------|----|--------|----|--------|----|--------|----|----|--------|

|                                    |    |           |    |           |    |           |    |           |    |    |           |
|------------------------------------|----|-----------|----|-----------|----|-----------|----|-----------|----|----|-----------|
| Total loans and leases outstanding | \$ | 1,667,150 | \$ | 1,659,565 | \$ | 1,345,720 | \$ | 1,570,000 | \$ | \$ | 6,242,435 |
|------------------------------------|----|-----------|----|-----------|----|-----------|----|-----------|----|----|-----------|

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| (dollars in thousands)   | Commercial          | CRE                 | Consumer            | Residential         | Unallocated | Total               |
|--|---------------------|---------------------|---------------------|---------------------|-------------|---------------------|
| <b>December 31, 2013</b>   |                     |                     |                     |                     |             |                     |
| <b>Allowance for loan losses:</b>  |                     |                     |                     |                     |             |                     |
| 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            |
| <b>Total allowance for credit losses</b>                                   | <b>\$ 16,565</b>    | <b>\$ 22,401</b>    | <b>\$ 4,940</b>     | <b>\$ 3,239</b>     | <b>\$</b>   | <b>\$ 47,145</b>    |
| <b>Loans and leases outstanding:</b>                                       |                     |                     |                     |                     |             |                     |
| 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          |
| <b>Total loans and leases outstanding</b>                                  | <b>\$ 1,402,750</b> | <b>\$ 1,242,818</b> | <b>\$ 1,049,974</b> | <b>\$ 1,387,422</b> | <b>\$</b>   | <b>\$ 5,082,964</b> |

**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 September 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<br>Exposure | Commercial            |                      | Commercial Real<br>Estate-<br>Construction |                      | Commercial Real Estate-<br>Other |                      |
|                              | September 30,<br>2014 | December 31,<br>2013 | September 30,<br>2014                      | December 31,<br>2013 | September 30,<br>2014            | December 31,<br>2013 |
| Assigned Grade               | 2014                  | 2013                 | 2014                                       | 2013                 | 2014                             | 2013                 |
| Grade:                       |                       |                      |  |                      |                                  |                      |
| Pass                         | \$ 1,462,198          | \$ 1,237,983         | \$ 131,936                                 | \$ 74,815            | \$ 1,295,490                     | \$ 943,781           |
| Criticized                   | 97,021                | 90,545               | 3,420                                      | 9,383                | 70,059                           | 35,473               |
| Classified substandard       | 47,358                | 16,252               | 5,140                                      | 2,559                | 43,687                           | 42,516               |
| Classified nonaccrual        | 40,532                | 27,635               | 8,850                                      | 1,873                | 53,796                           | 49,406               |
| Classified doubtful          | 780                   | 1,000                |  |                      | 2,185                            | 1,084                |
| <b>Total</b>                 | <b>\$ 1,647,889</b>   | <b>\$ 1,373,415</b>  | <b>\$ 149,346</b>                          | <b>\$ 88,630</b>     | <b>\$ 1,465,217</b>              | <b>\$ 1,072,260</b>  |

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 September 30, 2014 and December 31, 2013, excluding covered loans:

| <u>September 30, 2014</u>    | Consumer          |                   |                   | Residential         |
|------------------------------|-------------------|-------------------|-------------------|---------------------|
|                              | Heloc             | Auto              | Other             |                     |
| (dollars in thousands)       |                   |                   |                   |                     |
| Performing                   | \$ 340,657        | \$ 781,151        | \$ 148,113        | \$ 1,532,422        |
| Nonperforming                | 2,222             | 1,190             | 1,366             | 14,517              |
| <b>Total</b>                 | <b>\$ 342,879</b> | <b>\$ 782,341</b> | <b>\$ 149,479</b> | <b>\$ 1,546,939</b> |
| <br><u>December 31, 2013</u> |                   |                   |                   |                     |
| (dollars in thousands)       |                   |                   |                   |                     |
|                              | Heloc             | Auto              | Other             |                     |



|               |                   |                   |                  |                     |
|---------------|-------------------|-------------------|------------------|---------------------|
| Performing    | \$ 249,152        | \$ 618,911        | \$ 97,877        | \$ 1,349,236        |
| Nonperforming | 1,950             | 1,562             | 1,806            | 10,333              |
| <b>Total</b>  | <b>\$ 251,102</b> | <b>\$ 620,473</b> | <b>\$ 99,683</b> | <b>\$ 1,359,569</b> |

### **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 September 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<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance |
|---------------------------------------|------------------------|--------------------------------|----------------------|
| <b>September 30, 2014</b>             |                        |                                |                      |
| With no related allowance recorded:   |                        |                                |                      |
| Commercial                            | \$ 28,574              | \$ 28,955                      | \$                   |
| Commercial Real Estate - Construction | 526                    | 634                            |                      |
| Commercial Real Estate - Other        | 32,807                 | 34,945                         |                      |
| Consumer                              | 336                    | 354                            |                      |
| Residential                           | 98                     | 98                             |                      |
| With an allowance recorded:           |                        |                                |                      |
| Commercial                            | 12,843                 | 15,860                         | 5,062                |
| Commercial Real Estate - Construction | 933                    |                                | 338                  |
| Commercial Real Estate - Other        | 17,367                 | 18,282                         | 3,323                |
| Consumer                              | 1,431                  | 1,477                          | 72                   |
| Residential                           | 2,054                  | 2,124                          | 103                  |
| <b>Total Loans</b>                    | <b>\$ 96,969</b>       | <b>\$ 102,729</b>              | <b>\$ 8,898</b>      |
| <b>December 31, 2013</b>              |                        |                                |                      |
| 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                  |
| <b>Total Loans</b>                    | <b>\$ 64,849</b>       | <b>\$ 75,893</b>               | <b>\$ 7,068</b>      |

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

| (dollars in thousands)              | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized (1) |
|-------------------------------------|-----------------------------------|--------------------------------------|
| September 30, 2014                  |                                   |                                      |
| With no related allowance recorded: |                                   |                                      |
| Commercial                          | \$ 16,456                         | \$ 227                               |
| Commercial Real Estate Construction | 914                               | (15)                                 |
| Commercial Real Estate Other        | 21,212                            | 308                                  |
| Consumer                            | 349                               | 2                                    |
| Residential                         | 98                                |                                      |
| With an allowance recorded:         |                                   |                                      |
| Commercial                          | 11,782                            | 152                                  |
| Commercial Real Estate Construction | 467                               | 15                                   |
| Commercial Real Estate Other        | 16,313                            | 119                                  |
| Consumer                            | 1,426                             | 16                                   |
| Residential                         | 2,215                             | 6                                    |
| Total Loans                         | \$ 71,232                         | \$ 830                               |

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

| (dollars in thousands)              | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized (1) |
|-------------------------------------|-----------------------------------|--------------------------------------|
| September 30, 2013                  |                                   |                                      |
| With no related allowance recorded: |                                   |                                      |
| Commercial                          | \$ 14,043                         | \$ 33                                |
| Commercial Real Estate Construction | 583                               |                                      |
| Commercial Real Estate Other        | 13,868                            | 44                                   |
| Consumer                            | 89                                |                                      |
| Residential                         | 70                                |                                      |
| With an allowance recorded:         |                                   |                                      |
| Commercial                          | 12,989                            | 19                                   |
| Commercial Real Estate Construction | 2,989                             |                                      |
| Commercial Real Estate Other        | 26,556                            | 4                                    |
| Consumer                            | 524                               | 17                                   |
| Residential                         | 1,016                             | 11                                   |
| Total Loans                         | \$ 72,727                         | \$ 128                               |

(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 nine months ended September 30, 2014 and 2013 are included in the tables below.

| (dollars in thousands)              | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized (1) |
|-------------------------------------|-----------------------------------|--------------------------------------|
| September 30, 2014                  |                                   |                                      |
| With no related allowance recorded: |                                   |                                      |
| Commercial                          | \$ 26,740                         | \$ 261                               |
| Commercial Real Estate Construction | 526                               |                                      |
| Commercial Real Estate Other        | 28,037                            | 468                                  |
| Consumer                            | 330                               | 6                                    |
| Residential                         | 102                               |                                      |
| With an allowance recorded:         |                                   |                                      |
| Commercial                          | 10,917                            | 260                                  |
| Commercial Real Estate Construction | 467                               | 15                                   |
| Commercial Real Estate Other        | 16,501                            | 283                                  |
| Consumer                            | 1,133                             | 42                                   |
| Residential                         | 2,146                             | 47                                   |
| Total Loans                         | \$ 86,899                         | \$ 1,382                             |

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

| (dollars in thousands)              | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized (1) |
|-------------------------------------|-----------------------------------|--------------------------------------|
| September 30, 2013                  |                                   |                                      |
| With no related allowance recorded: |                                   |                                      |
| Commercial                          | \$ 11,002                         | \$ 91                                |
| Commercial Real Estate Construction | 871                               |                                      |
| Commercial Real Estate Other        | 15,600                            | 57                                   |
| Consumer                            | 110                               |                                      |
| Residential                         | 49                                |                                      |
| With an allowance recorded:         |                                   |                                      |
| Commercial                          | 16,462                            | 50                                   |
| Commercial Real Estate Construction | 3,180                             |                                      |
| Commercial Real Estate Other        | 24,763                            | 99                                   |
| Consumer                            | 421                               | 23                                   |
| Residential                         | 944                               | 15                                   |
| Total Loans                         | \$ 73,402                         | \$ 335                               |

(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 September 30, 2014 and December 31, 2013 are as follows:

| (dollars in thousands)         | 30-59 Days<br>Past Due | 60-89 Days<br>Past Due | Recorded<br>Investment<br>> 90 Days and<br>Accruing | Nonaccrual        | Total<br>Past Due | Current             |
|--------------------------------|------------------------|------------------------|---|-------------------|-------------------|---------------------|
| <b>September 30, 2014</b>      |                        |                        |   |                   |                   |                     |
| Commercial                     | \$ 1,145               | \$ 564                 | \$  | \$ 41,312         | \$ 43,021         | \$ 1,604,868        |
| <b>Commercial Real Estate:</b> |                        |                        |   |                   |                   |                     |
| Construction                   | 107                    |                        |   | 8,850             | 8,957             | 140,389             |
| Other                          | 4,368                  | 61                     | 207   | 55,981            | 60,617            | 1,404,600           |
| <b>Consumer:</b>               |                        |                        |   |                   |                   |                     |
| Heloc                          | 1,495                  | 287                    | 35  | 2,222             | 4,039             | 338,840             |
| Auto                           | 3,840                  | 674                    | 151   | 1,190             | 5,855             | 776,486             |
| Other                          | 804                    | 295                    | 71  | 1,366             | 2,536             | 146,943             |
| Residential                    | 9,112                  | 2,707                  | 12  | 14,517            | 26,348            | 1,520,591           |
| Covered loans                  | 1,851                  | 1,503                  | 166   | 16,886            | 20,406            | 137,939             |
| <b>Total loans</b>             | <b>\$ 22,722</b>       | <b>\$ 6,091</b>        | <b>\$ 642</b>                                       | <b>\$ 142,324</b> | <b>\$ 171,779</b> | <b>\$ 6,070,656</b> |
| <b>December 31, 2013</b>       |                        |                        |   |                   |                   |                     |
| Commercial                     | \$ 1,532               | \$ 13                  | \$  | \$ 28,635         | \$ 30,180         | \$ 1,343,235        |
| <b>Commercial Real Estate:</b> |                        |                        |   |                   |                   |                     |
| Construction                   |                        | 139                    |   | 1,873             | 2,012             | 86,618              |
| Other                          | 1,017                  | 27                     |   | 50,490            | 51,534            | 1,020,726           |
| <b>Consumer:</b>               |                        |                        |   |                   |                   |                     |
| 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             |
| <b>Total loans</b>             | <b>\$ 18,134</b>       | <b>\$ 4,884</b>        | <b>\$ 238</b>                                       | <b>\$ 128,442</b> | <b>\$ 151,698</b> | <b>\$ 4,931,266</b> |

**Loan Participations**

Old National has loan participations, which qualify as participating interests, with other financial institutions. At September 30, 2014, these loans totaled \$306.9 million, of which \$177.4 million had been sold to other financial

institutions and \$129.5 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 September 30, 2014, our TDRs consisted of \$21.0 million of commercial loans, \$19.9 million of commercial real estate loans, \$2.0 million of consumer loans and \$2.1 million of residential loans, totaling \$45.0 million. Approximately \$22.8 million of the TDRs at September 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 September 30, 2014 and December 31, 2013, Old National has allocated \$5.0 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 September 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 nine months ended September 30, 2014:

| (dollars in thousands)                | Pre-modification            |                     | Post-modification           |                     |
|---------------------------------------|-----------------------------|---------------------|-----------------------------|---------------------|
|                                       | Number of Outstanding Loans | Recorded Investment | Number of Outstanding Loans | Recorded Investment |
| <b>Troubled Debt Restructuring:</b>   |                             |                     |                             |                     |
| Commercial                            | 27                          | \$ 13,310           | \$ 11,695                   |                     |
| Commercial Real Estate - construction | 1                           | 937                 | 484                         |                     |
| Commercial Real Estate - other        | 22                          | 2,659               | 2,221                       |                     |
| Residential                           | 2                           | 194                 | 175                         |                     |
| Consumer - other                      | 21                          | 1,094               | 1,033                       |                     |
| <b>Total</b>                          | <b>73</b>                   | <b>\$ 18,194</b>    | <b>\$ 15,608</b>            |                     |

The TDRs described above increased the allowance for loan losses by \$0.4 million and resulted in immaterial charge-offs during the nine months ended September 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)                | Pre-modification            |                     | Post-modification           |                     |
|---------------------------------------|-----------------------------|---------------------|-----------------------------|---------------------|
|                                       | Number of Outstanding Loans | Recorded Investment | Number of Outstanding Loans | Recorded Investment |
| <b>Troubled Debt Restructuring:</b>   |                             |                     |                             |                     |
| 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                       |                     |
| <b>Total</b>                          | <b>135</b>                  | <b>\$ 30,399</b>    | <b>\$ 28,391</b>            |                     |

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.

There was one commercial real estate loan that was modified as a TDR during the first nine months of 2014 for which there was a payment default within the last twelve months. The impact of the default was immaterial.

The TDR that subsequently defaulted had no material impact on the allowance for loan losses and resulted in no charge-offs during the nine months ended September 30, 2014.



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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<br>Contracts | Recorded<br>Investment |
|---|------------------------|------------------------|
| <b>Troubled Debt Restructuring<br/>That Subsequently Defaulted:</b> |                        |                        |
| Commercial  | 3                      | \$ 32                  |
| Commercial Real Estate  | 2                      | 85                     |
| <b>Total</b>  | <b>5</b>               | <b>\$ 117</b>          |

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 twelve months ended December 31, 2013.

The terms of certain other loans were modified during the nine months ended September 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 September 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 nine months ended September 30, 2014 and 2013:

| (dollars in thousands)       | Commercial | Commercial<br>Real<br>Estate | Consumer | Residential | Total     |
|------------------------------|------------|------------------------------|----------|-------------|-----------|
| <b>2014</b>                  |            |                              |          |             |           |
| Troubled debt restructuring: |            |                              |          |             |           |
| Balance, January 1, 2014     | \$ 22,443  | \$ 22,639                    | \$ 1,441 | \$ 2,344    | \$ 48,867 |
| (Charge-offs)/recoveries     | (172)      | (266)                        | (83)     | 3           | (518)     |
| Payments                     | (12,998)   | (5,200)                      | (390)    | (370)       | (18,958)  |
| Additions                    | 11,695     | 2,704                        | 1,034    | 175         | 15,608    |
| Balance September 30, 2014   | \$ 20,968  | \$ 19,877                    | \$ 2,002 | \$ 2,152    | \$ 44,999 |

| (dollars in thousands)       | Commercial | Commercial<br>Real<br>Estate | Consumer | Residential | Total     |
|------------------------------|------------|------------------------------|----------|-------------|-----------|
| <b>2013</b>                  |            |                              |          |             |           |
| Troubled debt restructuring: |            |                              |          |             |           |
| Balance, January 1, 2013     | \$ 12,660  | \$ 18,422                    | \$ 473   | \$ 499      | \$ 32,054 |
| (Charge-offs)/recoveries     | 639        | 474                          | (61)     |             | 1,052     |
| Payments                     | (5,122)    | (5,119)                      | (408)    | (39)        | (10,688)  |
| Additions                    | 13,238     | 8,961                        | 836      | 1,027       | 24,062    |
| Balance September 30, 2013   | \$ 21,415  | \$ 22,738                    | \$ 840   | \$ 1,487    | \$ 46,480 |

**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)            | September 30,<br>2014 | December 31,<br>2013 |
|-----------------------------------|-----------------------|----------------------|
| Commercial                        | \$ 4,363              | \$ 648               |
| Commercial real estate            | 30,616                | 23,618               |
| Consumer                          | 8,117                 | 12,725               |
| Residential                       | 155                   | 154                  |
| <b>Carrying amount</b>            | <b>\$ 43,251</b>      | <b>\$ 37,145</b>     |
| Carrying amount, net of allowance | \$ 41,902             | \$ 34,576            |
| <b>Allowance for loan losses</b>  | <b>\$ 1,349</b>       | <b>\$ 2,569</b>      |

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The outstanding balance of noncovered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was \$125.5 million and \$115.0 million as of September 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 \$12.3 million has been recorded as loan interest income through the nine months ended September 30, 2014. Accretion of \$11.9 million was recorded as loan interest income through the nine months ended September 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)                               | Integra  |            |           |          |          | Total     |
|--|----------|------------|-----------|----------|----------|-----------|
|  | Monroe   | Noncovered | IBT       | Tower    | United   |           |
| Balance at January 1, 2014                           | \$ 6,787 | \$ 2,425   | \$ 19,079 | \$       | \$       | \$ 28,291 |
| New loans purchased                                  |          |            |           | 4,065    | 1,605    | 5,670     |
| Accretion of income                                  | (2,411)  | (664)      | (8,509)   | (571)    | (132)    | (12,287)  |
| Reclassifications from (to) nonaccretable difference | (1,266)  | (159)      | 3,304     | 485      |          | 2,364     |
| Disposals/other adjustments                          | 746      | (96)       |           |          |          | 650       |
| Balance at September 30, 2014                        | \$ 3,856 | \$ 1,506   | \$ 13,874 | \$ 3,979 | \$ 1,473 | \$ 24,688 |

Included in Old National's allowance for loan losses is \$1.3 million related to the purchased loans disclosed above for the first nine 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 credit impaired 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    | Integra    | IBT        | Tower     | United    |
|--|-----------|------------|------------|-----------|-----------|
|  | Bancorp   | Bank (1)   |            |           |           |
| Contractually required payments                    | \$ 94,714 | \$ 921,856 | \$ 118,535 | \$ 22,746 | \$ 15,483 |
| Nonaccretable difference                           | (45,157)  | (226,426)  | (53,165)   | (5,826)   | (5,487)   |
| Cash flows expected to be collected at acquisition | 49,557    | 695,430    | 65,370     | 16,920    | 9,996     |
| Accretable yield                                   | (6,971)   | (98,487)   | (11,945)   | (4,065)   | (1,605)   |
| Fair value of acquired loans at acquisition        | \$ 42,586 | \$ 596,943 | \$ 53,425  | \$ 12,855 | \$ 8,391  |

(1) Includes covered and noncovered.

