OLD NATIONAL BANCORP /IN/
Form 10-Q
May 02, 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 March 31, 2014

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

For the transition period from __________ to __________

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

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

(812) 464-1294

(Registrant s telephone number, including area code)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 100,084,000 shares outstanding at March 31, 2014.

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OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	**March 31, 2014 (unaudited)**	**December 31, 2013**	**March 31, 2013 (unaudited)**
Assets			
Cash and due from banks	**$ 197,446**	$ 190,606	$ 133,939
Money market and other interest-earning investments	**17,078**	16,117	19,964
Total cash and cash equivalents	**214,524**	206,723	153,903
Trading securities - at fair value	**3,681**	3,566	3,217
Investment securities - available-for-sale, at fair value			
U.S. Treasury	**15,697**	13,113	11,582
U.S. Government-sponsored entities and agencies	**490,080**	435,588	404,740
Mortgage-backed securities	**1,246,408**	1,306,670	1,548,011
States and political subdivisions	**251,839**	268,795	665,339
Other securities	**365,040**	348,035	218,738
Total investment securities - available-for-sale	**2,369,064**	2,372,201	2,848,410
Investment securities - held-to-maturity, at amortized cost (fair value $812,914, $780,758 and $423,325 respectively)	**779,294**	762,734	392,379
Federal Home Loan Bank stock, at cost	**40,584**	40,584	37,927
Residential loans held for sale, at fair value	**6,169**	7,705	14,583
Loans:			
Commercial	**1,367,486**	1,373,415	1,315,136
Commercial real estate	**1,156,593**	1,160,890	1,230,310
Residential real estate	**1,356,233**	1,359,569	1,352,679
Consumer credit, net of unearned income	**997,808**	971,258	887,520
Covered loans, net of discount	**194,161**	217,832	326,397
Total loans	**5,072,281**	5,082,964	5,112,042
Allowance for loan losses	**(41,539)**	(41,741)	(47,313)
Allowance for loan losses - covered loans	**(6,014)**	(5,404)	(6,168)
Net loans	**5,024,728**	5,035,819	5,058,561
FDIC indemnification asset	**65,699**	88,513	109,861
Premises and equipment, net	**108,866**	108,306	89,847
Accrued interest receivable	**48,764**	50,205	46,575
Goodwill	**352,729**	352,729	338,820
Other intangible assets	**24,120**	25,957	26,695
Company-owned life insurance	**276,956**	275,121	272,273
Assets held for sale	**9,043**	9,056	10,353
Other real estate owned and repossessed personal property	**7,629**	7,562	9,103

Other real estate owned - covered	**12,918**	13,670	26,114
Other assets	**200,012**	221,293	235,070
Total assets	**$ 9,544,780**	$ 9,581,744	$ 9,673,691
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 2,047,664**	$ 2,026,490	$ 1,973,265
Interest-bearing:			
NOW	**1,789,167**	1,775,938	1,691,231
Savings	**2,014,574**	1,941,652	1,916,880
Money market	**445,953**	448,848	294,744
Time	**960,804**	1,017,975	1,190,199
Total deposits	**7,258,162**	7,210,903	7,066,319
Short-term borrowings	**410,128**	462,332	644,021
Other borrowings	**506,782**	556,388	536,798
Accrued expenses and other liabilities	**184,471**	189,481	226,888
Total liabilities	**8,359,543**	8,419,104	8,474,026
Shareholders Equity			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding	**0**	0	0
Common stock, $1 stated value, 150,000 shares authorized, 100,084, 99,859 and 101,367 shares issued and outstanding, respectively	**100,084**	99,859	101,367
Capital surplus	**900,665**	900,254	917,064
Retained earnings	**222,418**	206,993	160,416
Accumulated other comprehensive income (loss), net of tax	**(37,930)**	(44,466)	20,818
Total shareholders equity	**1,185,237**	1,162,640	1,199,665
Total liabilities and shareholders equity	**$ 9,544,780**	$ 9,581,744	$ 9,673,691

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2014	2013
Interest Income		
Loans including fees:		
Taxable	**$ 64,957**	$ 64,218
Nontaxable	**2,509**	2,179
Investment securities		
Taxable	**15,769**	15,142
Nontaxable	**5,024**	4,550
Money market and other interest-earning investments	**6**	13
Total interest income	**88,265**	86,102
Interest Expense		
Deposits	**3,283**	5,268
Short-term borrowings	**67**	267
Other borrowings	**1,437**	1,517
Total interest expense	**4,787**	7,052
Net interest income	**83,478**	79,050
Provision for loan losses	**37**	845
Net interest income after provision for loan losses	**83,441**	78,205
Noninterest Income		
Wealth management fees	**5,792**	5,656
Service charges on deposit accounts	**11,134**	11,098
Debit card and ATM fees	**5,736**	5,798
Mortgage banking revenue	**630**	1,273
Insurance premiums and commissions	**11,962**	10,943
Investment product fees	**3,868**	3,583
Company-owned life insurance	**1,467**	1,644
Net securities gains	**559**	1,019
Total other-than-temporary impairment losses	**(100)**	0
Loss recognized in other comprehensive income	**0**	0
Impairment losses recognized in earnings	**(100)**	0
Gain (loss) on derivatives	**179**	(12)
Recognition of deferred gain on sale leaseback transactions	**1,524**	1,584
Gain on branch divestitures - deposit premium	**0**	2,244