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



**Table of Contents****NOTE 9 COVERED LOANS**

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. The carrying amount of covered loans was \$158.3 million at September 30, 2014. The composition of covered loans by lending classification was as follows:

| (dollars in thousands)    | At September 30, 2014   |  |                                     |
|---------------------------|---|--|-------------------------------------|
|                           | Loans Accounted for<br>Under ASC<br>310-30<br>(Purchased<br>Credit<br>Impaired) | Loans excluded from<br>ASC 310-30<br>(1)<br>(Not<br>Purchased<br>Credit<br>Impaired) | Total<br>Covered<br>Purchased Loans |
| Commercial                | \$ 8,180  | \$ 11,081  | \$ 19,261                           |
| Commercial real estate    | 41,361  | 3,641  | 45,002                              |
| Residential               | 22,911  | 150  | 23,061                              |
| Consumer                  | 13,664  | 57,357   | 71,021                              |
| Covered loans             | 86,116  | 72,229   | 158,345                             |
| Allowance for loan losses | (1,030)   | (2,556)  | (3,586)                             |
| Covered loans, net        | \$ 85,086   | \$ 69,673  | \$ 154,759                          |

(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 \$254.8 million and \$406.3 million as of September 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 nine months ended September 30, 2014:

| (dollars in thousands) | Contractual<br>Cash Flows (1) | Nonaccretable<br>Difference | Accretable<br>Yield | Carrying |
|------------------------|-------------------------------|-----------------------------|---------------------|----------|
|------------------------|-------------------------------|-----------------------------|---------------------|----------|

|   |            |             |             | Amount<br>(2) |
|---|------------|-------------|-------------|---------------|
| Balance at January 1, 2014  | \$ 251,042 | \$ (46,793) | \$ (73,211) | \$ 131,038    |
| Principal reductions and interest payments                          | (93,095)   | (1,931)     | (940)       | (95,966)      |
| Accretion of loan discount  |            |             | 53,424      | 53,424        |
| Changes in contractual and expected cash flows due to remeasurement | (9,112)    | 30,142      | (18,223)    | 2,807         |
| Removals due to foreclosure or sale                                 | (6,949)    | 2,183       | (1,451)     | (6,217)       |
| Balance at September 30, 2014                                       | \$ 141,886 | \$ (16,399) | \$ (40,401) | \$ 85,086     |

- (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 nine months ended September 30, 2013:

| (dollars in thousands)  | Contractual<br>Cash Flows (1) | Nonaccretable<br>Difference | Accretable<br>Yield | Carrying<br>Amount<br>(2) |
|---|-------------------------------|-----------------------------|---------------------|---------------------------|
| Balance at January 1, 2013  | \$ 424,527                    | \$ (90,996)                 | \$ (85,779)         | \$ 247,752                |
| Principal reductions and interest payments                          | (119,564)                     |                             |                     | (119,564)                 |
| Accretion of loan discount  |                               |                             | 28,103              | 28,103                    |
| Changes in contractual and expected cash flows due to remeasurement | (20,348)                      | 37,597                      | (16,689)            | 560                       |
| Removals due to foreclosure or sale                                 | (8,586)                       | 746                         | (1,193)             | (9,033)                   |
| Balance at September 30, 2013                                       | \$ 276,029                    | \$ (52,653)                 | \$ (75,558)         | \$ 147,818                |

(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 loans or pools 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                                  | (53,424)  | (28,103)  |
| Reclassifications from (to) nonaccretable difference | 18,223    | 16,689    |
| Disposals/other adjustments                          | 2,391     | 1,193     |
| Balance at September 30,                             | \$ 40,401 | \$ 75,558 |

At September 30, 2014, the \$28.0 million loss sharing asset is comprised of a \$25.7 million FDIC indemnification asset and a \$2.3 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 September 30, 2014, \$12.3 million of the FDIC indemnification asset is related to expected indemnification payments and \$13.4 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income. At September 30, 2013, \$50.6 million of the FDIC indemnification asset was related to expected indemnification payments and \$31.0 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 nine months ended September 30, 2014 and 2013:

| (dollars in thousands)                          | 2014      | 2013       |
|---|-----------|------------|
| Balance at January 1,                           | \$ 88,513 | \$ 116,624 |
| Adjustments not reflected in income:            |           |            |
| Cash received from FDIC                         | (24,814)  | (19,415)   |
| Loan expenses to be reimbursed                  | 1,488     | 1,469      |
| Other   | (271)     | (1,204)    |
| Adjustments reflected in income:                |           |            |
| (Amortization) accretion                        | (35,269)  | (6,814)    |
| Higher (lower) loan loss expectations           | (13)      | 115        |
| Write-downs/(gain) on sale of other real estate | (1,634)   | 1,965      |
| Recovery amounts due to FDIC                    |           | (1,243)    |
| Other   |           | 61         |
| Balance at September 30,                        | \$ 28,000 | \$ 91,558  |

**NOTE 10 OTHER REAL ESTATE OWNED**

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

| (dollars in thousands)        | Other Real Estate<br>Owned (1) | Other Real Estate<br>Owned,<br>Covered |
|-------------------------------|--------------------------------|--|
| Balance, January 1, 2014      | \$ 7,562                       | \$ 13,670                              |
| Additions                     | 5,651                          | 8,303                                  |
| Sales                         | (3,804)                        | (10,593)                               |
| Write-downs/other adjustments | (1,236)                        | (1,926)                                |
| Balance, September 30, 2014   | \$ 8,173                       | \$ 9,454                               |

(1) Includes \$0.3 million of repossessed personal property at September 30, 2014.

Other Real Estate      Other Real Estate

| (dollars in thousands)        | Owned (1) | Owned,<br>Covered |
|-------------------------------|-----------|-------------------|
| Balance, January 1, 2013      | \$ 11,179 | \$ 26,137         |
| Additions                     | 5,724     | 6,046             |
| Sales                         | (5,892)   | (9,874)           |
| Write-downs/other adjustments | (1,402)   | (4,061)           |
| Balance, September 30, 2013   | \$ 9,609  | \$ 18,248         |

(1) Includes \$0.3 million of repossessed personal property at September 30, 2013.

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

**Table of Contents****NOTE 11 GOODWILL AND OTHER INTANGIBLE ASSETS**

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

| (dollars in thousands)              | <b>Banking</b>    | <b>Insurance</b> | <b>Other</b> | <b>Total</b>      |
|-------------------------------------|-------------------|------------------|--------------|-------------------|
| Balance, January 1, 2014            | \$ 312,856        | \$ 39,873        | \$           | \$ 352,729        |
| Goodwill acquired during the period | 138,678           |                  |              | 138,678           |
| <b>Balance, September 30, 2014</b>  | <b>\$ 451,534</b> | <b>\$ 39,873</b> | <b>\$</b>    | <b>\$ 491,407</b> |
| Balance, January 1, 2013            | \$ 298,947        | \$ 39,873        | \$           | \$ 338,820        |
| Goodwill acquired during the period | 13,909            |                  |              | 13,909            |
| <b>Balance, September 30, 2013</b>  | <b>\$ 312,856</b> | <b>\$ 39,873</b> | <b>\$</b>    | <b>\$ 352,729</b> |

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2014 and concluded that, based on current events and circumstances, it is not more likely than not that the carry value of goodwill exceeds fair value. During the third quarter of 2014, Old National recorded \$82.5 million of goodwill associated with the acquisition of United which was allocated to the Banking segment. During the second quarter of 2014, Old National recorded \$56.2 million of goodwill associated with the acquisition of Tower which was allocated to the Banking segment. During the third quarter of 2013, Old National recorded \$13.3 million of goodwill associated with the acquisition of 24 retail bank branches from Bank of America. This was allocated to the Banking segment. During the second quarter of 2013, Old National recorded \$0.6 million of goodwill primarily related to the final pension settlement associated with the IBT acquisition. This was allocated to the Banking segment. The final purchase price allocation resulted in goodwill of \$86.2 million associated with the IBT acquisition.

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

| (dollars in thousands)          | <b>Gross Carrying Amount</b> | <b>Accumulated Amortization and Impairment</b> | <b>Net Carrying Amount</b> |
|---------------------------------|------------------------------|--|----------------------------|
| <b>September 30, 2014</b>       |                              |  |                            |
| Amortized intangible assets:    |                              |  |                            |
| Core deposit                    | \$ 54,531                    | \$ (35,193)                                    | \$ 19,338                  |
| Customer business relationships | 28,148                       | (21,063)                                       | 7,085                      |
| Customer trust relationships    | 13,986                       | (2,703)  | 11,283                     |
| Customer loan relationships     | 4,413                        | (3,076)  | 1,337                      |
| <b>Total intangible assets</b>  | <b>\$ 101,078</b>            | <b>\$ (62,035)</b>                             | <b>\$ 39,043</b>           |
| <b>December 31, 2013</b>        |                              |  |                            |
| Amortized intangible assets:    |                              |  |                            |

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



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Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 5 to 15 years. During the third quarter of 2014, Old National increased core deposit intangibles by \$5.9 million related to the United acquisition, which is included in the Banking segment. Also during the third quarter of 2014, Old National increased customer trust relationship intangibles by \$4.9 million associated with the trust business of United, which is included in the Banking segment. During the second quarter of 2014, Old National increased core deposit intangibles by \$4.6 million related to the Tower acquisition, which is included in the Banking segment. Also during the second quarter of 2014, Old National increased customer trust relationship intangibles by \$3.8 million associated with the trust business of Tower, which is included in the Banking segment. Also during the second quarter of 2014, Old National increased customer business relationship intangibles by \$0.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment. During the fourth quarter of 2013, Old National increased customer business relationships by \$1.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment. During the third quarter of 2013, Old National increased core deposit intangibles by \$3.5 million related to the acquisition of 24 retail bank branches from Bank of America, which is included in the Banking segment. During the second quarter of 2013, Old National increased customer business relationships by \$0.1 million related to the purchase of an insurance book of business, which is included in the Insurance segment. Also during the second quarter of 2013, Old National decreased customer business relationships by \$0.1 million related to the sale of an insurance book of business, which is included in the Insurance segment. See Note 21 to the consolidated financial statements for a description of the Company's operating segments.

Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. No impairment charges were recorded in 2014 or 2013. Total amortization expense associated with other intangible assets for the nine months ended September 30 was \$6.4 million in 2014 and \$6.2 million in 2013. Included in expense for the first quarter of 2013 is \$0.6 million related to the branch sales that occurred in the first quarter.

Estimated amortization expense for future years is as follows:

|                        |                  |
|------------------------|------------------|
| (dollars in thousands) |                  |
| 2014 remaining         | \$ 2,693         |
| 2015                   | 9,512            |
| 2016                   | 7,865            |
| 2017                   | 5,861            |
| 2018                   | 4,407            |
| Thereafter             | 8,705            |
| <b>Total</b>           | <b>\$ 39,043</b> |

**NOTE 12 LOAN SERVICING RIGHTS**

On July 31, 2014, Old National closed on its acquisition of United and assumed loan servicing rights with a fair value of \$9.0 million. At September 30, 2014, loan servicing rights derived from loans sold with servicing retained were \$8.8 million and were included in Other Assets in the consolidated balance sheet. Loans serviced for others are not reported as assets. The principal balance of loans serviced for others was \$992.7 million at September 30, 2014. Approximately 94% of the loans serviced for others were residential mortgage loans. Custodial escrow balances maintained in connection with serviced loans were \$3.3 million at September 30, 2014. No valuation allowance was

required at September 30, 2014.

When loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sale of loans. Fair value is based on market prices for comparable servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

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The following table summarizes the activity related to loan servicing rights and the related valuation allowance at September 30, 2014:

|  |                 |
|--|-----------------|
| (dollars in thousands)                           | 2014            |
| Balance at January 1                             | \$              |
| Additions  | <b>9,066</b>    |
| Amortization                                     | <b>(278)</b>    |
| Balance before valuation allowance, September 30 | <b>8,788</b>    |
| Valuation allowance:                             |                 |
| Balance at January 1                             |                 |
| Additions  |                 |
| Balance, September 30                            |                 |
| Loan servicing rights, net                       | <b>\$ 8,788</b> |

At September 30, 2014, the fair value of servicing rights was \$9.0 million. Fair value at September 30, 2014 was determined using a discount rate of 12% and a weighted average prepayment speed of 165% PSA.

**NOTE 13 SHORT-TERM BORROWINGS**

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

| (dollars in thousands)                      | Federal Funds<br>Purchased | Repurchase<br>Agreements | Total      |
|---|----------------------------|--------------------------|------------|
| <b>2014</b>                                 |                            |                          |            |
| Outstanding at September 30, 2014           | \$ 150,346                 | \$ 344,916               | \$ 495,262 |
| Average amount outstanding                  | 76,036                     | 317,941                  | 393,977    |
| Maximum amount outstanding at any month-end | 182,847                    | 344,916                  |            |
| Weighted average interest rate:             |                            |                          |            |
| During nine months ended September 30, 2014 | 0.18%                      | 0.05%                    | 0.08%      |
| At September 30, 2014                       | 0.16                       | 0.05                     | 0.09       |

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

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

| (dollars in thousands)   | September 30,<br>2014 | December 31,<br>2013 |
|--|-----------------------|----------------------|
| <b>Old National Bancorp:</b>   |                       |                      |
| Senior unsecured bank notes (fixed rate 4.125%)<br>maturing August 2024  | \$ 175,000            | \$                   |
| Junior subordinated debentures (variable rates of<br>1.57% to 1.98%) maturing March 2035 to June<br>2037                               | 45,000                | 28,000               |
| ASC 815 fair value hedge and other basis<br>adjustments  | (4,990)               | (3,262)              |
| <b>Old National Bank:</b>  |                       |                      |
| Securities sold under agreements to repurchase<br>(fixed rates 2.47% to 2.50%) maturing January<br>2017 to January 2018                | 50,000                | 50,000               |
| Federal Home Loan Bank advances (fixed rates<br>0.15% to 8.34% and variable rates 0.38% to<br>6.31%) maturing October 2014 to May 2024 | 602,329               | 477,856              |
| Capital lease obligation   | 4,113                 | 4,157                |
| ASC 815 fair value hedge and other basis<br>adjustments  | 264                   | (363)                |
| Total other borrowings   | \$ 871,716            | \$ 556,388           |

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

| (dollars in thousands)                               |            |
|--|------------|
| Due in 2014  | \$ 200,713 |
| Due in 2015  | 63         |
| Due in 2016  | 117,376    |
| Due in 2017  | 45,989     |
| Due in 2018  | 145,563    |
| Thereafter   | 366,738    |
| ASC 815 fair value hedge and other basis adjustments | (4,726)    |
| Total  | \$ 871,716 |

**SENIOR NOTES**

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

#### **FEDERAL HOME LOAN BANK**

Federal Home Loan Bank ( FHLB ) advances had weighted-average rates of 0.80% and 0.94% at September 30, 2014, and December 31, 2013, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 145% of outstanding debt.

During 2013, Old National terminated \$50.0 million of FHLB advances, resulting in a loss on extinguishment of debt of \$1.0 million. Old National also restructured \$33.4 million pertaining to two FHLB advances in the first quarter of 2013, which lowered their effective interest rates from 3.27% and 3.29% to 2.04% and 2.49%, respectively.

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**Table of Contents****JUNIOR SUBORDINATED DEBENTURES**

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

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

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

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

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

## **CAPITAL LEASE OBLIGATION**

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

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

|  |                 |
|--|-----------------|
| (dollars in thousands)                             |                 |
| 2014 remaining                                     | \$ 101          |
| 2015   | 410             |
| 2016   | 410             |
| 2017   | 410             |
| 2018   | 410             |
| Thereafter   | 9,265           |
| <b>Total minimum lease payments</b>                | <b>11,006</b>   |
| Less amounts representing interest                 | 6,893           |
| <b>Present value of net minimum lease payments</b> | <b>\$ 4,113</b> |

**NOTE 15 EMPLOYEE BENEFIT PLANS****RETIREMENT PLAN**

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

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

Old National contributed \$86 thousand to cover benefit payments from the Restoration Plan during the first nine months of 2014. Old National expects to contribute an additional \$27 thousand to cover benefit payments from the Restoration Plan during the remainder of 2014.

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

| (dollars in thousands)         | Three Months Ended    |        | Nine Months Ended     |          |
|--------------------------------|-----------------------|--------|-----------------------|----------|
|                                | September 30,<br>2014 | 2013   | September 30,<br>2014 | 2013     |
| Interest cost                  | \$ 438                | \$ 435 | \$ 1,315              | \$ 1,305 |
| Expected return on plan assets | (560)                 | (551)  | (1,680)               | (1,652)  |
| Recognized actuarial loss      | 329                   | 580    | 987                   | 1,739    |



|                           |  |               |            |               |          |
|---------------------------|--|---------------|------------|---------------|----------|
| Settlement                |  | 269           | <b>285</b> | 692           |          |
| Net periodic benefit cost |  | <b>\$ 207</b> | \$ 733     | <b>\$ 907</b> | \$ 2,084 |

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

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

### **NOTE 16 STOCK-BASED COMPENSATION**

At September 30, 2014, Old National had 5.2 million shares remaining available for issuance under the Company's Amended and Restated 2008 Incentive Compensation Plan. The granting of awards to key employees is typically in the form of restricted stock awards or units.

#### *Restricted Stock Awards*

The Company granted 194 thousand time-based restricted stock awards to certain key officers during the first nine months of 2014, with shares vesting over either a thirty-six or sixty month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of September 30, 2014, unrecognized compensation expense was estimated to be \$2.8 million for unvested restricted stock awards.

Old National recorded expense of \$0.7 million, net of tax, during the first nine months of 2014, compared to expense of \$0.5 million during the first nine months of 2013 related to the vesting of restricted stock awards.

#### *Restricted Stock Units*

The Company granted 260 thousand shares of performance based restricted stock units to certain key officers during the first nine months of 2014, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. For certain awards, the level of performance could increase or decrease the percentage of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of September 30, 2014, unrecognized compensation expense was estimated to be \$3.5 million.

Old National recorded \$1.0 million of stock based compensation expense, net of tax, during the first nine months of 2014. Included in 2014 is the reversal of \$0.7 million of expense associated with certain performance based restricted stock grants. Old National recorded \$1.4 million of stock based compensation expense, net of tax, during the first nine months of 2013.

#### *Stock Options*

Old National has not granted stock options since 2009. However, in connection with the acquisition of Tower Financial Corporation on April 25, 2014, 22 thousand options for shares of Tower Financial Corporation were converted to 37 thousand options for shares of Old National Bancorp stock. In connection with the acquisition of United Bancorp, Inc. on July 31, 2014, 260 thousand options for shares of United Bancorp, Inc. were converted to 231 thousand options for shares of Old National Bancorp stock. Old National recorded no incremental expense associated with the conversion of these options.

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

#### *Stock Appreciation Rights*

Old National has never granted stock appreciation rights. However, in connection with the acquisition of United Bancorp, Inc. on July 31, 2014, 183 thousand stock appreciation rights for shares of United Bancorp, Inc. were converted to 163 thousand stock appreciation rights for shares of Old National Bancorp stock. Old National recorded no incremental expense associated with the conversion of these stock appreciation rights.

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

Table of Contents**NOTE 17 INCOME TAXES**

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

| (dollars in thousands)                           | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2014                                | 2013      | 2014                               | 2013      |
| Provision at statutory rate of 35%               | \$ 14,080                           | \$ 10,786 | \$ 35,844                          | \$ 37,578 |
| Tax-exempt income                                | (3,640)                             | (3,533)   | (10,199)                           | (9,522)   |
| Reversal of portion of unrecognized tax benefits | (1,076)                             | (381)     | (1,076)                            | (381)     |
| State income taxes                               | 1,196                               | 386       | 2,021                              | 2,757     |
| State statutory rate change                      |                                     |           | 904                                | 1,257     |
| Interim period effective rate adjustment         | 451                                 | (268)     | 576                                | (490)     |
| Other, net                                       | 84                                  | (121)     | (75)                               | (204)     |
| Income tax expense                               | \$ 11,095                           | \$ 6,869  | \$ 27,995                          | \$ 30,995 |
| Effective tax rate                               | 27.6%                               | 22.3%     | 27.3%                              | 28.9%     |

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

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

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

Unrecognized Tax Benefits

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

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

| (dollars in thousands)  | 2014     | 2013     |
|---|----------|----------|
| Balance at January 1  | \$ 3,847 | \$ 3,953 |
| Additions (reductions) based on tax positions related to the current year | 30       | 21       |
| Reductions due to statute of limitations expiring                         | (3,807)  | (140)    |

|                         |       |          |
|-------------------------|-------|----------|
| Balance at September 30 | \$ 70 | \$ 3,834 |
|-------------------------|-------|----------|

Approximately \$70 thousand of unrecognized tax benefits, net of interest, if recognized, would favorably affect the effective income tax rate in future periods.

The Company reversed \$3.8 million related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*). The positive \$3.8 million income tax reversal relates to the 2010 statute of limitations expiring. The statute of limitations expired in the third quarter of 2014. As a result, the Company reversed a total of \$3.8 million from its unrecognized tax benefit liability.

**Table of Contents****NOTE 18 DERIVATIVE FINANCIAL INSTRUMENTS**

As part of our overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was \$609.5 million and \$464.5 million at September 30, 2014 and December 31, 2013, respectively. The September 30, 2014 balances consist of \$39.5 million notional amount of receive-fixed pay variable interest rate swaps, \$525.0 million notional amount of pay-fixed, receive variable interest rate swaps on certain of its FHLB advances and \$45.0 million notional amount of receive-fixed pay variable interest rate swaps on certain of its commercial loans. The December 31, 2013 balances consist of \$39.5 million notional amount of receive-fixed pay variable interest rate swaps and \$425.0 million notional amount of pay-fixed, receive variable interest rate swaps on certain of its FHLB advances. These hedges were entered into to manage interest rate risk. These derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At September 30, 2014, the notional amount of the interest rate lock commitments and forward commitments were \$24.5 million and \$27.2 million, respectively. At December 31, 2013, the notional amount of the interest rate lock commitments and forward commitments were \$10.5 million and \$17.2 million, respectively. It is our practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were \$454.7 million and \$454.7 million, respectively, at September 30, 2014. At December 31, 2013, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were \$436.8 million and \$436.8 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps and collars. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

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

|  | Asset Derivatives  |       |                   |       |
|--|--------------------|-------|-------------------|-------|
|  | September 30, 2014 |       | December 31, 2013 |       |
|  | Balance            | Fair  | Balance           | Fair  |
| (dollars in thousands)                               | Sheet              | Value | Sheet             | Value |
|  | Location           |       | Location          |       |
| <b>Derivatives designated as hedging instruments</b> |                    |       |                   |       |

|  |              |                  |              |                  |
|--|--------------|------------------|--------------|------------------|
| Interest rate contracts  | Other assets | \$ 3,541         | Other assets | \$ 3,545         |
| <b>Total derivatives designated as hedging instruments</b>     |              | <b>\$ 3,541</b>  |              | <b>\$ 3,545</b>  |
| <b>Derivatives not designated as hedging instruments</b>       |              |                  |              |                  |
| Interest rate contracts  | Other assets | \$ 13,755        | Other assets | \$ 18,279        |
| Mortgage contracts   | Other assets | 535              | Other assets | 263              |
| <b>Total derivatives not designated as hedging instruments</b> |              | <b>\$ 14,290</b> |              | <b>\$ 18,542</b> |
| Total derivative assets  |              | <b>\$ 17,831</b> |              | <b>\$ 22,087</b> |

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| (dollars in thousands)   | Liability Derivatives  |                  |                        |                  |
|--|------------------------|------------------|------------------------|------------------|
|  | September 30, 2014     |                  | December 31, 2013      |                  |
|  | Balance Sheet Location | Fair Value       | Balance Sheet Location | Fair Value       |
| <b>Derivatives designated as hedging instruments</b>           |                        |                  |                        |                  |
| Interest rate contracts  | Other liabilities      | \$ 4,557         | Other liabilities      | \$ 1,218         |
| <b>Total derivatives designated as hedging instruments</b>     |                        | <b>\$ 4,557</b>  |                        | <b>\$ 1,218</b>  |
| <b>Derivatives not designated as hedging instruments</b>       |                        |                  |                        |                  |
| Interest rate contracts  | Other liabilities      | \$ 13,915        | Other liabilities      | \$ 18,505        |
| Mortgage contracts   | Other liabilities      | 43               | Other liabilities      |                  |
| <b>Total derivatives not designated as hedging instruments</b> |                        | <b>\$ 13,958</b> |                        | <b>\$ 18,505</b> |
| Total derivative liabilities                                   |                        | <b>\$ 18,515</b> |                        | <b>\$ 19,723</b> |

The effect of derivative instruments on the consolidated statement of income for the three and nine months ended September 30, 2014 and 2013 are as follows:

| (dollars in thousands)                          | Location of Gain or (Loss) Recognized in Income on Derivative | Three months ended  | Three months ended |
|---|---|---|--------------------|
|   |   | September 30, 2014  | September 30, 2013 |
| Derivatives in Fair Value Hedging Relationships |   | Amount of Gain or (Loss) Recognized in Income on Derivative |                    |
| Interest rate contracts (1)                     | Interest income / (expense)                                   | \$ 215  | \$ 410             |
| Interest rate contracts (2)                     | Other income / (expense)                                      | 45  | 26                 |
| <b>Total</b>                                    |   | <b>\$ 260</b>   | <b>\$ 436</b>      |

| Derivatives Not Designated as Hedging Instruments | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative |                    |
|---|---|---|--------------------|
|   |   | September 30, 2014  | September 30, 2013 |
| Interest rate contracts (3)                       | Other income / (expense)                                      | \$ (4)  | \$ (1)             |
| Mortgage contracts                                | Mortgage banking revenue                                      | 108   | (895)              |



|       |        |          |
|-------|--------|----------|
| Total | \$ 104 | \$ (896) |
|-------|--------|----------|

(dollars in thousands)

|  |  | Nine months ended<br>September 30, 2012                            | Nine months ended<br>September 30, 2013 |
|--|--|--|---|
| <b>Derivatives in Fair Value Hedging Relationships</b> | <b>Location of Gain or (Loss) Recognized in Income on Derivative</b> | <b>Amount of Gain or (Loss) Recognized in Income on Derivative</b> |   |
| Interest rate contracts (1)                            | Interest income / (expense)  | \$ 913   | \$ 1,354                                |
| Interest rate contracts (2)                            | Other income / (expense)   | 226  | (22)                                    |
| <b>Total</b>   |  | <b>\$ 1,139</b>  | <b>\$ 1,332</b>                         |

| <b>Derivatives Not Designated as Hedging Instruments</b> | <b>Location of Gain or (Loss) Recognized in Income on Derivative</b> | <b>Amount of Gain or (Loss) Recognized in Income on Derivative</b> |              |
|--|--|--|--------------|
| Interest rate contracts (3)                              | Other income / (expense)   | \$ 65  | \$ 178       |
| Mortgage contracts                                       | Mortgage banking revenue   | 230  | (150)        |
| <b>Total</b>   |  | <b>\$ 295</b>  | <b>\$ 28</b> |

- (1) Amounts represent the net interest payments as stated in the contractual agreements.  
(2) Amounts represent ineffectiveness on derivatives designated as fair value hedges.  
(3) Includes the valuation differences between the customer and offsetting counterparty swaps.  
See Note 22 to the consolidated financial statements.

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**Table of Contents****NOTE 19 COMMITMENTS AND CONTINGENCIES****LITIGATION**

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

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

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

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

The parties subsequently met twice with the mediator and were unable to reach an agreement to resolve the dispute. Old National's pending Motion for Summary Judgment filed June 11, 2013, was denied by the Circuit Court on April 14, 2014, and on April 23, 2014, Old National sought leave from the Circuit Court to file an interlocutory appeal to the Indiana Court of Appeals. On May 28, 2014, the Circuit Court granted Old National's motion. On June 5, 2014, Old National filed with the Court of Appeals a Combined Motion to Accept Jurisdiction Over Interlocutory Appeal Pursuant to Appellate Rule 14(B) and Motion to Stay Trial Court Proceedings Pending Appeal Pursuant to Appellate Rule 14(H). On July 11, 2014, the Court of Appeals granted both of Old National's Motions, thereby accepting the appeal and issuing a Stay of the case before the Circuit Court. Old National believes it has meritorious defenses to the

claims brought by the plaintiffs. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss.

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**Table of Contents****LEASES**

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

As of September 30, 2014 and 2013, Old National had \$69.9 million and \$76.6 million, respectively, of deferred gains remaining associated with prior sale leaseback transactions. The leases had original terms ranging from five to twenty-four years. These gains will be recognized over the remaining term of the leases.

**CREDIT-RELATED FINANCIAL INSTRUMENTS**

In the normal course of business, Old National's banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.505 billion and standby letters of credit of \$67.7 million at September 30, 2014. At September 30, 2014, approximately \$1.435 billion of the loan commitments had fixed rates and \$69.6 million had floating rates, with the floating interest rates ranging from 0% to 21%. At December 31, 2013, loan commitments were \$1.271 billion and standby letters of credit were \$62.0 million. These commitments are not reflected in the consolidated financial statements. At September 30, 2014 and December 31, 2013, the balance of the allowance for unfunded loan commitments was \$5.2 million and \$2.7 million, respectively.

At September 30, 2014 and December 31, 2013, Old National had credit extensions of \$13.3 million and \$15.6 million, respectively, with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients. At September 30, 2014 and December 31, 2013, Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$11.8 million and \$12.4 million, respectively. Old National did not provide collateral for the remaining credit extensions.

**NOTE 20 FINANCIAL GUARANTEES**

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At September 30, 2014, the notional amount of standby letters of credit was \$67.7 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.3 million. At December 31, 2013, the notional amount of standby letters of credit was \$62.0 million, which represents the maximum amount of future funding requirements, and the carrying value was \$0.4 million.

Old National entered into a risk participation in an interest rate swap during the second quarter of 2007, which had a notional amount of \$8.0 million at September 30, 2014. Old National entered into an additional risk participation in an interest rate swap during the third quarter of 2014, which had a notional amount of \$13.9 million at September 30, 2014.