Change in FDIC indemnification asset	**(7,343)**	(2,302)
Other income	**5,155**	3,787
Total noninterest income	**40,563**	46,315
Noninterest Expense		
Salaries and employee benefits	**51,380**	50,960
Occupancy	**10,942**	12,084
Equipment	**3,014**	2,898
Marketing	**2,185**	1,205
Data processing	**5,584**	5,232
Communication	**2,611**	2,566
Professional fees	**3,682**	3,669
Loan expense	**1,317**	1,616
Supplies	**653**	569
FDIC assessment	**1,441**	1,652
Other real estate owned expense	**758**	1,014
Amortization of intangibles	**1,837**	2,525
Other expense	**2,848**	4,193
Total noninterest expense	**88,252**	90,183
Income before income taxes	**35,752**	34,337
Income tax expense	**9,242**	10,392
Net income	**$ 26,510**	$ 23,945
Net income per common share - basic	**$ 0.27**	$ 0.24
Net income per common share - diluted	**0.26**	0.24
Weighted average number of common shares outstanding-basic	**99,797**	101,081
Weighted average number of common shares outstanding-diluted	**100,325**	101,547
Dividends per common share	**$ 0.11**	$ 0.10

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 Ended March 31, 2014	2013
Net income	**$ 26,510**	$ 23,945
Other comprehensive income (loss)		
Change in securities available-for-sale:		
Unrealized holding gains (losses) for the period	**12,055**	(13,783)
Reclassification adjustment for securities gains realized in income	**(559)**	(1,019)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income	**100**	0
Income tax effect	**(4,463)**	5,409
Unrealized gains on available-for-sale securities	**7,133**	(9,393)
Change in securities held-to-maturity:		
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**397**	(177)
Income tax effect	**(127)**	71
Changes from securities held-to-maturity	**270**	(106)
Cash flow hedges:		
Net unrealized derivative gains (losses) on cash flow hedges	**(1,937)**	0
Income tax effect	**737**	0
Changes from cash flow hedges	**(1,200)**	0
Defined benefit pension plans:		
Amortization of net loss recognized in income	**352**	860
Income tax effect	**(19)**	(344)
Changes from defined benefit pension plans	**333**	516
Other comprehensive income (loss), net of tax	**6,536**	(8,983)
Comprehensive income (loss)	**$ 33,046**	$ 14,962

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars and shares in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, December 31, 2012	$ 101,179	$ 916,918	$ 146,667	$ 29,801	$ 1,194,565
Net income	0	0	23,945	0	23,945
Other comprehensive income (loss)	0	0	0	(8,983)	(8,983)
Dividends - common stock	0	0	(10,124)	0	(10,124)
Common stock issued	6	61	0	0	67
Common stock repurchased	(87)	(1,088)	0	0	(1,175)
Stock based compensation expense	0	1,023	0	0	1,023
Stock activity under incentive comp plans	269	150	(72)	0	347
Balance, March 31, 2013	$ 101,367	$ 917,064	$ 160,416	$ 20,818	$ 1,199,665
Balance, December 31, 2013	**$ 99,859**	**$ 900,254**	**$ 206,993**	**$ (44,466)**	**$ 1,162,640**
Net income	**0**	**0**	**26,510**	**0**	**26,510**
Other comprehensive income (loss)	**0**	**0**	**0**	**6,536**	**6,536**
Dividends - common stock	**0**	**0**	**(10,997)**	**0**	**(10,997)**
Common stock issued	**5**	**73**	**0**	**0**	**78**
Common stock repurchased	**(116)**	**(1,460)**	**0**	**0**	**(1,576)**
Stock based compensation expense	**0**	**1,028**	**0**	**0**	**1,028**
Stock activity under incentive comp plans	**336**	**770**	**(88)**	**0**	**1,018**
Balance, March 31, 2014	**$ 100,084**	**$ 900,665**	**$ 222,418**	**$ (37,930)**	**$ 1,185,237**

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended March 3 1,	
(dollars in thousands)	**2014**	**2013**
Cash Flows From Operating Activities		
Net income	**$ 26,510**	$ 23,945
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**2,943**	2,501
Amortization and impairment of other intangible assets	**1,837**	2,525
Net premium amortization on investment securities	**2,998**	4,387
Amortization of FDIC indemnification asset	**7,343**	2,302
Stock compensation expense	**1,028**	1,023
Provision expense for loan losses	**37**	845
Net securities gains	**(559)**	(1,019)
Impairment on available-for-sale securities	**100**	0
Gain on branch divestitures	**0**	(2,244)
Recognition of deferred gain on sale leaseback transactions	**(1,524)**	(1,584)
(Gain) loss on derivatives	**(179)**	12
Net gains on sales of other assets	**(466)**	(1,147)
Loss on retirement of debt	**0**	706
Increase in cash surrender value of company owned life insurance	**(1,835)**	(1,644)
Residential real estate loans originated for sale	**(17,747)**	(33,836)
Proceeds from sale of residential real estate loans	**19,743**	32,701
Decrease in interest receivable	**1,441**	403
Decrease in other real estate owned	**685**	2,099
Decrease in other assets	**16,318**	4,658
Decrease in accrued expenses and other liabilities	**(3,134)**	(13,402)
Total adjustments	**29,029**	(714)
Net cash flows provided by operating activities	**55,539**	23,231
Cash Flows From Investing Activities		
Purchases of investment securities available-for-sale	**(93,992)**	(598,663)
Purchases of investment securities held-to-maturity	**(25,185)**	0
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**91,335**	221,741
Proceeds from sales of investment securities available-for-sale	**16,523**	11,970
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**7,350**	9,420
Proceeds on branch divestitures	**0**	(144,236)
Proceeds from sale of loans	**0**	3,187

Reimbursements under FDIC loss share agreements	**15,989**	3,923
Net principal collected from loan customers	**11,054**	79,238
Proceeds from sale of premises and equipment and other assets	**6**	2,904
Purchases of premises and equipment and other assets	**(3,515)**	(2,851)
Net cash flows provided by (used in) investing activities	**19,565**	(413,367)
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Deposits	**47,259**	(62,499)
Short-term borrowings	**(52,204)**	54,206
Payments for maturities on other borrowings	**(175,120)**	(112)
Payments related to retirement of debt	**0**	(25,706)
Proceeds from issuance of other borrowings	**125,000**	325,000
Cash dividends paid on common stock	**(10,997)**	(10,124)
Common stock repurchased	**(1,576)**	(1,175)
Proceeds from exercise of stock options, including tax benefit	**257**	322
Common stock issued	**78**	67
Net cash flows provided by (used in) financing activities	**(67,303)**	279,979
Net increase (decrease) in cash and cash equivalents	**7,801**	(110,157)
Cash and cash equivalents at beginning of period	**206,723**	264,060
Cash and cash equivalents at end of period	**$ 214,524**	$ 153,903
Supplemental cash flow information:		
Total interest paid	**$ 4,935**	$ 7,308
Total taxes paid (net of refunds)	**$ 3,001**	$ 4,079

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

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OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, valuation of purchased loans, FDIC indemnification asset, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of March 31, 2014 and 2013, and December 31, 2013, and the results of its operations for the three months ended March 31, 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 Fianacial 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.

NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

Bank of America

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

Under the acquisition method of accounting, the total estimated purchase price is allocated to the net tangible and intangible assets based on their current estimated fair values on the date of the 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 Bank of America branch acquisition is allocated as follows (in thousands):

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

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

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Pending Acquisitions

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. Tower is an Indiana bank holding company with Tower Bank & Trust Company as its wholly-owned subsidiary. Headquartered in Fort Wayne, Indiana, Tower has seven banking centers with approximately $671 million in assets and an additional $750 million in trust assets under management at March 31, 2014. The merger strengthens Old National s position as the third largest deposit holder in Indiana. Pursuant to the merger agreement, Tower s shareholders will receive 1.20 shares of Old National common stock and $6.75 in cash for each share of Tower common stock. The transaction received regulatory approval from the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency and closed on April 25, 2014, subsequent to quarter-end. At April 25, 2014, the transaction had an estimated value of $110.3 million.

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. United is a Michigan bank holding company with United Bank & Trust as its wholly-owned subsidiary. Headquartered in Ann Arbor, Michigan, United has eighteen banking centers with approximately $922 million in assets and an additional $685 million in trust assets under management at March 31, 2014. Pursuant to the merger agreement, shareholders of United will receive 0.70 shares of Old National common stock and $2.66 in cash for each share of United common stock. As of January 6, 2014, the transaction was valued at approximately $173.1 million. The transaction is subject to approval by regulatory authorities and United s shareholders, as well as the satisfaction of customary closing conditions.

Divestitures

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

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

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

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NOTE 4 NET INCOME PER SHARE

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

(dollars and shares in thousands, except per share data)		Three Months Ended March 31, 2014		Three Months Ended March 31, 2013
Basic Earnings Per Share				
Net income	**$**	**26,510**	$	23,945
Weighted average common shares outstanding		**99,797**		101,081
Basic Earnings Per Share	**$**	**0.27**	$	0.24
Diluted Earnings Per Share				
Net income	**$**	**26,510**	$	23,945
Weighted average common shares outstanding		**99,797**		101,081
Effect of dilutive securities:				
Restricted stock		**501**		439
Stock options (1)		**27**		27
Weighted average shares outstanding		**100,325**		101,547
Diluted Earnings Per Share	**$**	**0.26**	$	0.24

(1) Options to purchase 832 shares and 1,025 shares outstanding at March 31, 2014 and 2013, respectively, were excluded in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

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 months ended March 31, 2014 and summarizes the significant amounts reclassified out of each component of AOCI:

	Changes in Accumulated Other Comprehensive Income (Loss) by Component For the Three Months Ended March 31, 2014 (a)				
	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Balance at January 1, 2014	$ (21,108)	$ (16,767)	$ (190)	$ (6,401)	$ (44,466)
	7,415	0	(1,200)	0	6,215

Other comprehensive income (loss) before reclassifications					
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(282)	270	0	333	321
Net current-period other comprehensive income (loss)	7,133	270	(1,200)	333	6,536
Balance at March 31, 2014	$ (13,975)	$ (16,497)	$ (1,390)	$ (6,068)	$ (37,930)

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

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Reclassifications out of Accumulated Other Comprehensive Income (Loss)
For the Three Months Ended March 31, 2014 (a)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$ 559	Net securities gains
	(100)	Impairment losses
	459	Total before tax
	(177)	Tax (expense) or benefit
	$ 282	Net of tax
Unrealized gains and losses on held-to-maturity securities	$ (397)	Interest income/(expense)
	127	Tax (expense) or benefit
	$ (270)	Net of tax
Amortization of defined benefit pension items Acturial gains/(losses)	$ (352)	(b)
	19	Tax (expense) or benefit
	$ (333)	Net of tax
Total reclassifications for the period	$ (321)	Net of tax