**NOTE 21 SEGMENT INFORMATION**

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

Banking

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

**Table of Contents****Insurance**

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

**Other**

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

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

| (dollars in thousands)                       | Banking    | Insurance | Other      | Total      |
|--|------------|-----------|------------|------------|
| <b>Three months ended September 30, 2014</b> |            |           |            |            |
| Net interest income                          | \$ 109,620 | \$ 2      | \$ (1,255) | \$ 108,367 |
| Noninterest income                           | 24,265     | 9,721     | 432        | 34,418     |
| Noncash items:                               |            |           |            |            |
| Depreciation and software amortization       | 3,561      | 34        | 138        | 3,733      |
| Provision for loan losses                    | 2,591      |           |            | 2,591      |
| Amortization of intangibles                  | 2,102      | 417       |            | 2,519      |
| Income tax expense (benefit)                 | 15,925     | 216       | (5,046)    | 11,095     |
| Segment profit                               | 27,326     | 261       | 1,547      | 29,134     |
| Segment assets                               | 11,035,009 | 62,956    | 81,787     | 11,179,752 |
| <b>Three months ended September 30, 2013</b> |            |           |            |            |
| Net interest income                          | \$ 78,126  | \$ 3      | \$ (133)   | \$ 77,996  |
| Noninterest income                           | 38,410     | 8,852     | 493        | 47,755     |
| Noncash items:                               |            |           |            |            |
| Depreciation and software amortization       | 3,390      | 36        | 73         | 3,499      |

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|                              |           |        |         |           |
|------------------------------|-----------|--------|---------|-----------|
| Provision for loan losses    | (1,724)   |        |         | (1,724)   |
| Amortization of intangibles  | 1,496     | 363    |         | 1,859     |
| Income tax expense (benefit) | 8,472     | 62     | (1,665) | 6,869     |
| Segment profit               | 25,385    | 80     | (1,517) | 23,948    |
| Segment assets               | 9,515,092 | 61,382 | 75,605  | 9,652,079 |

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**Table of Contents****Nine months ended September 30, 2014**

|  |            |        |            |            |
|--|------------|--------|------------|------------|
| Net interest income                    | \$ 277,910 | \$ 8   | \$ (1,591) | \$ 276,327 |
| Noninterest income                     | 81,953     | 31,485 | 1,196      | 114,634    |
| Noncash items:                         |            |        |            |            |
| Depreciation and software amortization | 10,148     | 104    | 394        | 10,646     |
| Provision for loan losses              | 2,228      |        |            | 2,228      |
| Amortization of intangibles            | 5,122      | 1,237  |            | 6,359      |
| Income tax expense (benefit)           | 34,111     | 1,184  | (7,300)    | 27,995     |
| Segment profit                         | 73,149     | 2,374  | (1,106)    | 74,417     |
| Segment assets                         | 11,035,009 | 62,956 | 81,787     | 11,179,752 |

**Nine months ended September 30, 2013**

|  |            |        |          |            |
|--|------------|--------|----------|------------|
| Net interest income                    | \$ 236,640 | \$ 13  | \$ (416) | \$ 236,237 |
| Noninterest income                     | 109,656    | 29,189 | 1,469    | 140,314    |
| Noncash items:                         |            |        |          |            |
| Depreciation and software amortization | 8,839      | 107    | 209      | 9,155      |
| Provision for loan losses              | (4,572)    |        |          | (4,572)    |
| Amortization of intangibles            | 4,933      | 1,291  |          | 6,224      |
| Income tax expense (benefit)           | 33,591     | 767    | (3,363)  | 30,995     |
| Segment profit                         | 78,570     | 1,501  | (3,700)  | 76,371     |
| Segment assets                         | 9,515,092  | 61,382 | 75,605   | 9,652,079  |

**NOTE 22 FAIR VALUE**

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

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

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

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

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

**Investment securities:** The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available,



fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using swap and LIBOR curves plus spreads that adjust for loss severities, volatility, credit risk and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

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

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

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

|   | <b>Fair Value Measurements at September 30, 2014 Using Significant</b> |   |  |  |
|---|--|---|--|--|
|   | <b>Carrying Value</b>  | <b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b> | <b>Other Observable Inputs (Level 2)</b> | <b>Significant Unobservable Inputs (Level 3)</b> |
| (dollars in thousands)  |  |   |  |  |
| <b>Financial Assets</b>   |  |   |  |  |
| Trading securities  | \$ 3,839   | \$ 3,839  | \$                                       | \$   |
| Investment securities available-for-sale:                           |  |   |  |  |
| U.S. Treasury   | 11,140   | 11,140  |  |  |
| U.S. Government-sponsored entities and agencies                     | 628,331  |   | 628,331                                  |  |
| Mortgage-backed securities Agency States and political subdivisions | 1,226,476  |   | 1,226,476                                |  |
| Pooled trust preferred securities                                   | 273,568  |   | 273,244                                  | 324  |
| Other securities  | 7,145  |   |  | 7,145  |
| Residential loans held for sale                                     | 363,801  | 31,588  | 332,213                                  |  |
| Derivative assets   | 12,875   |   | 12,875                                   |  |
|   | 17,831   |   | 17,831                                   |  |
| <b>Financial Liabilities</b>  |  |   |  |  |
| Derivative liabilities  | 18,515   |   | 18,515                                   |  |

|   | <b>Fair Value Measurements at December 31, 2013 Using Significant</b> |   |  |  |
|---|---|---|--|--|
|   | <b>Carrying Value</b>   | <b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b> | <b>Other Observable Inputs (Level 2)</b> | <b>Significant Unobservable Inputs (Level 3)</b> |
| (dollars in thousands)                          |   |   |  |  |
| <b>Financial Assets</b>                         |   |   |  |  |
| Trading securities                              | \$ 3,566  | \$ 3,566  | \$                                       | \$   |
| Investment securities available-for-sale:       |   |   |  |  |
| U.S. Treasury                                   | 13,113  | 13,113  |  |  |
| U.S. Government-sponsored entities and agencies | 435,588   |   | 435,588                                  |  |
| Mortgage-backed securities Agency               | 1,289,258   |   | 1,289,258                                |  |
|   | 17,412  |   | 17,412                                   |  |

|                                       |         |        |             |
|---------------------------------------|---------|--------|-------------|
| Mortgage-backed securities Non-agency |         |        |             |
| States and political subdivisions     | 268,795 |        | 268,126 669 |
| Pooled trust preferred securities     | 8,037   |        | 8,037       |
| Other securities                      | 339,998 | 31,254 | 308,744     |
| Residential loans held for sale       | 7,705   |        | 7,705       |
| Derivative assets                     | 22,087  |        | 22,087      |
| <b>Financial Liabilities</b>          |         |        |             |
| Derivative liabilities                | 19,723  |        | 19,723      |

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

| (dollars in thousands)                          | <b>Fair Value Measurements using Significant Unobservable Inputs (Level 3)</b> |   |
|---|--|---|
|   | <b>Pooled Trust Preferred Securities Available-for-Sale</b>                    | <b>State and Political Subdivisions</b> |
| Beginning balance, January 1, 2014              | \$ 8,037   | \$ 669                                  |
| Accretion/(amortization) of discount or premium | 13   | 1                                       |
| Sales/payments received                         | (1,054)  | (11)                                    |
| Matured securities                              |  | (335)                                   |
| Increase/(decrease) in fair value of securities | 149  |   |
| Ending balance, September 30, 2014              | \$ 7,145   | \$ 324                                  |

Included in the income statement is \$14 thousand of income included in interest income from the accretion of discounts on securities. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in shareholders' equity, and a decrease in other assets related to the tax impact.

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

| (dollars in thousands)                          | <b>Fair Value Measurements using Significant Unobservable Inputs (Level 3)</b> |   |
|---|--|---|
|   | <b>Pooled Trust Preferred Securities Available-for-Sale</b>                    | <b>State and Political Subdivisions</b> |
| Beginning balance, January 1, 2013              | \$ 9,359   | \$ 984                                  |
| Accretion/(amortization) of discount or premium | 13   | 3                                       |
| Payments received                               | (1,545)  |   |
| Matured securities                              |  | (320)                                   |
| Increase/(decrease) in fair value of securities | 1,578  |   |
| Ending balance, September 30, 2013              | \$ 9,405   | \$ 667                                  |

Included in the income statement is \$16 thousand of income included in interest income from the accretion of discounts on securities. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in shareholders' equity, and a decrease in other assets related to the tax impact.

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The tables below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy as of September 30, 2014 and December 31, 2013:

| Quantitative Information about Level 3 Fair Value Measurements |                                 |                         |                                      |                             |
|--|---------------------------------|-------------------------|--------------------------------------|-----------------------------|
| (dollars in thousands)   | Fair Value at<br>Sept. 30, 2014 | Valuation<br>Techniques | Unobservable<br>Input                | Range (Weighted<br>Average) |
| Pooled trust preferred securities                              | \$ 7,145                        | Discounted cash flow    | Constant prepayment rate (a)         | 0.00%                       |
|  |                                 |                         | Additional asset defaults (b)        | 1.7% - 4.4% (3.7%)          |
|  |                                 |                         | Expected asset recoveries (c)        | 0.7% - 7.0% (2.5%)          |
| State and political subdivision securities                     | 324                             | Discounted cash flow    | No unobservable inputs               | NA                          |
|  |                                 |                         | Illiquid local municipality issuance |                             |
|  |                                 |                         | Old National owns 100%               |                             |
|  |                                 |                         | Carried at par                       |                             |

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

| Quantitative Information about Level 3 Fair Value Measurements |                                   |                         |                                      |                             |
|--|-----------------------------------|-------------------------|--------------------------------------|-----------------------------|
| (dollars in thousands)   | Fair Value<br>at<br>Dec. 31, 2013 | Valuation<br>Techniques | Unobservable<br>Input                | Range (Weighted<br>Average) |
| Pooled trust preferred securities                              | \$ 8,037                          | Discounted cash flow    | Constant prepayment rate (a)         | 0.00%                       |
|  |                                   |                         | Additional asset defaults (b)        | 1.9% - 9.6% (4.5%)          |
|  |                                   |                         | Expected asset recoveries (c)        | 1.7% - 9.6% (3.2%)          |
| State and political subdivision securities                     | 669                               | Discounted cash flow    | No unobservable inputs               | NA                          |
|  |                                   |                         | Illiquid local municipality issuance |                             |
|  |                                   |                         | Old National owns 100%               |                             |
|  |                                   |                         | Carried at par                       |                             |

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

Each currently defaulted pool asset is assigned a recovery probability based on specific issuer evaluation of 0%, 25% or 100%.

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

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

|  | Fair Value Measurements at September 30, 2014 Using Significant |  |                         |                                 |
|--|---|--|-------------------------|---------------------------------|
|  | Carrying Value  | Quoted Prices in Active Markets for Identical Assets | Other Observable Inputs | Significant Unobservable Inputs |
|  |   | (Level 1)  | (Level 2)               | (Level 3)                       |
|  |   |  |                         |                                 |
| (dollars in thousands)                     |   |  |                         |                                 |
| <b>Collateral Dependent Impaired Loans</b> |   |  |                         |                                 |
| Commercial loans                           | \$ 5,831  | \$   | \$                      | \$ 5,831                        |
| Commercial real estate loans               | 6,809   |  |                         | 6,809                           |
| <b>Foreclosed Assets</b>                   |   |  |                         |                                 |
| Commercial real estate                     | 6,531   |  |                         | 6,531                           |
| Residential                                | 191   |  |                         | 191                             |

Impaired commercial and commercial real estate loans that are deemed collateral dependent are valued based on the fair value of the underlying collateral. These estimates are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral. These impaired commercial and commercial real estate loans had a principal amount of \$18.9 million, with a valuation allowance of \$6.2 million at September 30, 2014. Old National recorded \$5.4 million of provision expense associated with these loans for the nine months ended September 30, 2014.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of \$6.7 million. The estimates of fair value are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral. There were write-downs of other real estate owned of \$2.4 million and net gains on sale of other real estate owned of \$3.5 million in the first nine months of 2014.

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



**Foreclosed Assets**

|                        |       |       |
|------------------------|-------|-------|
| Commercial real estate | 9,069 | 9,069 |
| Residential            | 283   | 283   |

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

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

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

| <b>Quantitative Information about Level 3 Fair Value Measurements</b> |                                |                          |  |                           |
|---|--------------------------------|--------------------------|--|---------------------------|
| (dollars in thousands)  | <b>Fair Value at Valuation</b> | <b>Unobservable</b>      |  | <b>Range</b>              |
|   | <b>Sept. 30, 2014</b>          | <b>Techniques</b>        | <b>Input</b>   | <b>(Weighted Average)</b> |
| <b>Collateral Dependent Impaired Loans</b>                            |                                |                          |  |                           |
| Commercial loans  | <b>\$ 5,831</b>                | Fair value of collateral | Discount for type of property, age of appraisal and current status | 0% -94% (40%)             |
| Commercial real estate loans  | <b>6,809</b>                   | Fair value of collateral | Discount for type of property, age of appraisal and current status | 0% -50% (28%)             |
| <b>Foreclosed Assets</b>  |                                |                          |  |                           |
| Commercial real estate  | <b>6,531</b>                   | Fair value of collateral | Discount for type of property, age of appraisal and current status | 2% -93% (25%)             |
| Residential   | <b>191</b>                     | Fair value of collateral | Discount for type of property, age of appraisal and current status | 20% -83% (40%)            |

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

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

**Financial instruments recorded using fair value option**

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

We have elected the fair value option for residential mortgage loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement are \$143 thousand and \$268 thousand of interest income for residential loans held for sale for the three and nine months ended September 30, 2014, respectively. Included in the income statement are \$91 thousand and \$297 thousand of interest income for residential loans held for sale for the three and nine months ended September 30, 2013, respectively.

**Table of Contents****Residential mortgage loans held for sale**

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

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

| (dollars in thousands)          | Aggregate<br>Fair Value | Difference | Contractual<br>Principal |
|---------------------------------|-------------------------|------------|--------------------------|
| Residential loans held for sale | \$ 12,875               | \$ 438     | \$ 12,437                |

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

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

| (dollars in thousands)          | Other<br>Gains and<br>(Losses) | Interest<br>Income | Interest<br>(Expense) | Total Changes<br>in Fair Values<br>Included in<br>Current Period<br>Earnings |
|---------------------------------|--------------------------------|--------------------|-----------------------|--|
| Residential loans held for sale | \$ 32                          | \$ 4               | \$                    | \$ 36  |

**Changes in Fair Value for the Nine Months ended September 30, 2014, for Items  
Measured at Fair Value Pursuant to Election of the Fair Value Option**

| (dollars in thousands)          | Other<br>Gains and<br>(Losses) | Interest<br>Income | Interest<br>(Expense) | Total Changes<br>in Fair<br>Values<br>Included<br>in<br>Current Period<br>Earnings |
|---------------------------------|--------------------------------|--------------------|-----------------------|--|
| Residential loans held for sale | \$ 305                         | \$ 5               | \$                    | \$ 310   |

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

| (dollars in thousands) | Aggregate<br>Fair Value | Difference | Contractual<br>Principal |
|------------------------|-------------------------|------------|--------------------------|
|------------------------|-------------------------|------------|--------------------------|

|                                 |          |        |          |
|---------------------------------|----------|--------|----------|
| Residential loans held for sale | \$ 7,918 | \$ 311 | \$ 7,607 |
|---------------------------------|----------|--------|----------|

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

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

|                                 | <b>Other<br/>Gains and<br/>(Losses)</b> | <b>Interest<br/>Income</b> | <b>Interest<br/>(Expense)</b> | <b>Total<br/>Changes<br/>in Fair<br/>Values<br/>Included<br/>in<br/>Current Period<br/>Earnings</b> |
|---------------------------------|---|----------------------------|-------------------------------|---|
| (dollars in thousands)          |   |                            |                               |   |
| Residential loans held for sale | \$ 642                                  | \$                         | \$ (2)                        | \$ 640  |

**Changes in Fair Value for the Nine Months ended September 30, 2013, for Items  
Measured at Fair Value Pursuant to Election of the Fair Value Option**

|                                 | <b>Other<br/>Gains<br/>and<br/>(Losses)</b> | <b>Interest<br/>Income</b> | <b>Interest<br/>(Expense)</b> | <b>Total<br/>Changes<br/>in Fair<br/>Values<br/>Included<br/>in<br/>Current Period<br/>Earnings</b> |
|---------------------------------|---|----------------------------|-------------------------------|---|
| (dollars in thousands)          |   |                            |                               |   |
| Residential loans held for sale | \$ (41)                                     | \$                         | \$ (2)                        | \$ (43)   |

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

|   | Fair Value Measurements at September 30, 2014 Using Significant |  |                                   |   |
|---|---|--|-----------------------------------|---|
|   | Carrying Value  | Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| (dollars in thousands)  |   |  |                                   |   |
| <b>September 30, 2014</b>   |   |  |                                   |   |
| <b>Financial Assets</b>   |   |  |                                   |   |
| Cash, due from banks, federal funds sold and money market investments | \$ 231,452  | \$ 231,452   | \$                                | \$  |
| Investment securities held-to-maturity:                               |   |  |                                   |   |
| U.S. Government-sponsored entities and agencies                       | 168,084   |  | 175,250                           |   |
| Mortgage-backed securities Agency                                     | 26,006  |  | 27,097                            |   |
| State and political subdivisions                                      | 653,943   |  | 699,370                           |   |
| Federal Home Loan Bank stock  | 45,656  |  | 45,656                            |   |
| Loans, net (including covered loans):                                 |   |  |                                   |   |
| Commercial  | 1,647,347   |  |                                   | 1,685,382                                 |
| Commercial real estate  | 1,640,981   |  |                                   | 1,716,965                                 |
| Residential real estate   | 1,566,377   |  |                                   | 1,672,392                                 |
| Consumer credit   | 1,339,451   |  |                                   | 1,351,678                                 |
| FDIC indemnification asset  | 28,000  |  |                                   | 14,777                                    |
| Accrued interest receivable   | 56,961  | 109  | 21,099                            | 35,753                                    |
| Loan servicing rights   | 8,788   |  |                                   | 9,029                                     |
| <b>Financial Liabilities</b>  |   |  |                                   |   |
| Deposits:   |   |  |                                   |   |
| Noninterest-bearing demand deposits                                   | \$ 2,371,049  | \$ 2,371,049   | \$                                | \$  |
| NOW, savings and money market deposits                                | 4,794,670   | 4,794,670  |                                   |   |
| Time deposits   | 1,041,583   |  | 1,045,934                         |   |
| Short-term borrowings:  |   |  |                                   |   |
| Federal funds purchased   | 150,346   | 150,346  |                                   |   |
| Repurchase agreements   | 344,916   | 344,916  |                                   |   |
| Other borrowings:   |   |  |                                   |   |
| Senior unsecured bank notes   | 175,000   |  | 201,794                           |   |
| Junior subordinated debentures  | 45,000  |  | 33,050                            |   |
| Repurchase agreements   | 50,000  |  | 52,022                            |   |
| Federal Home Loan Bank advances                                       | 602,329   |  |                                   | 610,392                                   |
| Capital lease obligation  | 4,113   |  | 5,479                             |   |
| Accrued interest payable  | 2,763   |  | 2,763                             |   |
| Standby letters of credit   | 316   |  |                                   | 316                                       |

**Off-Balance Sheet Financial  
Instruments**

|                              |    |    |    |    |       |
|------------------------------|----|----|----|----|-------|
| Commitments to extend credit | \$ | \$ | \$ | \$ | 2,201 |
|------------------------------|----|----|----|----|-------|



**Table of Contents****Fair Value Measurements at December 31, 2013 Using Significant**

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

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

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

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

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

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

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

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

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

**Loan servicing rights:** The fair value of loan servicing rights is determined using a discount rate and a weighted average prepayment speed (Level 3).