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

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) (AOCI) net of tax for the three months ended March 31, 2013 and summarizes the significant amounts reclassified out of each component of AOCI:

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Three Months Ended March 31, 2013 (a)

	Unrealized Gains and	Unrealized Gains and Losses	Gains and Losses	Defined Benefit	Total

	Losses on Available-for-Sale Securities	on Held-to-Maturity Securities	on Cash Flow Hedges	Pension Plans	
Balance at January 1, 2013	$ 39,054	$ 3,269	$ 0	$ (12,522)	$ 29,801
Other comprehensive income (loss) before reclassifications	(8,746)	0	0	0	(8,746)
Amounts reclassified from accumulated other comprehensive income (loss) (b)	(647)	(106)	0	516	(237)
Net current-period other comprehensive income (loss)	(9,393)	(106)	0	516	(8,983)
Balance at March 31, 2013	$ 29,661	$ 3,163	$ 0	$ (12,006)	$ 20,818

(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 March 31, 2013

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)		Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$	1,019	Net securities gains
		0	Impairment losses
		1,019	Total before tax
		(372)	Tax (expense) or benefit
	$	647	Net of tax
Unrealized gains and losses on held-to-maturity securities	$	177	Interest income/(expense)
		(71)	Tax (expense) or benefit
	$	106	Net of tax
Amortization of defined benefit pension items Acturial gains/(losses)	$	(860)	(b)
		344	Tax (expense) or benefit
	$	(516)	Net of tax
Total reclassifications for the period	$	237	Net of tax

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

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NOTE 6 INVESTMENT SECURITIES

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

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2014				
Available-for-sale				
U.S. Treasury	**$ 15,560**	**$ 137**	**$ 0**	**$ 15,697**
U.S. Government-sponsored entities and agencies	**504,928**	**619**	**(15,467)**	**490,080**
Mortgage-backed securities Agency	**1,237,308**	**16,156**	**(23,706)**	**1,229,758**
Mortgage-backed securities Non-agency	**16,092**	**558**	**0**	**16,650**
States and political subdivisions	**241,556**	**11,386**	**(1,103)**	**251,839**
Pooled trust preferred securities	**18,107**	**0**	**(11,328)**	**6,779**
Other securities	**357,998**	**5,143**	**(4,880)**	**358,261**
Total available-for-sale securities	**$ 2,391,549**	**$ 33,999**	**$ (56,484)**	**$ 2,369,064**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 169,781**	**$ 8,203**	**$ 0**	**$ 177,984**
Mortgage-backed securities Agency	**32,020**	**1,385**	**0**	**33,405**
States and political subdivisions	**577,493**	**24,562**	**(530)**	**601,525**
Total held-to-maturity securities	**$ 779,294**	**$ 34,150**	**$ (530)**	**$ 812,914**
December 31, 2013				
Available-for-sale				
U.S. Treasury	$ 12,995	$ 118	$ 0	$ 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	0	17,412
States and political subdivisions	260,398	10,112	(1,715)	268,795
Pooled trust preferred securities	19,215	0	(11,178)	8,037
Other securities	340,381	5,140	(5,523)	339,998
Total available-for-sale securities	$ 2,406,283	$ 31,900	$ (65,982)	$ 2,372,201
Held-to-maturity				
U.S. Government-sponsored entities and agencies	$ 170,621	$ 7,749	$ 0	$ 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)	March 31, 2014		Weighted
Maturity	**Amortized Cost**	**Fair Value**	**Average Yield**
Available-for-sale			
Within one year	$ 24,903	$ 25,081	2.58%
One to five years	270,845	277,262	2.67
Five to ten years	538,191	528,863	2.29
Beyond ten years	1,557,610	1,537,858	2.41
Total	$ 2,391,549	$ 2,369,064	2.42%
Held-to-maturity			
Within one year	$ 1,521	$ 1,552	3.13%
One to five years	12,484	13,136	4.10
Five to ten years	168,265	174,321	3.20
Beyond ten years	597,024	623,905	5.52
Total	$ 779,294	$ 812,914	4.99%