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

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

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

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

**Off-balance sheet financial instruments:** Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements. For further information regarding the amounts of these financial instruments, see Notes 19 and 20.

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

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

**EXECUTIVE SUMMARY**

During the third quarter of 2014, net income was \$29.1 million, or \$0.26 per diluted share. This compares to the \$23.9 million, or \$0.23 per diluted share reported in the third quarter of 2013. The 2014 results benefitted from higher accretion income which was partially offset by higher amortization expense of our FDIC indemnification asset. Also included in 2014 results were \$3.6 million of merger and integration costs. This compares to \$2.4 million of merger and integration costs during the third quarter of 2013.

Credit quality remains strong. Despite the continued low level of charge-offs, we did record \$2.6 million of provision expense during the third quarter due in part to another quarter of loan growth. This compares to provision recapture of \$1.7 million during the third quarter of 2013.

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

On August 22, 2014, Old National reported it had received regulatory approval from the Board of Governors of the Federal Reserve System on the pending acquisition of Lafayette, Indiana-based LSB Financial Corp. ( LSB ). LSB operates five full service banking centers in Lafayette, Indiana with loans of approximately \$256 million and \$304 million of deposits. The transaction is expected to close on November 1, 2014, subject to customary closing conditions.

Subsequent to quarter end, we also received regulatory approval from the Board of Governors of the Federal Reserve System on the pending acquisition of Grand Rapids, Michigan-based Founders Financial Corporation ( Founders ). Founders operates four full-service banking centers in Kent County with loans of approximately \$355 million and deposits of \$392 million at September 30, 2014.

Table of Contents**RESULTS OF OPERATIONS**

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

| (dollars in thousands)           | Three Months Ended    |           |             | Nine Months Ended     |            |             |
|----------------------------------|-----------------------|-----------|-------------|-----------------------|------------|-------------|
|                                  | September 30,<br>2014 | 2013      | %<br>Change | September 30,<br>2014 | 2013       | %<br>Change |
| <b>Income Statement Summary:</b> |                       |           |             |                       |            |             |
| Net interest income              | \$ 108,367            | \$ 77,996 | 38.9%       | \$ 276,327            | \$ 236,237 | 17.0%       |
| Provision for loan losses        | 2,591                 | (1,724)   | (250.3)     | 2,228                 | (4,572)    | (148.7)     |
| Noninterest income               | 34,418                | 47,755    | (27.9)      | 114,634               | 140,314    | (18.3)      |
| Noninterest expense              | 99,965                | 96,658    | 3.4         | 286,321               | 273,757    | 4.6         |
| <b>Other Data:</b>               |                       |           |             |                       |            |             |
| Return on average common equity  | 8.54%                 | 8.23%     |             | 7.85%                 | 8.58%      |             |
| Efficiency ratio (1)             | 67.41                 | 72.96     |             | 70.21                 | 69.30      |             |
| Tier 1 leverage ratio            | 8.92                  | 8.80      |             | 8.92                  | 8.80       |             |
| Net charge-offs to average loans | 0.03                  | 0.02      |             | 0.03                  | 0.07       |             |

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

**Net Interest Income**

Net interest income is our most significant component of earnings, comprising over 70% of revenues at September 30, 2014. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include the level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally costs less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

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



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| (dollars in thousands)                       | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|--|-------------------------------------|--------------|------------------------------------|--------------|
|  | 2014                                | 2013         | 2014                               | 2013         |
| Net interest income                          | \$ 108,367                          | \$ 77,996    | \$ 276,327                         | \$ 236,237   |
| Taxable equivalent adjustment                | 4,488                               | 4,362        | 12,675                             | 12,517       |
| Net interest income taxable equivalent       | \$ 112,855                          | \$ 82,358    | \$ 289,002                         | \$ 248,754   |
| Average earning assets                       | \$ 9,444,853                        | \$ 8,309,417 | \$ 8,821,342                       | \$ 8,308,859 |
| Net interest margin                          | 4.59%                               | 3.75%        | 4.18%                              | 3.79%        |
| Net interest margin fully taxable equivalent | 4.78%                               | 3.96%        | 4.37%                              | 3.99%        |

Net interest income was \$108.4 million and \$276.3 million for the three and nine months ended September 30, 2014, up from the \$78.0 million and \$236.2 million reported for the three and nine months ended September 30, 2013. Taxable equivalent net interest income was \$112.9 million and \$289.0 million for the three and nine months ended September 30, 2014, up from the \$82.4 million and \$248.8 million reported for the three and nine months ended September 30, 2013. The net interest margin on a fully taxable equivalent basis was 4.78% and 4.37% for the three and nine months ended September 30, 2014, compared to 3.96% and 3.99% for the three and nine months ended September 30, 2013. Both the three and nine months ended September 30, 2014 and 2013 include accretion income (interest income in excess of contractual interest income) associated with purchased credit impaired loans. Excluding this accretion income in both periods, net interest income on a fully taxable equivalent basis would have been \$78.5 million and \$219.1 million for the three and nine months ended September 30, 2014, compared to \$69.3 million and \$206.5 million for the three and nine months ended September 30, 2013; and the net interest margin on a fully taxable equivalent basis would have been 3.32% and 3.31% for the three and nine months ended September 30, 2014 compared to 3.34% and 3.31% for the three and nine months ended September 30, 2013.

The increase in net interest income is primarily due to the increase in accretion income recorded in the first nine months of 2014 compared to the first nine months of 2013, combined with a change in the mix of interest earning assets and interest-bearing liabilities. Accretion income was particularly high during the third quarter of 2014 due to the payoff of several large purchased credit impaired loans. We expect lower levels of accretion income in future periods. It should be noted that the accretion income is partially offset by the amortization of our indemnification asset. See the discussion in the section [Noninterest Income Related to Covered Assets](#) for additional details.

The increase in the net interest margin in the quarterly comparison is primarily due to the yield on average earning assets increasing while the cost of interest-bearing liabilities decreased. The yield on interest earning assets increased 79 basis points while the cost of interest-bearing liabilities decreased 2 basis points in the quarterly year-over-year comparison. The yield on interest earning assets is calculated by dividing annualized taxable equivalent net interest income by average interest earning assets while the cost of interest-bearing liabilities is calculated by dividing annualized interest expense by average interest-bearing liabilities. The increase in the net interest margin in the nine month comparison is primarily due to the yield on average earning assets increasing while the cost of interest-bearing liabilities decreased. The yield on interest earning assets increased 31 basis points while the cost of interest-bearing liabilities decreased 9 basis points in the nine month comparison.

Average earning assets were \$9.445 billion for the three months ended September 30, 2014, compared to \$8.309 billion for the three months ended September 30, 2013, an increase of 13.7%, or \$1.136 billion. Average earning assets were \$8.821 billion for the nine months ended September 30, 2014, compared to \$8.309 billion for the nine months ended September 30, 2013, an increase of 6.2%, or \$512.5 million. Included in average earnings assets for the quarter ended September 30, 2014, is approximately \$519.3 million from the United acquisition, which was acquired

on July 31, 2014. Included in average earning assets for the nine months ended September 30, 2014 is approximately \$269.0 million from the Tower acquisition, which was acquired on April 25, 2014, and \$175.0 million from the United acquisition, which was acquired on July 31, 2014. Affecting average earning assets at September 30, 2014 compared to September 30, 2013, was the increase in the size of the investment portfolio combined with an increase in the size of the loan portfolio. The loan portfolio, which generally has an average yield higher than the investment portfolio, was approximately 62% of average interest earning assets at September 30, 2014.



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The \$310.0 million increase in average loans over the past twelve months is primarily a result of the Tower and United acquisitions. Average loan growth for the third quarter of 2014 was approximately \$603.1 million and included approximately \$418.4 million from the United acquisition. From June 30, 2014 to September 30, 2014, period-end loans grew approximately \$72.9 million, excluding the United acquisition. The \$72.9 million increase was composed of \$10.2 million in our commercial loan portfolio, \$11.1 million in our commercial real estate loan portfolio, \$61.9 million in our consumer loan portfolio and \$2.5 million in our residential loan portfolio. These increases in organic loan growth were partially offset by a \$12.8 million decrease in our covered loan portfolio.

The \$202.5 million increase in the average balance of the investment portfolio from September 30, 2013 to September 30, 2014 can be attributed to the reinvestment of excess cash acquired as part of the Bank of America branch acquisition combined with the Tower and United acquisitions. Included in the increase is approximately \$64.1 million from the Tower acquisition and \$34.0 million from the United acquisition.

Positively affecting margin were increases in noninterest-bearing demand deposits, NOW and savings accounts, and money market accounts combined with a decrease in time deposits. Average time deposits, which have an average interest rate higher than other types of deposits, decreased \$203.7 million since September 30, 2013. Average borrowed funds increased \$59.8 million year over year, primarily due to the issuance of \$175.0 million of senior unsecured notes in August 2014.

**Provision for Loan Losses**

The provision for loan losses was an expense of \$2.6 million for the three months ended September 30, 2014, compared to a credit of \$1.7 million for the three months ended September 30, 2013. The provision for loan losses was an expense of \$2.2 million for the nine months ended September 30, 2014, compared to a credit of \$4.6 million for the nine months ended September 30, 2013. Over the last twelve months, charge-offs have remained low and we continue to see positive trends in credit quality; however, loan growth in the second and third quarters contributed to the need for additional loan loss reserve and provision expense. Continued loan growth in future periods or credit quality deterioration would result in additional provision expense.

**Noninterest Income**

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products and insurance. Noninterest income for the three months ended September 30, 2014 was \$34.4 million, a decrease of \$13.4 million, or 27.9%, from the \$47.8 million reported for the three months ended September 30, 2013. For the nine months ended September 30, 2014, noninterest income was \$114.6 million, a decrease of \$25.7 million, or 18.3%, from the \$140.3 million reported for the nine months ended September 30, 2013. The decrease in the quarterly comparison is primarily the result of adjustments to the FDIC indemnification asset, partially offset by increases in wealth management fees and gains on the sale of securities. The decrease in the nine month comparison is primarily the result of adjustments to the FDIC indemnification asset and the gain on branch divestitures that was recorded in the first quarter of 2013. Partially offsetting these decreases were increases in wealth management fees, insurance revenue, insurance contingency fees and gains on the sale of securities.

Net securities gains were \$2.7 million and \$4.9 million for the three and nine months ended September 30, 2014, compared to net securities gains of \$0.2 million and \$3.0 million for the three and nine months ended September 30, 2013. Included in the first nine months of 2014 is a \$100 thousand other-than-temporary-impairment charge on one limited partnership investment.

Wealth management fees are dependent on the performance of managed assets. Wealth management fees increased by \$1.7 million and \$2.9 million for the three and nine months ended September 30, 2014 as compared to the three and nine months ended September 30, 2013. Included in the increase for the quarterly comparison is approximately \$0.3 million from the acquisition of Tower and \$0.6 million from the acquisition of United. Included in the increase for the nine month comparison is approximately \$0.9 million from the acquisition of Tower and \$0.6 million from the acquisition of United.

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Service charges and overdraft fees on deposit accounts, our largest source of noninterest income, continued to be challenged. Service charges and overdraft fees were \$12.5 million for the three months ended September 30, 2014, compared to \$13.9 million for the three months ended September 30, 2013. Service charges and overdraft fees were \$35.4 million for the nine months ended September 30, 2014, compared to \$36.8 million for the nine months ended September 30, 2013. Included in the third quarter and first nine months of 2014 is \$0.4 million and \$0.6 million, respectively, from the Tower acquisition. United contributed \$0.5 million in the three and nine months ended September 30, 2014, respectively.

Debit card and ATM fees increased \$1.0 million to \$19.0 million for the nine months ended September 30, 2014, as compared to \$18.0 million for the nine months ended September 30, 2013. The acquired Bank of America branches contributed \$1.3 million during the first nine months of 2014. At June 30, 2014, our total assets increased to greater than \$10.0 billion subjecting us to certain provisions of the Dodd-Frank Act. As a result, management expects our fee card revenue to be negatively impacted beginning July 2015.

Mortgage banking revenue was \$1.7 million and \$3.6 million for the three and nine months ended September 30, 2014, compared to \$1.0 million and \$3.8 million for the three and nine months ended September 30, 2013. Included in the three and nine months ended September 30, 2014 is \$0.2 million from the United acquisition. Mortgage production slowed in the first nine months of 2014 as higher interest rates stymied refinance activity and bad weather in the first quarter of 2014 led to low levels of mortgage production, among other factors. As a result, mortgage banking revenue decreased in the nine month comparison as we sold less production to the secondary market in 2014.

Insurance premiums and commissions increased \$2.4 million to \$31.5 million for the nine months ended September 30, 2014, as compared to \$29.1 million for the nine months ended September 30, 2013, primarily as a result of higher contingency income and commissions on property and casualty insurance.

Income from company-owned life insurance decreased \$0.9 million and \$1.0 million for the three and nine months ended September 30, 2014 as compared to the three and nine months ended September 30, 2013. The decrease is primarily due to a \$1.1 million single life insurance benefit that was received in the third quarter of 2013.

During the first quarter of 2013 Old National sold nine banking centers in southern Illinois and western Kentucky. Deposits at the time of sale were approximately \$150.1 million and we received a deposit premium of \$2.2 million on the sales.

Other income decreased \$0.7 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. Other income increased \$1.6 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. The decrease in the quarterly comparison is primarily a result of a decrease in gain on sales of foreclosed properties. The increase in the nine month comparison is primarily a result of an increase in gain on sales of foreclosed properties.

**Noninterest Income Related to Covered Assets**

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

shorter.

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For the third quarter of 2014, changes in the FDIC indemnification asset resulted in a negative adjustment to noninterest income of \$(19.1) million. This compares to a negative adjustment of \$(2.1) million during the third quarter of 2013. During the first nine months of 2014, changes in the FDIC indemnification asset resulted in a negative adjustment to noninterest income of \$(36.9) million. This compares to a negative adjustment of \$(5.9) million during the first nine months of 2013. Several large loans paid off in the third quarter of 2014, resulting in a large decrease in the indemnification asset and high amortization expense. As of September 30, 2014, approximately \$13.4 million of the remaining indemnification asset balance is expected to be amortized and reported in noninterest income over the next 24 months.

**Noninterest Expense**

Noninterest expense for the three months ended September 30, 2014, totaled \$100.0 million, an increase of \$3.3 million, or 3.4%, from the \$96.7 million recorded for the three months ended September 30, 2013. For the nine months ended September 30, 2014, noninterest expense totaled \$286.3 million, an increase of \$12.5 million, or 4.6%, from the \$273.8 million recorded for the nine months ended September 30, 2013. Included in the three and nine months ended September 30, 2014 is approximately \$3.2 million and \$9.6 million, respectively, of operating costs related to 24 branches acquired from Bank of America during the third quarter of 2013. Also included in the three and nine months ended September 30, 2014 is approximately \$2.4 million and \$4.6 million, respectively, of costs related to the operation of the seven branches acquired from Tower. Included in the three and nine months ended September 30, 2014 is approximately \$4.5 million, respectively, of costs related to the operation of the eighteen branches acquired from United. In addition, \$3.2 million and \$11.8 million of acquisition and integration costs are included in the three and nine months ended September 30, 2014, respectively, associated with the Tower and United acquisitions.

Salaries and benefits is the largest component of noninterest expense. For the three months ended September 30, 2014, salaries and benefits were \$54.6 million compared to \$51.8 million for the three months ended September 30, 2013. For the nine months ended September 30, 2014, salaries and benefits were \$161.1 million compared to \$151.5 million for the nine months ended September 30, 2013. Included in the three months ended September 30, 2014, is \$1.6 million and \$3.5 million, respectively, of salaries and benefits expense associated with the Tower and United acquisitions. Included in the nine months ended September 30, 2014, is \$3.2 million, \$5.0 million and \$5.1 million, respectively, of salaries and benefits expense associated with the acquired Bank of America bank branches, Tower and United. Also included in the third quarter of 2014 is a \$0.7 million reversal of restricted stock expense. Year-over-year, pension expense decreased \$1.2 million, restricted stock expense decreased \$0.7 million and short-term incentive expense decreased \$0.4 million.

Marketing expense increased \$1.7 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013. Marketing expense increased primarily as a result of a \$1.5 million increase in public relations expense.

Data processing expense increased \$0.7 million and \$1.9 million for the three and nine months ended September 30, 2014 as compared to the three and nine months ended September 30, 2013. Data processing expense increased primarily as a result of increases in expenses related to upgrades in software and equipment.

Professional expense increased \$2.2 million and \$3.0 million for the three and nine months ended September 30, 2014 as compared to the three and nine months ended September 30, 2013 primarily as a result of expenses related to the acquisitions of Tower and United.

FDIC assessment expense was \$4.6 million for the nine months ended September 30, 2014, compared to \$3.6 million for the nine months ended September 30, 2013. Contributing to the increase are higher asset levels in 2014.

Other real estate owned expense decreased \$0.7 million and \$1.2 million for the three and nine months ended September 30, 2014 as compared to the three and nine months ended September 30, 2013. The majority of the decrease in expense is associated with other real estate properties acquired from the FDIC.

Amortization of intangibles increased \$0.7 million for the three months ended September 30, 2014 as compared to the three months ended September 30, 2013. Included in the three months ended September 30, 2014 is \$0.4 million associated with the Tower acquisition and \$0.4 million associated with the United acquisition.

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Other expense was \$5.2 million and \$13.3 million for the three and nine months ended September 30, 2014, compared to \$7.6 million and \$15.9 million for the three and nine months ended September 30, 2013. Included in the third quarter of 2014 is a decrease of approximately \$432 thousand in the provision for unfunded commitments compared to the third quarter of 2013. Included in expense for the three months ended September 30, 2013, is approximately \$2.1 million of expenses associated with the consolidation of 18 branches. Included in expense for the nine months ended September 30, 2014 is an increase of \$0.8 million in the provision for unfunded commitments compared to the nine months ended September 30, 2013. Included in expense for the nine months ended September 30, 2013 are approximately \$1.0 million for loss on extinguishment of debt regarding the termination of \$50.0 million of FHLB advances and \$2.1 million of expenses associated with the consolidation of 18 branches.

**Noninterest Expense Related to Covered Assets**

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

Approximately \$487 thousand, or twenty percent of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during the first nine months of 2014. The remaining eighty percent was recorded as a receivable from the FDIC. Additional non-reimbursable expenses of \$55 thousand associated with holding and maintaining covered assets assumed in the Integra acquisition were also recorded in noninterest expense during the first nine months of 2014.

Approximately \$370 thousand, or twenty percent of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during the first nine months of 2013. The remaining eighty percent was recorded as a receivable from the FDIC. Additional non-reimbursable expenses of \$242 thousand associated with holding and maintaining covered assets assumed in the Integra acquisition were also recorded in noninterest expense during the first nine months of 2013.

**Provision for Income Taxes**

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 27.6% for the three months ended September 30, 2014, compared to 22.3% for the three months ended September 30, 2013. The provision for income taxes, as a percentage of pre-tax income, was 27.3% for the nine months ended September 30, 2014, compared to 28.9% for the nine months ended September 30, 2013. In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at September 30, 2014 based on the current estimate of the effective annual rate. The lower tax rate in the nine months of 2014 is the result of higher tax exempt income in relation to pre-tax book income for 2014 as compared to prior year, as well as lower projected state taxes due to reduced statutory rates. See Note 17 to the consolidated financial statements for additional information.

**FINANCIAL CONDITION****Overview**

At September 30, 2014, our assets were \$11.180 billion, a 15.8% increase compared to September 30, 2013 assets of \$9.652 billion, and an increase of 16.7% compared to December 31, 2013 assets of \$9.582 billion. The increase in assets is primarily the result of the acquisitions of Tower, which occurred on April 25, 2014, and United, which occurred on July 31, 2014.



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**Table of Contents****Earning Assets**

Our earning assets are comprised of investment securities, portfolio loans, loans held for sale, money market investments, interest earning accounts with the Federal Reserve and trading securities. Earning assets were \$9.689 billion at September 30, 2014, an increase of 16.9% from September 30, 2013.

*Investment Securities*

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we do have \$26.0 million of 15- and 20-year fixed-rate mortgage-backed securities, \$168.1 million of U.S. government-sponsored entity and agency securities and \$653.9 million of state and political subdivision securities in our held-to-maturity investment portfolio at September 30, 2014. During the third quarter of 2013, state and political subdivision securities with a fair value of \$357.8 million were transferred from the available-for-sale portfolio to the held-to-maturity portfolio. We moved these securities to our held-to-maturity portfolio to better align with the percentage of these securities held by our peers and to protect our tangible common equity against rising interest rates.

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled \$3.8 million at September 30, 2014 compared to \$3.3 million at September 30, 2013.

At September 30, 2014, the total investment securities portfolio was \$3.408 billion compared to \$3.176 billion at September 30, 2013, an increase of \$231.6 million or 7.3%. Investment securities increased \$228.9 million compared to December 31, 2013, an increase of 7.2%. Included in the investment securities portfolio at September 30, 2014 are \$108.9 million of investment securities associated with the acquisition of Tower and \$148.0 million of investment securities associated with the acquisition of United. Investment securities represented 35.2% of earning assets at September 30, 2014, compared to 38.3% at September 30, 2013, and 38.4% at December 31, 2013. Despite the higher balances, investment securities decreased as a percent of total earning assets due to a proportionately larger increase in loan balances. Stronger commercial loan demand in the future and management's decision to deleverage the balance sheet could result in a reduction in the securities portfolio. As of September 30, 2014, management does not intend to sell any securities in an unrealized loss position and does not believe we will be required to sell such securities.

The investment securities available-for-sale portfolio had net unrealized losses of \$9.7 million at September 30, 2014, a decrease of \$15.5 million compared to net unrealized losses of \$25.2 million at September 30, 2013, and a decrease of \$24.4 million compared to net unrealized losses of \$34.1 million at December 31, 2013. Unrealized losses improved at September 30, 2014 due to a decline in interest rates and a shorter duration of the investment portfolio.

The investment portfolio had an average duration of 4.16 at September 30, 2014, compared to 4.76 at September 30, 2013, and 4.84 at December 31, 2013. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. Generally, there is more uncertainty in interest rates over a longer average maturity, resulting in a higher duration percentage. The annualized average yields on investment securities, on a taxable equivalent basis, were 2.80% for the three months ended September 30, 2014, compared to 3.00% for the three months ended September 30, 2013, and 2.87% for the three months ended December 31, 2013. Average yields on investment securities, on a taxable equivalent basis, were 2.88%, 2.95% and 2.93% for the nine months ended September 30, 2014 and 2013 and for the year ended December 31, 2013, respectively.

*Residential Loans Held for Sale*

Residential loans held for sale were \$12.9 million at September 30, 2014, compared to \$7.9 million at September 30, 2013, and \$7.7 million at December 31, 2013. At September 30, 2014, loans held for sale was made up entirely of mortgage loans held for immediate sale in the secondary market with servicing released. These loans are sold at or prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company's balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse and Old National has experienced no material losses. Mortgage originations are subject to volatility due to interest rates and home sales.

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

*Commercial and Commercial Real Estate Loans*

Commercial and commercial real estate loans, including covered loans, are the second largest classification within earning assets, representing 34.3% of earning assets at September 30, 2014, an increase from 32.4% at September 30, 2013, and an increase from 31.9% at December 31, 2013. At September 30, 2014, commercial and commercial real estate loans, including covered loans, were \$3.327 billion, an increase of \$640.9 million since September 30, 2013, and an increase of \$681.1 million since December 31, 2013. Included in the total for September 30, 2014 is approximately \$245.8 million related to the acquisition of Tower and \$387.5 million related to the acquisition of United. During the first nine months of 2014, Old National's organic loan growth exceeded the decline in covered purchased credit impaired loans. Excluding the recently acquired Tower and United loans, commercial and commercial real estate loans increased \$94.9 million from December 2013.

*Consumer Loans*

At September 30, 2014, consumer loans, including automobile loans, personal and home equity loans and lines of credit, increased \$333.6 million or 33.0% compared to September 30, 2013, and increased \$295.7 million or 28.2% since December 31, 2013. Included in the total for September 30, 2014 is approximately \$34.2 million related to the acquisition of Tower and \$123.8 million related to the acquisition of United. During the first nine months of 2014, Old National also experienced organic loan growth in consumer loans. Excluding the recently acquired loans, consumer loans increased \$145.4 million from December 2013.

*Residential Real Estate Loans*

At September 30, 2014, residential real estate loans, including covered loans, held in our loan portfolio were \$1.570 billion, an increase of \$182.6 million, or 13.2%, from December 31, 2013 and an increase of \$195.5 million, or 14.2%, from September 30, 2013. Included in the total for September 30, 2014 is approximately \$66.2 million related to the acquisition of Tower and \$119.3 million related to the acquisition of United.

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

**Covered Assets**

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. ( Integra ) in an FDIC assisted transaction. We entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned ( OREO ). Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby Old National is indemnified against 80% of losses up to \$275.0 million, losses in excess of \$275.0 million up to \$467.2 million at 0% reimbursement, and 80% of losses in excess of \$467.2 million with respect to covered assets. As of September 30, 2014, we do not expect losses to exceed \$275.0 million.



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Covered assets continue to decline as we work through these purchased credit impaired loans. A summary of covered assets is presented below:

| (dollars in thousands)             | September 30,<br>2014 | December 31,<br>2013 |
|------------------------------------|-----------------------|----------------------|
| Loans, net of discount & allowance | <b>\$ 154,759</b>     | \$ 212,428           |
| Other real estate owned            | <b>9,454</b>          | 13,670               |
| <b>Total covered assets</b>        | <b>\$ 164,213</b>     | <b>\$ 226,098</b>    |

**FDIC Indemnification Asset**

Because the FDIC will reimburse Old National for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The indemnification asset, on the acquisition date, reflects the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. Reimbursement claims are submitted to the FDIC and the receivable is reduced when the FDIC pays the claim. At September 30, 2014, the FDIC loss sharing asset was \$28.0 million and was comprised of a \$25.7 million FDIC indemnification asset and a \$2.3 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 September 30, 2014, \$12.3 million of the FDIC indemnification asset is related to expected indemnification payments and \$13.4 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income. We currently expect the majority of the \$13.4 million to be amortized over the next 24 months.

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

| (dollars in thousands)                          | 2014             | 2013       |
|---|------------------|------------|
| Balance at January 1,                           | <b>\$ 88,513</b> | \$ 116,624 |
| Adjustments not reflected in income:            |                  |            |
| Cash received from FDIC                         | <b>(24,814)</b>  | (19,415)   |
| Loan expenses to be reimbursed                  | <b>1,488</b>     | 1,469      |
| Other   | <b>(271)</b>     | (1,204)    |
| Adjustments reflected in income:                |                  |            |
| (Amortization) accretion                        | <b>(35,269)</b>  | (6,814)    |
| Higher (lower) loan loss expectations           | <b>(13)</b>      | 115        |
| Write-downs/(gain) on sale of other real estate | <b>(1,634)</b>   | 1,965      |
| Recovery amounts due to FDIC                    |                  | (1,243)    |
| Other   |                  | 61         |
| Balance at September 30,                        | <b>\$ 28,000</b> | \$ 91,558  |

## **Goodwill and Other Intangible Assets**

Goodwill and other intangible assets at September 30, 2014, totaled \$530.5 million, an increase of \$151.2 million compared to \$379.3 million at September 30, 2013, and an increase of \$151.8 million compared to \$378.7 million at December 31, 2013. During the third quarter of 2014, we recorded \$93.3 million of goodwill and other intangible assets associated with the acquisition of United Bancorp, Inc., which is included in the Banking column for segment reporting. During the second quarter of 2014, we recorded \$64.6 million of goodwill and other intangible assets associated with the acquisition of Tower Financial Corporation, which is included in the Banking column for segment reporting. Also during the second quarter of 2014, we increased customer business relationship intangibles by \$0.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment. During the third quarter of 2013, we recorded \$16.8 million of goodwill and other intangible assets associated with the acquisition of 24 retail bank branches from Bank of America, all of which is included in the Banking column for segment reporting. During the fourth quarter of 2013, we increased customer business relationships by \$1.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment.

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**Table of Contents****Company-Owned Life Insurance**

Company-owned life insurance has increased \$42.6 million since September 30, 2013 primarily as a result of the acquisitions of Tower and United.

**Assets Held for Sale**

Assets held for sale were \$8.7 million at September 30, 2014 compared to \$9.1 million at December 31, 2013. Included in assets held for sale are four facilities associated with the Monroe Bancorp acquisition.

**Other Assets**

Other assets have increased \$23.8 million, or 10.8%, since December 31, 2013 primarily a result of a \$19.7 million increase in deferred tax assets and \$8.8 million of loan servicing rights acquired in the United transaction.

**Funding**

Total funding, comprised of deposits and wholesale borrowings, was \$9.574 billion at September 30, 2014, an increase of 15.9% from \$8.261 billion at September 30, 2013, and an increase of 16.3% from \$8.230 billion at December 31, 2013. Included in total funding were deposits of \$8.207 billion at September 30, 2014, an increase of \$998.9 million, or 13.9%, compared to September 30, 2013, and an increase of \$996.4 million, or 13.8%, compared to December 31, 2013. Included in total deposits at September 30, 2014 are \$455.1 million from the acquisition of Tower. Also included in total deposits at September 30, 2014 are \$735.4 million of deposits from the United acquisition. Partially offsetting these increases is the \$28.2 million of deposits that were sold in conjunction with our branch sales in the fourth quarter of 2013 along with a decrease in higher cost certificates of deposit that reached maturity. Noninterest-bearing deposits increased 20.0%, or \$395.9 million, compared to September 30, 2013. NOW deposits increased 20.9% or \$358.3 million, while savings deposits increased 11.0%, or \$215.7 million, compared to September 30, 2013. Money market deposits increased 21.2%, or \$95.7 million. Time deposits decreased 6.0% or \$66.6 million compared to September 30, 2013. Year over year we experienced an increase in noninterest-bearing demand deposits.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At September 30, 2014, wholesale borrowings, including short-term borrowings and other borrowings, increased \$314.1 million, or 29.8%, from September 30, 2013 and increased \$348.3 million, or 34.2%, from December 31, 2013, respectively. Wholesale funding as a percentage of total funding was 14.3% at September 30, 2014, compared to 12.7% at September 30, 2013, and 12.4% at December 31, 2013. The increase in wholesale funding during 2014 is primarily in short maturity FHLB advances combined with the issuance of approximately \$175 million of senior unsecured debt in August 2014.

**Accrued Expenses and Other Liabilities**

Accrued expenses and other liabilities decreased \$33.3 million, or 14.4%, since September 30, 2013 primarily as a result of decreases in accrued pension expense and tax liabilities combined with fluctuations in the fair value of derivative financial instruments.

**Capital**

Shareholders' equity totaled \$1.407 billion at September 30, 2014, compared to \$1.159 billion at September 30, 2013, and \$1.163 billion at December 31, 2013. The September 30, 2014 balance includes approximately \$78.7 million from the approximately 5.6 million shares of common stock that were issued in conjunction with the acquisition of Tower Financial Corporation. Also included in the September 30, 2014 balance is approximately \$123.8 million from the approximately 9.1 million shares of common stock that were issued in conjunction with the acquisition of United Bancorp, Inc.



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We paid cash dividends of \$0.11 and \$0.33 per share for the three and nine months ended September 30, 2014, which reduced equity by \$35.3 million. We paid cash dividends of \$0.10 and \$0.30 per share for the three and nine months ended September 30, 2013, which reduced equity by \$30.3 million. We repurchased shares of our stock, reducing shareholders' equity by \$15.3 million during the nine months ended September 30, 2014, and \$11.1 million during the nine months ended September 30, 2013. During the third quarter of 2014, we repurchased 1,000,000 shares of our common stock under our buyback program. During the first nine months of 2013, we repurchased 750,000 shares of our common stock under our buyback program. The remaining repurchases related primarily to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by \$15.8 million during the nine months ended September 30, 2014, and decreased equity by \$74.9 million during the nine months ended September 30, 2013. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders' equity by \$4.3 million during the nine months ended September 30, 2014, compared to \$4.5 million during the nine months ended September 30, 2013.

**Capital Adequacy**

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At September 30, 2014, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition. To be categorized as well-capitalized, the bank subsidiary must maintain at least a total risk-based capital ratio of 10.0%, a Tier 1 risk-based capital ratio of 6.0% and a Tier 1 leverage ratio of 5.0%. Goodwill of \$56.2 million, core deposit intangibles of \$4.6 million and customer relationship intangibles of \$3.8 million were recorded in conjunction with the Tower Financial Corporation acquisition. Goodwill of \$82.5 million, core deposit intangibles of \$5.9 million and customer relationship intangibles of \$4.9 million were recorded in conjunction with the United Bancorp acquisition.

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

|   | <b>Regulatory<br/>Guidelines<br/>Minimum</b> | <b>September 30,<br/>2014</b> | <b>September 30,<br/>2013</b> | <b>December 31,<br/>2013</b> |
|---|--|-------------------------------|-------------------------------|------------------------------|
| <b>Risk-based capital:</b>                          |  |                               |                               |                              |
| Tier 1 capital to total avg assets (leverage ratio) | 4.00%  | <b>8.92%</b>                  | 8.80%                         | 8.92%                        |
| Tier 1 capital to risk-adjusted total assets        | 4.00   | <b>12.99</b>                  | 14.22                         | 14.32                        |
| Total capital to risk-adjusted total assets         | 8.00   | <b>13.75</b>                  | 15.10                         | 15.19                        |
| Shareholders' equity to assets                      | N/A  | <b>12.59</b>                  | 12.01                         | 12.13                        |

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

|                            | <b>Regulatory<br/>Guidelines<br/>Minimum</b> | <b>Well<br/>Capitalized<br/>Guidelines</b> | <b>September 30,<br/>2014</b> | <b>September 30,<br/>2013</b> | <b>December 31,<br/>2013</b> |
|----------------------------|--|--|-------------------------------|-------------------------------|------------------------------|
| <b>Risk-based capital:</b> |  |  |                               |                               |                              |
|                            | 4.00%  | 5.00%                                      | <b>8.22%</b>                  | 7.78%                         | 7.35%                        |

Tier 1 capital to total avg assets (leverage ratio)

|  |      |       |              |       |       |
|--|------|-------|--------------|-------|-------|
| Tier 1 capital to risk-adjusted total assets | 4.00 | 6.00  | <b>11.95</b> | 12.55 | 11.80 |
| Total capital to risk-adjusted total assets  | 8.00 | 10.00 | <b>12.71</b> | 13.45 | 12.67 |

Under the new Basel III requirements, the fully phased-in well-capitalized minimum ratios will be as follows: Tier I common equity ratio 7.0%; Tier 1 leverage ratio 5.0%; Tier 1 risk-based capital ratio 8.5%; and total risk-based capital ratio 10.5%. Old National currently expects it will exceed these required minimums.