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

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2014						
Available-for-Sale						
U.S. Treasury	**$ 4,500**	**$ 0**	**$ 0**	**$ 0**	**$ 4,500**	**$ 0**
U.S. Government-sponsored entities and agencies	**347,320**	**(12,761)**	**39,738**	**(2,706)**	**387,058**	**(15,467)**
Mortgage-backed securities Agency	**427,282**	**(13,488)**	**208,802**	**(10,218)**	**636,084**	**(23,706)**
States and political subdivisions	**34,127**	**(1,031)**	**2,559**	**(72)**	**36,686**	**(1,103)**
Pooled trust preferred securities	**0**	**0**	**6,779**	**(11,328)**	**6,779**	**(11,328)**
Other securities	**162,839**	**(1,304)**	**39,986**	**(3,576)**	**202,825**	**(4,880)**
Total available-for-sale	**$ 976,068**	**$ (28,584)**	**$ 297,864**	**$ (27,900)**	**$ 1,273,932**	**$ (56,484)**
Held-to-Maturity						
States and political subdivisions	**$ 38,973**	**$ (530)**	**$ 0**	**$ 0**	**$ 38,973**	**$ (530)**
Total held-to-maturity	**$ 38,973**	**$ (530)**	**$ 0**	**$ 0**	**$ 38,973**	**$ (530)**
December 31, 2013						
Available-for-Sale						
U.S. Treasury	$ 1,900	$ 0	$ 0	$ 0	$ 1,900	$ 0
U.S. Government-sponsored entities and agencies	357,793	(17,547)	38,988	(3,452)	396,781	(20,999)
Mortgage-backed securities Agency	668,018	(23,455)	41,200	(3,112)	709,218	(26,567)
States and political subdivisions	45,077	(1,620)	2,812	(95)	47,889	(1,715)
Pooled trust preferred securities	0	0	8,037	(11,178)	8,037	(11,178)
Other securities	209,915	(2,706)	24,082	(2,817)	233,997	(5,523)
Total available-for-sale	$ 1,282,703	$ (45,328)	$ 115,119	$ (20,654)	$ 1,397,822	$ (65,982)
Held-to-Maturity						
Mortgage-backed securities Agency	$ 21,370	$ (1)	$ 0	$ 0	$ 21,370	$ (1)
States and political subdivisions	70,162	(1,579)	0	0	70,162	(1,579)
Total held-to-maturity	$ 91,532	$ (1,580)	$ 0	$ 0	$ 91,532	$ (1,580)

Proceeds from sales and calls of securities available for sale were $39.9 million and $133.4 million for the three months ended March 31, 2014 and 2013, respectively. Gains of $0.5 million and $0.7 million were realized on these sales during 2014 and 2013, respectively and offsetting losses of $0.1 million were realized on these sales during 2014. Also included in net securities gains for the first three months of 2014 is $101 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 three months of 2013 was $101 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 three months of 2013.

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $3.7 million at March 31, 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 quarter of 2014. There was no other-than-temporary-impairment recorded in the first quarter of 2013.

As of March 31, 2014, Old National s securities portfolio consisted of 1,316 securities, 239 of which were in an unrealized loss position. Our non-agency mortgage-backed and pooled trust preferred securities are discussed below.

Non-agency Mortgage-backed Securities

No other-than-temporary-impairment was recorded in the first three months of 2014 on the Company s non-agency mortgage-backed securities. These securities had $0.6 million of net unrealized gains at March 31, 2014.

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Pooled Trust Preferred Securities

At March 31, 2014, our securities portfolio contained three pooled trust preferred securities with a fair value of $6.8 million and unrealized losses of $11.3 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 $0.3 million with an unrealized loss of $3.8 million at March 31, 2014. This security was rated A3 at inception, but at March 31, 2014, this security is rated D. The issuers in these securities 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 each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the three months ended March 31, 2014, our model indicated no other-than-temporary-impairment losses on this security. At March 31, 2014, we have no intent to sell any of these securities that are in an unrealized loss position nor is it expected that we would be required to sell these securities.

Two of our pooled trust preferred securities with a fair value of $6.5 million and unrealized losses of $7.6 million at March 31, 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 three months ended March 31, 2013, the three securities subject to FASB ASC 325-10 accounted for $6.2 million of the unrealized losses in the pooled trust preferred securities category. Our analysis indicated no other-than-temporary-impairment losses on these securities. During the first quarter of 2013 one of these securities was sold. We recorded a gain of $224 thousand associated with this sale.

Two of our pooled trust preferred securities with a fair value of $6.0 million and unrealized losses of $8.3 million at March 31, 2013 were not subject to FASB ASC 325-10. These securities were evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

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

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

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Trust preferred securities

March 31, 2014

(Dollars in Thousands)

	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2014	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a Percent of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
Pooled trust preferred securities:										
Reg Div Funding 2004	B-2	D	$ 4,012	$ 251	$ (3,761)	0	23/42	39.9%	5.4%	0.0%
Prets l XXVII LTD	B	CCC	4,667	1,819	(2,848)	0	34/47	22.6%	5.5%	39.2%
Trapeza Ser 13A	A2A	B+	9,428	4,709	(4,719)	0	44/61	24.0%	4.3%	48.8%
			18,107	6,779	(11,328)	0				
Single Issuer trust preferred securities:										
First Empire Cap (M&T)		BB+	959	1,017	58	0				
First Empire Cap (M&T)		BB+	2,913	3,052	139	0				
Fleet Cap Tr V (BOA)		BB+	3,375	2,800	(575)	0				
J P Morgan Chase Cap XIII		BBB	4,737	4,100	(637)	0				
NB-Global		BB+	739	800	61	0				
Chase Cap II		BBB	782	840	58	0				
			13,505	12,609	(896)	0				
Total			$ 31,612	$ 19,388	$ (12,224)	$ 0				

(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 what investments can be held by a bank holding company. A limited partnership held by Old National falls under these restrictions and will have to be divested by July 2015, unless a request of up to two 1-year extensions is approved. The estimated sales proceeds for this security would be less than the amortized cost of the security, and an other-than-temporary-impairment charge of $100 thousand was recorded for this security in the first quarter of 2014.