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### **RISK MANAGEMENT**

#### **Overview**

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

#### **Credit Risk**

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

#### Investment Activities

We carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At September 30, 2014, we had pooled trust preferred securities with a fair value of approximately \$7.1 million, or 0.3% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and at September 30, 2014, the unrealized loss on our pooled trust preferred securities was approximately \$10.9 million. There was no other-than-temporary-impairment recorded in either the first nine months of 2014 or 2013 on these securities.

All of our mortgage-backed securities are backed by U.S. government-sponsored or federal agencies. Municipal bonds, corporate bonds and other debt securities are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. See Note 6 to the consolidated financial statements for additional details about our investment security portfolio.

#### Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National's net counterparty exposure was an asset of \$568.1 million at September 30, 2014.

#### Lending Activities

##### Commercial

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

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

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

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

## Consumer

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

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

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

## Asset Quality

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

lending environment.

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

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During the third quarter of 2011, Old National acquired the banking operations of Integra Bank in an FDIC assisted transaction. As of September 30, 2014, acquired loans totaled \$195.3 million and there was \$9.5 million of other real estate owned. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. At September 30, 2014, approximately \$154.8 million of loans, net of discount and allowance, and \$9.5 million of other real estate owned are covered by the loss sharing agreements. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to \$275.0 million. Currently we do not expect losses to exceed \$275.0 million. These covered assets are included in our summary of under-performing, criticized and classified assets found below.

On April 25, 2014, Old National closed on its acquisition of Tower. As of September 30, 2014, acquired loans totaled \$346.2 million and there was \$0.4 million of other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. Old National reviewed the acquired loans and determined that as of September 30, 2014, \$13.0 million met the definition of criticized, \$24.6 million were considered classified, and \$0.5 million were doubtful. Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These assets are included in our summary of under-performing, criticized and classified assets found below.

On July 31, 2014, Old National closed on its acquisition of United. As of September 30, 2014, acquired loans totaled \$631.0 million and there was \$1.6 million of other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. Old National reviewed the acquired loans and determined that as of September 30, 2014, \$35.7 million met the definition of criticized, \$32.5 million were considered classified, and \$0.1 million were doubtful. Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These assets are included in our summary of under-performing, criticized and classified assets found below.

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Summary of under-performing, criticized and classified assets:

| (dollars in thousands)  | September 30,<br>2014 | September 30,<br>2013 | December 31,<br>2013 |
|---|-----------------------|-----------------------|----------------------|
| <b>Nonaccrual loans</b>   |                       |                       |                      |
| Commercial  | \$ 41,312             | \$ 27,037             | \$ 28,635            |
| Commercial real estate  | 64,831                | 65,344                | 52,363               |
| Residential real estate   | 14,517                | 10,307                | 10,333               |
| Consumer  | 4,778                 | 4,941                 | 5,318                |
| Covered loans (5)   | 16,886                | 40,688                | 31,793               |
| <b>Total nonaccrual loans (6)</b>   | <b>142,324</b>        | 148,317               | 128,442              |
| <b>Renegotiated loans not on nonaccrual</b>   |                       |                       |                      |
| <b>Noncovered loans</b>   |                       |                       |                      |
| Covered loans (5)   | 22,100                | 14,010                | 15,596               |
| Covered loans (5)   | 151                   | 35                    | 148                  |
| <b>Past due loans (90 days or more and still accruing)</b>  |                       |                       |                      |
| Commercial  |                       | 41                    |                      |
| Commercial real estate  | 207                   |                       |                      |
| Residential real estate   | 12                    | 369                   | 35                   |
| Consumer  | 257                   | 371                   | 189                  |
| Covered loans (5)   | 166                   | 74                    | 14                   |
| <b>Total past due loans</b>   | <b>642</b>            | 855                   | 238                  |
| Other real estate owned   | 8,173                 | 9,609                 | 7,562                |
| Other real estate owned, covered (5)  | 9,454                 | 18,248                | 13,670               |
| <b>Total under-performing assets</b>  | <b>\$ 182,844</b>     | \$ 191,074            | \$ 165,656           |
| <b>Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)</b> |                       |                       |                      |
|   | \$ 226,072            | \$ 178,273            | \$ 159,783           |
| Classified loans, covered (5)   | 19,029                | 45,623                | 35,500               |
| Other classified assets (3)   | 26,530                | 48,397                | 43,861               |
| Criticized loans  | 170,500               | 129,461               | 135,401              |
| Criticized loans, covered (5)   | 5,294                 | 9,959                 | 8,421                |
| <b>Total criticized and classified assets</b>   | <b>\$ 447,425</b>     | \$ 411,713            | \$ 382,966           |
| <b>Asset Quality Ratios including covered assets:</b>   |                       |                       |                      |
| Non-performing loans/total loans (1) (2)  | 2.64%                 | 3.20%                 | 2.84%                |
| Under-performing assets/total loans and other real estate owned (1)                                   | 2.92                  | 3.75                  | 3.25                 |
| Under-performing assets/total assets  | 1.64                  | 1.98                  | 1.73                 |
| Allowance for loan losses/under-performing assets (4)   | 26.40                 | 24.76                 | 28.46                |



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|   |              |       |       |
|---|--------------|-------|-------|
| Allowance for loan losses/nonaccrual loans (6)                      | <b>33.92</b> | 31.90 | 36.71 |
| Asset Quality Ratios excluding covered assets:                      |              |       |       |
| Non-performing loans/total loans (1) (2)                            | <b>2.42</b>  | 2.52  | 2.31  |
| Under-performing assets/total loans and other real estate owned (1) | <b>2.56</b>  | 2.73  | 2.46  |
| Under-performing assets/total assets                                | <b>1.40</b>  | 1.37  | 1.25  |
| Allowance for loan losses/under-performing assets (4)               | <b>28.62</b> | 32.04 | 34.78 |
| Allowance for loan losses/nonaccrual loans (6)                      | <b>35.63</b> | 39.31 | 43.19 |

- (1) Loans exclude residential loans held for sale and leases held for sale.
- (2) Non-performing loans include nonaccrual and renegotiated loans.
- (3) Includes 3 pooled trust preferred securities and 4 corporate securities at September 30, 2014.
- (4) Because the acquired loans from Monroe, Integra, Indiana Community, Tower and United were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date.
- (5) The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans and other real estate owned. At September 30, 2014, we expect eighty percent of any losses incurred on these covered assets to be reimbursed to Old National by the FDIC.
- (6) Includes approximately \$37.0 million of purchased credit impaired loans that are categorized as nonaccrual because the collection of principal or interest is doubtful. These loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

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Under-performing assets totaled \$182.8 million at September 30, 2014, a decrease of \$8.3 million compared to \$191.1 million at September 30, 2013, and an increase of \$17.1 million compared to \$165.7 million at December 31, 2013. As a percent of total loans and other real estate owned, under-performing assets, at September 30, 2014, were 2.92%, a decrease from the September 30, 2013 ratio of 3.75% and a decrease from the December 31, 2013 ratio of 3.25%. At September 30, 2014, under-performing assets related to covered assets acquired in the Integra Bank acquisition were approximately \$26.7 million, which included approximately \$16.9 million of nonaccrual loans, \$0.3 million of past due loans and renegotiated loans and \$9.5 million of other real estate owned. The nonaccrual covered loans are categorized in this manner because the collection of principal or interest is doubtful. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

Nonaccrual loans were \$142.3 million at September 30, 2014, compared to \$148.3 million at September 30, 2013, and \$128.4 million at December 31, 2013. Nonaccrual loans decreased from September 30, 2013 primarily as a result of a decrease in our acquired covered nonaccrual loans, which was partially offset by an increase in nonaccrual commercial loans. Nonaccrual loans, however, have remained at elevated levels since the acquisition of Monroe Bancorp and the FDIC-assisted acquisition of Integra in 2011. In addition, nonaccrual loans at September 30, 2014 include \$17.7 million of loans related to loans acquired from Tower Financial Corporation in April 2014 and \$26.6 million of loans related to loans acquired from United Bancorp in July 2014. Because the acquired loans from Monroe Bancorp, Integra Bank, Indiana Community Bancorp, the Bank of America branches, Tower Financial Corporation and United Bancorp were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. As a percent of nonaccrual loans (excluding covered loans), the allowance for loan losses was 35.63% at September 30, 2014, compared to 39.31% at September 30, 2013 and 43.19% at December 31, 2013. Included in nonaccrual loans at September 30, 2014 and December 31, 2013 were \$37.0 million and \$38.3 million, respectively, of purchased credit impaired loans that were included in the nonaccrual category because the collection of principal or interest is doubtful. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets. We would expect our nonaccrual loans to remain at elevated levels until management can work through and resolve these purchased credit impaired loans.

Total classified and criticized assets were \$447.4 million at September 30, 2014, an increase of \$35.7 million from September 30, 2013, and an increase of \$64.5 million from December 31, 2013. Included in criticized and classified assets at September 30, 2014, is \$38.1 million related to the acquisition of Tower Financial Corporation and \$68.3 million related to the acquisition of United Bancorp. Other classified assets include \$26.5 million, \$48.4 million and \$43.9 million of investment securities that fell below investment grade rating at September 30, 2014, September 30, 2013 and December 31, 2013, respectively.

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

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

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

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

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

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

At September 30, 2014, our troubled debt restructurings consisted of \$21.0 million of commercial loans, \$19.9 million of commercial real estate loans, \$2.0 million of consumer loans and \$2.1 million of residential loans, totaling \$45.0 million. Approximately \$22.8 million of the troubled debt restructuring at September 30, 2014 were included with nonaccrual loans. As of September 30, 2014, Old National had allocated specific reserves of \$3.0 million to commercial loans and \$2.0 million to commercial real estate loans for loans that have been modified in troubled debt restructurings. At December 31, 2013, our troubled debt restructurings consisted of \$22.5 million of commercial loans, \$22.6 million of commercial real estate loans, \$1.4 million of consumer loans and \$2.4 million of residential loans, totaling \$48.9 million. Approximately \$33.1 million of the troubled debt restructuring at December 31, 2013 were included with nonaccrual loans. As of December 31, 2013, Old National had allocated specific reserves of \$2.1 million to commercial loans and \$2.0 million to commercial real estate loans for loans that have been modified in troubled debt restructurings.

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

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

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



**Table of Contents***Allowance for Loan Losses and Reserve for Unfunded Commitments*

Loan charge-offs, net of recoveries, totaled \$0.5 million for the three months ended September 30, 2014, as compared to \$0.3 million for the three months ended September 30, 2013. Loan charge-offs, net of recoveries, totaled \$1.1 million for the nine months ended September 30, 2014, as compared to \$2.9 million for the nine months ended September 30, 2013. Annualized, net charge-offs to average loans were 0.03% and 0.03% for the three and nine months ended September 30, 2014, as compared to 0.02% and 0.07% for the three and nine months ended September 30, 2013. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events and regulatory guidance. At September 30, 2014, the allowance for loan losses was \$48.3 million, an increase of \$1.0 million compared to \$47.3 million at September 30, 2013, and an increase of \$1.2 million compared to \$47.1 million at December 31, 2013. Over the last twelve months, charge-offs have remained low and we continue to see positive trends in credit quality. Continued loan growth in future periods could result in an increase in provision expense. As a percentage of total loans excluding loans held for sale, the allowance was 0.77% at September 30, 2014, compared to 0.93% at September 30, 2013, and 0.93% at December 31, 2013. The decrease from September 30, 2013 is primarily a result of the acquisitions of Tower and United. The acquired loans from Tower and United were recorded at fair value pursuant to ASC 805, and accordingly no allowance was recorded at the acquisition date. The provision for loan losses for the nine months ended September 30, 2014, was an expense of \$2.2 million compared to a credit of \$4.6 million for the nine months ended September 30, 2013.

Because the acquired loans from Monroe Bancorp, Integra Bank, Indiana Community Bancorp, the Bank of America branches, Tower Financial Corp and United Bancorp were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. We would expect that as the fair value mark is accreted into income over future periods, a reserve will be established to absorb credit deterioration or adverse changes in expected cash flows. Through September 30, 2014, \$1.6 million, \$3.7 million, and \$0.2 million had been reserved for these purchased credits from Monroe Bancorp, Integra Bank, and United Bancorp, respectively.

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

|                             | Legacy       |           | Covered   |          | Purchased Loans |              |           |           |
|-----------------------------|--------------|-----------|-----------|----------|-----------------|--------------|-----------|-----------|
|                             | FAS 5        | FAS 114   | FAS 5     | FAS 114  | SOP 03-3        | FAS 5        | FAS 114   | SOP 03-3  |
| (dollars in thousands)      |              |           |           |          |                 |              |           |           |
| Loan balance                | \$ 4,794,360 | \$ 52,894 | \$ 66,346 | \$ 5,883 | \$ 86,116       | \$ 1,153,300 | \$ 40,285 | \$ 43,251 |
| Remaining purchase discount |              |           | 3,562     |          | 40,886          | 58,039       | 12,551    | 27,192    |

|                            |         |         |       |       |         |       |       |       |
|----------------------------|---------|---------|-------|-------|---------|-------|-------|-------|
| Allowance, January 1, 2014 | 30,826  | 8,346   | 1,552 |       | 3,852   |       |       | 2,569 |
| Charge-offs                | (1,349) | (4,133) | (82)  | (594) | 92      | (551) | (596) | (479) |
| Recoveries                 | 751     | 4,216   | 18    | 112   | 63      | 205   | 1,028 | 205   |
| Provision expense          | 3,434   | 667     | (465) | 2,015 | (2,977) | 346   | 154   | (946) |

|                               |           |          |          |          |          |    |        |          |
|-------------------------------|-----------|----------|----------|----------|----------|----|--------|----------|
| Allowance, September 30, 2014 | \$ 33,662 | \$ 9,096 | \$ 1,023 | \$ 1,533 | \$ 1,030 | \$ | \$ 586 | \$ 1,349 |
|-------------------------------|-----------|----------|----------|----------|----------|----|--------|----------|

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. The \$5.2 million reserve for unfunded loan commitments at September 30, 2014 is classified as a liability account on the balance sheet. The reserve for unfunded loan commitments was \$2.7 million at December 31, 2013. The reserve for unfunded loan commitments increased primarily due to the acquisitions of Tower Financial and United Bancorp.

**Table of Contents****Market Risk**

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

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

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

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

adjusting balance sheet mix or altering interest rate characteristics of assets and liabilities;

changing product pricing strategies;

modifying characteristics of the investment securities portfolio; or

using derivative financial instruments, to a limited degree.

A key element in our ongoing process is to measure and monitor interest rate risk using a Net Interest Income at Risk simulation to model the interest rate sensitivity of the balance sheet and to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income over a one-year and a two-year cumulative horizon. The model measures the impact on net interest income relative to a base case scenario. The base case scenario assumes that the balance sheet and interest rates are held at current levels.