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The following table details all securities with other-than-temporary-impairment, their credit rating at March 31, 2014, and the related life-to-date credit losses recognized in earnings:

				Amount of other-than-temporary impairment recognized in earnings						
				Three Months ended March 31,		Year ended December 31,				
	Vintage	Lowest Credit Rating (1)	Amortized Cost	2014	2013	2012	2011	2010	2009	Life-to date
Non-agency mortgage-backed securities:										
BAFC Ser 4	2007	CCC	$ 9,023	$ 0	$ 0	$ 299	$ 0	$ 79	$ 63	$ 441
CWALT Ser 73CB (2)	2005		0	0	0	151	0	207	83	441
CWALT Ser 73CB (2)	2005		0	0	0	35	0	427	182	644
CWHL 2006-10 (2)	2006		0	0	0	0	0	309	762	1,071
CWHL 2005-20	2005		0	0	0	0	0	39	72	111
FHASI Ser 4 (2)	2007		0	0	0	0	340	629	223	1,192
HALO Ser 1R (2)	2006		0	0	0	133	16	0	0	149
RFMSI Ser S9 (2)	2006		0	0	0	0	0	923	1,880	2,803
RFMSI Ser S10	2006	D	2,373	0	0	178	165	76	249	668
RALI QS2 (2)	2006		0	0	0	0	0	278	739	1,017
RAST A9	2004		0	0	0	142	0	0	0	142
RFMSI S1(2)	2006		0	0	0	0	0	30	176	206
			11,396	0	0	938	521	2,997	4,429	8,885
Pooled trust preferred securities:										
TROPC (2)	2003		0	0	0	0	888	444	3,517	4,849
MM Community Funding IX	2003		0	0	1,000	0	0	165	2,612	3,777
Reg Div Funding	2004	D	4,012	0	0	165	0	321	5,199	5,685
Pretsl XII (2)	2003		0	0	0	0	0	0	1,897	1,897
Pretsl XV (2)	2004		0	0	0	0	0	0	3,374	3,374
Reg Div Funding (3)	2005		0	0	0	311	0	0	3,767	4,078
			4,012	0	1,000	476	888	930	20,366	23,660
Limited partnership			685	100	0	0	0	0	0	100
Total other-than-temporary-impairment recognized in earnings				$ 100	$ 1,000	$ 1,414	$ 1,409	$ 3,927	$ 24,795	$ 32,645

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

NOTE 7 LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At March 31, 2014 and December 31, 2013, Old National had residential loans held for sale of $6.2 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 three 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 March 31, 2014, there were no loans held for sale under this arrangement.

At June 30, 2013, Old National had taxable finance leases held for sale of $11.6 million. These leases were transferred from the commercial loan category at fair value and a loss of $0.2 million was recognized. The portfolio of leases held for sale had an average maturity of 2.7 years and interest rates ranging from 3.57% to 10.22%. The leases held for sale were to a variety of borrowers, with various types of equipment securing the leases, and all of the leases were current. The leases held for sale were sold in the third quarter of 2013 with no additional loss. As of March 31, 2014, Old National does not intend to sell its nontaxable finance leases.

During the first three months of 2013, commercial and commercial real estate loans held for investment of $2.5 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 $3.2 million, resulting in a charge-off of $0.3 million and other noninterest income of $1.0 million. At March 31, 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, southeast Illinois and western Kentucky. 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)	**March 31, 2014**	December 31, 2013
Commercial (1)	**$ 1,367,486**	$ 1,373,415
Commercial real estate:		
Construction	**92,536**	88,630
Other	**1,064,057**	1,072,260
Residential real estate	**1,356,233**	1,359,569
Consumer credit:		
Heloc	**251,300**	251,102
Auto	**649,680**	620,473
Other	**96,828**	99,683
Covered loans	**194,161**	217,832
Total loans	**5,072,281**	5,082,964
Allowance for loan losses	**(41,539)**	(41,741)
Allowance for loan losses - covered loans	**(6,014)**	(5,404)
Net loans	**$ 5,024,728**	$ 5,035,819

(1) Includes direct finance leases of $24.7 million at March 31, 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 March 31, 2014, we do not expect losses to exceed $275.0 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has previously reimbursed Old National under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

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Allowance for loan losses

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

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

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

Old National s activity in the allowance for loan losses for the three months ended March 31, 2014 and 2013 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2014						
Allowance for loan losses:						
Beginning balance	$ 16,565	$ 22,401	$ 4,940	$ 3,239	0	$ 47,145
Charge-offs	(1,147)	(168)	(1,125)	21	0	(2,419)
Recoveries	792	1,095	821	82	0	2,790
Provision	3,296	(4,018)	742	17	0	37
Ending balance	$ 19,506	$ 19,310	$ 5,378	$ 3,359	0	$ 47,553

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Unallocated	Total
2013						
Allowance for loan losses:						
Beginning balance	$ 14,642	$ 31,289	$ 5,155	$ 3,677	0	$ 54,763
Charge-offs	(1,110)	(1,736)	(1,902)	(257)	0	(5,005)
Recoveries	715	889	1,234	40	0	2,878
Provision	2,720	(1,996)	198	(77)	0	845
Ending balance	$ 16,967	$ 28,446	$ 4,685	$ 3,383	0	$ 53,481

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

(dollars in thousands)	Commercial	CRE	Consumer	Residential	Unallocated	Total
March 31, 2014						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 9,727	$ 2,818	0	0	0	$ 12,545
Ending balance: collectively evaluated for impairment	$ 9,527	$ 13,108	$ 4,871	$ 3,319	0	$ 30,825
Ending balance: noncovered loans acquired with deteriorated credit quality	$ 252	$ 1,442	$ 148	$ 40	0	$ 1,882
Ending balance: covered loans acquired with deteriorated credit quality	0	$ 1,942	$ 359	0	0	$ 2,301
Total allowance for credit losses	$ 19,506	$ 19,310	$ 5,378	$ 3,359	0	$ 47,553
Loans and leases outstanding:						
Ending balance: individually evaluated for impairment	$ 36,611	$ 41,795	0	0	0	$ 78,406
Ending balance: collectively evaluated for impairment	$ 1,343,470	$ 1,100,350	$ 1,046,482	$ 1,356,226	0	$ 4,846,528
Ending balance: loans acquired with deteriorated credit quality	$ 610	$ 18,534	$ 11,243	$ 159	0	$ 30,546
Ending balance: covered loans acquired with deteriorated credit quality	$ 9,430	$ 64,714	$ 16,412	$ 26,245	0	$ 116,801
Total loans and leases outstanding	$ 1,390,121	$ 1,225,393	$ 1,074,137	$ 1,382,630	0	$ 5,072,281

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(dollars in thousands)	Commercial	CRE	Consumer	Residential	Unallocated	Total
December 31, 2013						
Allowance for loan losses:						
Ending balance: individually evaluated for impairment	$ 6,156	$ 2,190	0	0	0	$ 8,346
Ending balance: collectively evaluated for impairment	$ 9,980	$ 14,816	$ 4,494	$ 3,088	0	$ 32,378
Ending balance: non covered loans acquired with deteriorated credit quality	$ 429	$ 2,025	$ 80	$ 35	0	$ 2,569
Ending balance: covered loans acquired with deteriorated credit quality	0	$ 3,370	$ 366	$ 116	0	$ 3,852
Total allowance for credit losses	$ 16,565	$ 22,401	$ 4,940	$ 3,239	0	$ 47,145
Loans and leases outstanding:						
Ending balance: individually evaluated for impairment	$ 34,213	$ 34,997	0	0	0	$ 69,210
Ending balance: collectively evaluated for impairment	$ 1,355,608	$ 1,106,971	$ 1,019,576	$ 1,359,564	0	$ 4,841,719
Ending balance: loans acquired with deteriorated credit quality	$ 648	$ 23,618	$ 12,725	$ 154	0	$ 37,145
Ending balance: covered loans acquired with deteriorated credit quality	$ 12,281	$ 77,232	$ 17,673	$ 27,704	0	$ 134,890
Total loans and leases outstanding	$ 1,402,750	$ 1,242,818	$ 1,049,974	$ 1,387,422	0	$ 5,082,964

Credit Quality

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

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

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

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

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

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

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

(dollars in thousands)

Corporate Credit Exposure by Internally Assigned Grade	Commercial March 31, 2014	Commercial December 31, 2013	Commercial Real Estate-Construction March 31, 2014	Commercial Real Estate-Construction December 31, 2013	Commercial Real Estate-Other March 31, 2014	Commercial Real Estate-Other December 31, 2013
Grade:						
Pass	$ 1,234,435	$ 1,237,983	$ 77,690	$ 74,815	$ 948,964	$ 943,781
Criticized	72,311	90,545	10,656	9,383	29,340	35,473
Classified substandard	33,260	16,252	1,675	2,559	46,623	42,516
Classified nonaccrual	27,480	27,635	2,515	1,873	39,130	49,406
Classified doubtful	0	1,000	0	0	0	1,084
Total	$ 1,367,486	$ 1,373,415	$ 92,536	$ 88,630	$ 1,064,057	$ 1,072,260

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

March 31, 2014 (dollars in thousands)	Heloc	Consumer Auto	Other	Residential
Performing	$ 249,156	$ 648,274	$ 95,250	$ 1,345,672
Nonperforming	2,144	1,406	1,578	10,561
	$ 251,300	$ 649,680	$ 96,828	$ 1,356,233

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

Impaired Loans

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

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The following table shows Old National s impaired loans, excluding covered loans, that are individually evaluated as of March 31, 2014 and December 31, 2013. Of the loans purchased during 2012 and 2011 without FDIC loss share coverage, only those that have experienced subsequent impairment since the date acquired are included in the table below.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
March 31, 2014			
With no related allowance recorded:			
Commercial	$ 17,235	$ 17,542	$ 0
Commercial Real Estate - Construction	1,488	1,596	0
Commercial Real Estate - Other	19,334	24,295	0
Consumer	335	353	0
Residential	98	99	0
With an allowance recorded:			
Commercial	12,807	15,831	6,105
Commercial Real Estate - Construction	0	0	0
Commercial Real Estate - Other	20,973	21,744	2,818
Consumer	1,077	1,124	57
Residential	2,241	2,311	113
Total Loans	$ 75,588	$ 84,895	$ 9,093
December 31, 2013			
With no related allowance recorded:			
Commercial	$ 17,066	$ 17,417	$ 0
Commercial Real Estate - Construction	525	633	0
Commercial Real Estate - Other	15,746	22,550	0
Consumer	324	342	0
Residential	106	106	0
With an allowance recorded:			
Commercial	9,282	12,304	4,723
Commercial Real Estate - Construction	0	0	0
Commercial Real Estate - Other	18,726	19,358	2,190
Consumer	835	888	43
Residential	2,239	2,295	112
Total Loans	$ 64,849	$ 75,893	$ 7,068