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

Hypothetical LIBOR/Swap Yield Curves, September 30, 2014

|         | 3-Month | 6-Month | 1-Year | 2-Year | 3-Year | 5-Year | 10-Year | 20-Year | 30-Year |
|---------|---------|---------|--------|--------|--------|--------|---------|---------|---------|
| + 3.00% | 3.24%   | 3.33%   | 3.58%  | 3.82%  | 4.30%  | 4.93%  | 5.64%   | 6.09%   | 6.19%   |



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|                            |       |       |       |       |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| + 2.00%                    | 2.24% | 2.33% | 2.58% | 2.82% | 3.30% | 3.93% | 4.64% | 5.09% | 5.19% |
| + 1.00%                    | 1.24% | 1.33% | 1.58% | 1.82% | 2.30% | 2.93% | 3.64% | 4.09% | 4.19% |
| Yield Curve at 9/30        | 0.24% | 0.33% | 0.58% | 0.82% | 1.30% | 1.93% | 2.64% | 3.09% | 3.19% |
| - 1.00%                    | NA    | NA    | NA    | NA    | NA    | NA    | NA    | NA    | NA    |
| 100 bp flattening of curve |       |       |       |       |       |       |       |       |       |
| Short end                  | 1.24% | 1.33% | 1.58% | 1.82% | 1.30% | 1.93% | 2.64% | 3.09% | 3.19% |
| Long end                   | 0.24% | 0.33% | 0.58% | 0.82% | 1.30% | 1.93% | 1.64% | 2.09% | 2.19% |
| 100 bp steepening of curve |       |       |       |       |       |       |       |       |       |
| Short end                  | 0.00% | 0.00% | 0.00% | 0.00% | 1.30% | 1.93% | 2.64% | 3.09% | 3.19% |
| Long end                   | 0.24% | 0.33% | 0.58% | 0.82% | 1.30% | 1.93% | 3.64% | 4.09% | 4.19% |

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

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The tables below reflect the impact on future net interest income over both a one-year time horizon and a two-year cumulative time horizon.

| Immediate<br>Change in the<br>Level of Interest | Impact on Future Annual Net Interest Income |          |                     |          |  |
|---|---|----------|---------------------|----------|--|
|   | 9/30/2014                                   |          | 9/30/2013           |          |  |
|   | \$ Change<br>(000s)                         | % Change | \$ Change<br>(000s) | % Change |  |
| Rates   |   |          |                     |          |  |
| + 3.00%   | (711)                                       | -0.24%   | (28,550)            | -10.94%  |  |
| + 2.00%   | 455   | 0.15%    | (16,555)            | -6.35%   |  |
| + 1.00%   | 463   | 0.16%    | (4,314)             | -1.65%   |  |
| - 1.00%   | NA  | NA       | NA                  | NA       |  |
| 100 bp flattening of curve                      |   |          |                     |          |  |
| Short end                                       | (1,974)                                     | -0.66%   | (6,500)             | -2.49%   |  |
| Long end  | (2,330)                                     | -0.78%   | (4,637)             | -1.78%   |  |
| 100 bp steepening of curve                      |   |          |                     |          |  |
| Short end                                       | (3,797)                                     | -1.28%   | (2,026)             | -0.78%   |  |
| Long end  | 1,599                                       | 0.54%    | 2,655               | 1.02%    |  |

| Immediate<br>Change in the<br>Level of Interest | Impact on Future Net Interest Income<br>Two Year Cumulative Horizon |          |                     |          |  |
|---|---|----------|---------------------|----------|--|
|   | 9/30/2014   |          | 9/30/2013           |          |  |
|   | \$ Change<br>(000s)   | % Change | \$ Change<br>(000s) | % Change |  |
| Rates   |   |          |                     |          |  |
| + 3.00%   | 33,831  | 5.75%    | (31,367)            | -6.06%   |  |
| + 2.00%   | 25,053  | 4.26%    | (13,186)            | -2.55%   |  |
| + 1.00%   | 13,650  | 2.32%    | 2,107               | 0.41%    |  |
| - 1.00%   | NA  | NA       | NA                  | NA       |  |
| 100 bp flattening of curve                      |   |          |                     |          |  |
| Short end                                       | 5,424   | 0.92%    | (5,190)             | -1.00%   |  |
| Long end  | (7,335)   | -1.25%   | (14,109)            | -2.73%   |  |
| 100 bp steepening of curve                      |   |          |                     |          |  |
| Short end                                       | (11,648)  | -1.98%   | (7,677)             | -1.48%   |  |
| Long end  | 5,732   | 0.97%    | 8,097               | 1.57%    |  |

In addition to our net interest income sensitivity analysis, we also use an Economic Value of Equity (EVE) analysis to evaluate the impact of long term cash flows on earnings and capital. EVE modeling involves discounting present values of all cash flows under different interest rate scenarios. The discounted present value of all cash flows represents our economic value of equity.



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The table below reflects the estimated impact on EVE assuming various interest rate scenarios.

| Immediate Change in<br>the Level of Interest<br><br>Rates | Impact on Economic Value of Equity     |          |  |          |
|---|--|----------|--|----------|
|   | 9/30/2014                              |          | 9/30/2013                              |          |
|   | Economic<br>\$<br>Change<br>(millions) | % Change | Economic<br>\$<br>Change<br>(millions) | % Change |
| +3.00%  | (55)                                   | -4.15%   | (182)                                  | -14.87%  |
| +2.00%  | (26)                                   | -1.92%   | (127)                                  | -10.35%  |
| +1.00%  | (1)                                    | -0.09%   | (23)                                   | -1.86%   |
| Yield Curve   |  |          |  |          |
| -1.00%  | NA                                     | NA       | NA                                     | NA       |

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

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. We also provide derivatives to our commercial customers in connection with managing interest rate risk. Our derivatives had an estimated fair value loss of \$0.7 million at September 30, 2014, compared to an estimated fair value gain of \$2.4 million at December 31, 2013. See Note 18 to the consolidated financial statements for further discussion of derivative financial instruments.

**Liquidity Risk**

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

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

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

## Time Deposit Maturity Schedule, September 30, 2014

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| Maturity Bucket | Amount<br>(000s) | Rate  |
|-----------------|------------------|-------|
| 2014            | \$ 200,819       | 0.45% |
| 2015            | 456,840          | 0.83% |
| 2016            | 213,993          | 2.33% |
| 2017            | 68,155           | 0.76% |
| 2018            | 48,157           | 1.15% |
| 2019 and beyond | 53,619           | 1.54% |

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

Moody's Investor Service assigned a Long Term Rating of A3 to Old National Bancorp's senior debt issuance on August 12, 2014.

Moody's Investor Service affirmed Old National Bank's Long Term Rating at A2 with a stable outlook and stable Short Term ratings of P-1 on July 31, 2014.

Dominion Bond Rating Services (DBRS) confirmed our ratings (A, R-1) and stable outlook on November 11, 2013. Subsequent to the confirmation, DBRS withdrew the ratings at its own discretion. The senior debt ratings of Old National and Old National Bank at September 30, 2014, are shown in the following table.

**SENIOR DEBT RATINGS**

|                      | <b>Moody's Investor Service<br/>Long<br/>term</b> | <b>Short<br/>term</b> |
|----------------------|---|-----------------------|
| Old National Bancorp | A3  | N/A                   |
| Old National Bank    | A2  | P-1                   |
| N/A = not applicable |   |                       |

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

| (dollars in thousands)                                     | Parent<br>Company | Subsidiaries        |
|--|-------------------|---------------------|
| <b>Available liquid funds:</b>                             |                   |                     |
| Cash and due from banks                                    | \$ 186,181        | \$ 45,271           |
| Unencumbered government-issued debt securities             |                   | 1,194,232           |
| Unencumbered investment grade municipal securities         |                   | 230,146             |
| Unencumbered corporate securities                          |                   | 95,642              |
| Unencumbered other securities                              |                   |                     |
| <b>Availability of borrowings:</b>                         |                   |                     |
| Amount available from Federal Reserve discount window*     |                   | 450,498             |
| Amount available from Federal Home Loan Bank Indianapolis* |                   | 666,164             |
| Amount available under other credit facilities             |                   |                     |
| <b>Total available funds</b>                               | <b>\$ 186,181</b> | <b>\$ 2,681,953</b> |

\* Based on collateral pledged

The Parent Company (Old National Bancorp) has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company can obtain funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt and equity markets. At September 30, 2014, the Parent Company's other borrowings outstanding were \$220.0 million which represents an increase of \$175 million from June 30, 2014. This increase was due to the Parent Company's issuance of \$175 million in senior debt during the quarter.

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

**Table of Contents****OFF-BALANCE SHEET ARRANGEMENTS**

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of \$1.505 billion and standby letters of credit of \$67.7 million at September 30, 2014. At September 30, 2014, approximately \$1.435 billion of the loan commitments had fixed rates and \$69.6 million had floating rates, with the floating rates ranging from 0% to 21%. At December 31, 2013, loan commitments were \$1.271 billion and standby letters of credit were \$62.0 million. The term of these off-balance sheet arrangements is typically one year or less.

Old National entered into a risk participation in an interest rate swap during the second quarter of 2007, which had a notional amount of \$8.0 million at September 30, 2014. Old National entered into an additional risk participation in an interest rate swap during the third quarter of 2014, which had a notional amount of \$13.9 million at September 30, 2014.

**CONTRACTUAL OBLIGATIONS**

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

**CONTRACTUAL OBLIGATIONS**

| (dollars in thousands)                              | Payments Due In         |                       |                        |                    | Total        |
|---|-------------------------|-----------------------|------------------------|--------------------|--------------|
|   | One Year<br>or Less (1) | One to<br>Three Years | Three to<br>Five Years | Over<br>Five Years |              |
| Deposits without stated maturity                    | \$ 7,165,719            | \$                    | \$                     | \$                 | \$ 7,165,719 |
| IRAs, consumer and brokered certificates of deposit | 213,045                 | 658,619               | 116,299                | 53,620             | 1,041,583    |
| Short-term borrowings                               | 495,262                 |                       |                        |                    | 495,262      |
| Other borrowings                                    | 200,713                 | 117,439               | 191,552                | 362,012            | 871,716      |
| Fixed interest payments (2)                         | 4,728                   | 20,657                | 9,249                  | 24,713             | 59,347       |
| Operating leases                                    | 8,264                   | 64,972                | 62,831                 | 235,039            | 371,106      |
| Other long-term liabilities (3)                     | 347                     |                       |                        |                    | 347          |

(1) For the remaining three months of fiscal 2014.

(2) Our senior notes, subordinated notes, certain trust preferred securities and certain Federal Home Loan Bank advances have fixed rates ranging from 0.15% to 8.34%. All of our other long-term debt is at Libor based variable rates at September 30, 2014. The projected variable interest assumes no increase in Libor rates from September 30, 2014.

(3) Amount expected to be contributed to the pension plans in 2014. Amounts for 2015 and beyond are unknown at this time.

We rent certain premises and equipment under operating leases. See Note 19 to the consolidated financial statements for additional information on long-term lease arrangements.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and



do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 18 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 19 to the consolidated financial statements.

In addition, liabilities recorded under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* — an interpretation of FASB Statement No. 109) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FASB ASC 740-10 is included in Note 17 to the consolidated financial statements.

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**Table of Contents****CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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

**Goodwill and Intangibles**

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

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

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

**Acquired Impaired Loans**

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

and losses, and current market rates. In recording the acquisition date fair values of acquired impaired loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans).

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

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

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

## FDIC Indemnification Asset

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

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

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

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

resulting in impairment of our indemnification asset.

**Allowance for Loan Losses**

**Description.** The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses in the consolidated loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, assessments of the impact of current and anticipated economic conditions on the portfolio and historical loss experience. The allowance represents management's best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

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

**Judgments and Uncertainties.** We use migration analysis as a tool to determine the adequacy of the allowance for loan losses for performing commercial loans. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination. Judgment is used to select and weight the historical periods which are most representative of the current environment.

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

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

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

Management's analysis of probable losses in the portfolio at September 30, 2014, resulted in a range for allowance for loan losses of \$13.9 million. The range pertains to general (FASB ASC 310, Receivables/SFAS 5) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, Receivables/SFAS 114) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy, our projection of FAS 5 loss rates inherent in the portfolio, and our selection of representative historical periods, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of \$1.5 million and an increase of \$7.5 million, respectively, after taking into account the tax effects. These sensitivities are

hypothetical and are not intended to represent actual results.

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**Table of Contents****Derivative Financial Instruments**

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

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

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

**Income Taxes**

**Description.** We are subject to the income tax laws of the U.S., its states and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. FASB ASC 740-10 (FIN 48) prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 17 to the Consolidated Financial Statements for a further description of our provision and related income tax assets and liabilities.

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



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

**Valuation of Securities**

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

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

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

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

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

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

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

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

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

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

**Effect if Actual Results Differ From Assumptions.** Actual credit deterioration could be more or less severe than estimated. Upon subsequent review, if cash flows have significantly improved, the discount would be

amortized into earnings over the remaining life of the debt security in a prospective manner based on the amount and timing of future cash flows. Additional credit deterioration resulting in an adverse change in cash flows would result in additional other-than-temporary impairment loss recorded in the income statement.

#### **FORWARD-LOOKING STATEMENTS**

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

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

economic, market, operational, liquidity, credit and interest rate risks associated with our business;

economic conditions generally and in the financial services industry;

expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;

unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;

failure to properly understand risk characteristics of newly entered markets;

increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration;

our ability to achieve loan and deposit growth;

volatility and direction of market interest rates;

governmental legislation and regulation, including changes in accounting regulation or standards;

our ability to execute our business plan;

a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;

changes in the securities markets; and

changes in fiscal, monetary and tax policies.

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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**ITEM 4. CONTROLS AND PROCEDURES**

**Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures**

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

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

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

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

**Table of Contents****PART II****OTHER INFORMATION****ITEM 1A. RISK FACTORS**

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

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****(c) ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b>            | <b>Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid Per<br/>Share</b> | <b>Total Number<br/>of Shares<br/>Purchased as<br/>Part of Publically<br/>Announced<br/>Plans<br/>or Programs</b> | <b>Maximum Number of<br/>Shares that<br/>May Yet<br/>Be Purchased<br/>Under<br/>the Plans or Programs</b> |
|--------------------------|---|---|---|---|
| 07/01/14 07/31/14        |   | \$  |   | 1,882,769   |
| 08/01/14 08/31/14        | 30,000  | 13.36   | 30,000  | 1,852,769   |
| 09/01/14 09/30/14        | 971,423   | 13.28   | 971,423   | 881,346   |
| Quarter-to-date 09/30/14 | 1,001,423   | \$ 13.29  | 1,001,423   | 881,346   |

On January 23, 2014, the Board of Directors approved the repurchase of up to 2.0 million shares of stock over a twelve month period beginning January 23, 2014 and ending January 31, 2015. During the third quarter of 2014, Old National repurchased 1.0 million shares on the open market. During the first nine months of 2014, Old National also repurchased a limited number of shares associated with employee share-based incentive programs.

On October 23, 2014, the Board of Directors approved the repurchase of up to 6.0 million shares of stock over a period from October 23, 2014 to January 31, 2016. This new repurchase plan supersedes the 2014 stock repurchase plan.

**ITEM 5. OTHER INFORMATION**

(a) None

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

**ITEM 6. EXHIBITS**

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 2.1                | Purchase and Assumption Agreement Whole Bank All Deposits, among Federal Deposit Insurance Corporation, receiver of Integra Bank National Association, Evansville, Indiana, the Federal Deposit Insurance Corporation and Old National Bank, dated July 29, 2011 (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2011). |
| 2.2                | Purchase and Assumption Agreement dated as of January 8, 2013 by and between Old National Bancorp and Bank of America, National Association (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2013).                         |



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- 2.3 Agreement and Plan of Merger dated as of September 9, 2013 by and between Old National Bancorp and Tower Financial Corporation (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 10, 2013).
- 2.4 Agreement and Plan of Merger dated as of January 7, 2014 by and between Old National Bancorp and United Bancorp, Inc. (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 8, 2014).
- 2.5 Agreement and Plan of Merger dated as of June 3, 2014 by and between Old National Bancorp and LSB Financial Corp. (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 4, 2014).
- 2.6 Agreement and Plan of Merger dated as of July 25, 2014 by and between Old National Bancorp and Founders Financial Corporation (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2014).
- 3.1 Third Amended and Restated Articles of Incorporation of Old National, amended October 25, 2013 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on October 28, 2013).
- 3.2 Amended and Restated By-Laws of Old National Bancorp, amended June 2, 2014 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 2, 2014).
- 3.3 Amended and Restated By-Laws of Old National Bancorp, amended July 24, 2014 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 25, 2014).
- 4.1 Senior Indenture between Old National and The Bank of New York Trust Company (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One, NA)), as trustee, dated as of July 23, 1997 (incorporated by reference to Exhibit 4.3 to Old National's Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004).
- 4.2 Form of Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.1 to Old National's Registration Statement on Form S-3, Registration No. 333-87573, filed with the Securities and Exchange Commission on September 22, 1999).
- 4.3 First Indenture Supplement dated as of May 20, 2005, between Old National and J.P. Morgan Trust Company, as trustee, providing for the issuance of its 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).
- 4.4 Form of 5.00% Senior Notes due 2010 (incorporated by reference to Exhibit 4.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 20, 2005).
- 10.1 Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National's Current



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



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

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- 10.28 Form of Employment Agreement for Barbara A Murphy, Christopher A. Wolking, Allen R. Mounts and Daryl D. Moore (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).\*
- 10.29 Employment Agreement for James A. Sandgren (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2014).\*
- 10.30 Form of 2011 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(av) of Old National's Annual Report on Form 10-K for the year ended December 31, 2010).\*
- 10.31 Form of 2011 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(aw) of Old National's Annual Report on Form 10-K for the year ended December 31, 2010).\*
- 10.32 Form of 2011 Service Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(ax) of Old National's Annual Report on Form 10-K for the year ended December 31, 2010).\*
- 10.33 Form of Amended Severance/Change of Control Agreement for Jeffrey L. Knight (incorporated by reference to Exhibit 10(bb) of Old National's Annual Report on Form 10-K for the year ended December 31, 2011).\*
- 10.34 Form of 2012 Performance Share Award Agreement Internal Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(bc) of Old National's Annual Report on Form 10-K for the year ended December 31, 2011).\*
- 10.35 Form of 2012 Performance Share Award Agreement Relative Performance Measures between Old National and certain key associates (incorporated by reference to Exhibit 10(bd) of Old National's Annual Report on Form 10-K for the year ended December 31, 2011).\*
- 10.36 Form of 2012 Service Based Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(be) of Old National's Annual Report on Form 10-K for the year ended December 31, 2011).\*
- 10.37 Old National Bancorp Amended and Restated 2008 Incentive Compensation Plan (incorporated by reference to Appendix I of Old National's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2012).\*
- 10.38 Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National's Registration Statement on Form S-3, Registration No. 333-183344 filed with the Securities and Exchange Commission on August 16, 2012).
- 10.39 Form of 2013 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(bg) of Old National's Annual Report on Form 10-K for the year ended December 31, 2012).\*
- 10.40 Form of 2013 Performance Share Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(bh) of Old National's Annual Report on Form 10-K for the year ended December 31, 2012).\*
- 10.41 Voting Agreement by and among directors of Tower Financial Corporation (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 10, 2013).



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

\* Management contract or compensatory plan or arrangement

\*\* Furnished, not filed



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**SIGNATURES**

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

OLD NATIONAL BANCORP

(Registrant)

By: /s/ Christopher A. Wolking  
Christopher A. Wolking

Senior Executive Vice President and Chief  
Financial Officer

Duly Authorized Officer and Principal  
Financial Officer

Date: October 31, 2014