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The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the three months ended March 31, 2014 and 2013 are included in the tables below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
March 31, 2014		
With no related allowance recorded:		
Commercial	$ 17,151	$ 33
Commercial Real Estate - Construction	1,007	0
Commercial Real Estate - Other	17,542	54
Consumer	394	2
Residential	116	0
With an allowance recorded:		
Commercial	11,045	54
Commercial Real Estate - Construction	0	0
Commercial Real Estate - Other	19,851	112
Consumer	975	12
Residential	2,185	17
Total Loans	$ 70,266	$ 284

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

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
March 31, 2013		
With no related allowance recorded:		
Commercial	$ 7,252	$ 0
Commercial Real Estate - Construction	1,142	0
Commercial Real Estate - Other	16,598	4
Consumer	192	1
Residential	49	0
With an allowance recorded:		
Commercial	21,289	10
Commercial Real Estate - Construction	2,875	0
Commercial Real Estate - Other	30,562	109
Consumer	648	2
Residential	1,345	5
Total Loans	$ 81,952	$ 131

(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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Covered 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 March 31, 2014 and December 31, 2013 are as follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment > 90 Days and Accruing	Nonaccrual	Total Past Due	Current
March 31, 2014						
Commercial	$ 673	$ 12	$ 0	$ 27,480	$ 28,165	$ 1,339,321
Commercial Real Estate:						
Construction	763	0	0	2,515	3,278	89,258
Other	1,377	687	79	39,130	41,273	1,022,784
Consumer:						
Heloc	517	366	0	2,144	3,027	248,273
Auto	2,688	369	53	1,406	4,516	645,164
Other	834	97	19	1,578	2,528	94,300
Residential	7,106	1,004	42	10,561	18,713	1,337,520
Covered loans	1,619	303	0	27,289	29,211	164,950
Total loans	$ 15,577	$ 2,838	$ 193	$ 112,103	$ 130,711	$ 4,941,570
December 31, 2013						
Commercial	$ 1,532	$ 13	$ 0	$ 28,635	$ 30,180	$ 1,343,235
Commercial Real Estate:						
Construction	0	139	0	1,873	2,012	86,618
Other	1,017	27	0	50,490	51,534	1,020,726
Consumer:						
Heloc	527	119	0	1,950	2,596	248,506
Auto	3,795	716	89	1,562	6,162	614,311
Other	844	317	100	1,806	3,067	96,616
Residential	8,588	2,823	35	10,333	21,779	1,337,790
Covered loans	1,831	730	14	31,793	34,368	183,464
Total loans	$ 18,134	$ 4,884	$ 238	$ 128,442	$ 151,698	$ 4,931,266

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At March 31, 2014, these loans totaled $152.3 million, of which $92.0 million had been sold to other financial institutions and $60.3 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder s share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Troubled Debt Restructurings

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

Any loans that are modified are reviewed by Old National to identify if a troubled debt restructuring (TDR) has occurred, which is when for economic or legal reasons related to a borrower s financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. During the three months ended March 31, 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 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 loans 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.

For consumer and residential TDRs, an additional amount is added to the loan loss reserve that represents the difference in the present value of the cash flows between the original terms and the new terms of the modified loan, using the original effective interest rate of the loan as a discount rate.

At March 31, 2014, our TDRs consisted of $21.6 million of commercial loans, $21.0 million of commercial real estate loans, $1.7 million of consumer loans and $2.3 million of residential loans, totaling $46.6 million. Approximately $26.2 million of the TDRs at March 31, 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 March 31, 2014 and December 31, 2013, Old National has allocated $6.2 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 March 31, 2014 and December 31, 2012, 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 three months ended March 31, 2014:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	7	$ 193	$ 188
Commercial Real Estate construction	1	525	484
Commercial Real Estate other	3	253	246
Residential	1	22	22
Consumer other	9	303	294
Total	21	$ 1,296	$ 1,234

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

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

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

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

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

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

Number of	Recorded

(dollars in thousands)	Contracts	Investment
Troubled Debt Restructuring		
That Subsequently Defaulted:		
Commercial	4	$ 1,323
Commercial Real Estate	2	122
Total	6	$ 1,445

The TDRs that subsequently defaulted, described above, had no material impact on the allowance for loan losses and resulted in no charge-offs during the three months ended March 31, 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 Contracts	Recorded Investment
Troubled Debt Restructuring		
That Subsequently Defaulted:		
Commercial	3	$ 32
Commercial Real Estate	2	85
Total	5	$ 117

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

The terms of certain other loans were modified during the three months ended March 31, 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 March 31, 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 three months ended March 31, 2014 and 2013:

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
2014					
Troubled debt restructuring:					
Balance, January 1, 2014	$ 22,443	$ 22,639	$ 1,441	$ 2,344	$ 48,867
(Charge-offs)/recoveries	123	121	(30)	1	215
Payments	(1,133)	(2,531)	(49)	(28)	(3,741)
Additions	188	730	294	22	1,234
Balance March 31, 2014	$ 21,621	$ 20,959	$ 1,656	$ 2,339	$ 46,575

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
2013					
Troubled debt restructuring:					
Balance, January 1, 2013	$ 12,660	$ 18,422	$ 473	$ 499	$ 32,054
(Charge-offs)/recoveries	(27)	(2)	(87)	0	(116)
Payments	(1,286)	(1,722)			