OLD NATIONAL BANCORP /IN/
Form 10-Q
July 31, 2015
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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

For the transition period from __________ to __________

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

INDIANA	**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 115,205,000 shares outstanding at June 30, 2015.

Table of Contents

OLD NATIONAL BANCORP

FORM 10-Q

INDEX

		Page No.
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Balance Sheets	
	June 30, 2015 (unaudited), December 31, 2014 and June 30, 2014 (unaudited)	3
	Consolidated Statements of Income (unaudited)	
	Three and six months ended June 30, 2015 and 2014	4
	Consolidated Statements of Comprehensive Income (Loss) (unaudited)	
	Three and six months ended June 30, 2015 and 2014	5
	Consolidated Statements of Changes in Shareholders Equity (unaudited)	
	Six months ended June 30, 2015 and 2014	6
	Consolidated Statements of Cash Flows (unaudited)	
	Six months ended June 30, 2015 and 2014	7
	Notes to Consolidated Financial Statements (unaudited)	8
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	67
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	95
Item 4.	Controls and Procedures	95
PART II	OTHER INFORMATION	97
SIGNATURES		102

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	**June 30, 2015 (unaudited)**	**December 31, 2014**	**June 30, 2014 (unaudited)**
Assets			
Cash and due from banks	**$ 178,985**	$ 207,871	$ 215,806
Money market and other interest-earning investments	**16,228**	32,092	20,887
Total cash and cash equivalents	**195,213**	239,963	236,693
Trading securities - at fair value	**3,995**	3,881	3,726
Investment securities - available-for-sale, at fair value:			
U.S. Treasury	**12,171**	15,166	11,186
U.S. government-sponsored entities and agencies	**695,074**	685,951	623,672
Mortgage-backed securities	**1,104,145**	1,241,662	1,220,293
States and political subdivisions	**388,039**	314,541	309,106
Other securities	**373,092**	370,511	348,860
Total investment securities - available-for-sale	**2,572,521**	2,627,831	2,513,117
Investment securities - held-to-maturity, at amortized cost (fair value $867,345, $903,935 and $899,007, respectively)	**823,255**	844,054	852,904
Federal Home Loan Bank/Federal Reserve stock, at cost	**71,669**	71,175	65,716
Loans held for sale ($20,287, $15,562, and $11,398, respectively at fair value)	**217,667**	213,490	11,398
Loans:			
Commercial	**1,775,954**	1,629,600	1,498,833
Commercial real estate	**1,767,341**	1,711,110	1,354,700
Residential real estate	**1,622,819**	1,519,156	1,425,179
Consumer credit, net of unearned income	**1,464,541**	1,310,627	1,089,008
Covered loans, net of discount	**135,407**	147,708	171,148
Total loans	**6,766,062**	6,318,201	5,538,868
Allowance for loan losses	**(48,479)**	(44,297)	(42,494)
Allowance for loan losses - covered loans	**(1,712)**	(3,552)	(3,658)
Net loans	**6,715,871**	6,270,352	5,492,716
FDIC indemnification asset	**16,475**	20,603	51,431
Premises and equipment, net	**131,336**	135,892	118,014
Accrued interest receivable	**66,605**	60,966	54,630
Goodwill	**588,464**	530,845	408,474
Other intangible assets	**40,996**	38,694	30,799
Company-owned life insurance	**337,802**	325,617	299,509
Assets held for sale	**9,886**	9,127	9,043

Other real estate owned and repossessed personal property	**9,388**	7,241	6,729
Other real estate owned - covered	**4,753**	9,121	11,155
Other assets	**269,924**	238,699	221,879
Total assets	**$ 12,075,820**	$ 11,647,551	$ 10,387,933
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 2,557,665**	$ 2,427,748	$ 2,129,705
Interest-bearing:			
NOW	**2,213,862**	2,176,879	1,912,183
Savings	**2,352,916**	2,222,557	2,100,173
Money market	**602,287**	574,462	428,013
Time	**1,082,840**	1,089,018	984,929
Total deposits	**8,809,570**	8,490,664	$ 7,555,003
Short-term borrowings	**530,377**	551,309	467,578
Other borrowings	**1,069,409**	920,102	902,015
Accrued expenses and other liabilities	**209,741**	219,712	186,006
Total liabilities	**10,619,097**	10,181,787	$ 9,110,602
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, $1.00 per share stated value, 150,000 shares authorized, 115,205, 116,847 and 105,851 shares issued and outstanding, respectively	**115,205**	116,847	105,851
Capital surplus	**1,098,384**	1,118,292	975,354
Retained earnings	**281,196**	262,180	229,467
Accumulated other comprehensive income (loss), net of tax	**(38,062)**	(31,555)	(33,341)
Total shareholders equity	**1,456,723**	1,465,764	1,277,331
Total liabilities and shareholders equity	**$ 12,075,820**	$ 11,647,551	$ 10,387,933

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)

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars and shares in thousands, except per share data)	2015	2014	2015	2014
Interest Income				
Loans including fees:				
Taxable	**$ 76,579**	$ 65,892	**$ 151,538**	$ 130,849
Nontaxable	**2,818**	2,530	**5,761**	5,039
Investment securities:				
Taxable	**14,292**	15,447	**29,018**	31,216
Nontaxable	**6,267**	5,649	**12,227**	10,673
Money market and other interest-earning investments	**8**	10	**14**	16
Total interest income	**99,964**	89,528	**198,558**	177,793
Interest Expense				
Deposits	**3,531**	3,342	**7,094**	6,625
Short-term borrowings	**112**	83	**208**	150
Other borrowings	**4,224**	1,621	**8,166**	3,058
Total interest expense	**7,867**	5,046	**15,468**	9,833
Net interest income	**92,097**	84,482	**183,090**	167,960
Provision for loan losses	**2,271**	(400)	**2,272**	(363)
Net interest income after provision for loan losses	**89,826**	84,882	**180,818**	168,323
Noninterest Income				
Wealth management fees	**9,443**	7,504	**17,963**	13,296
Service charges on deposit accounts	**11,278**	11,821	**22,323**	22,955
Debit card and ATM fees	**7,075**	6,476	**13,807**	12,212
Mortgage banking revenue	**4,262**	1,262	**7,225**	1,892
Insurance premiums and commissions	**10,172**	9,811	**22,285**	21,773
Investment product fees	**4,719**	4,117	**9,122**	7,985
Company-owned life insurance	**2,193**	1,643	**4,345**	3,110
Net securities gains	**512**	1,689	**3,195**	2,248
Total other-than-temporary impairment losses				(100)
Loss recognized in other comprehensive income				
Impairment losses recognized in earnings				(100)
Recognition of deferred gain on sale leaseback transactions	**1,468**	1,523	**2,992**	3,047
Change in FDIC indemnification asset	**(1,541)**	(10,470)	**(2,509)**	(17,813)

Other income	**5,398**	4,277	**9,526**	9,611
Total noninterest income	**54,979**	39,653	**110,274**	80,216
Noninterest Expense				
Salaries and employee benefits	**59,248**	55,050	**128,942**	106,430
Occupancy	**14,141**	12,712	**28,434**	23,654
Equipment	**3,446**	3,176	**7,350**	6,190
Marketing	**3,678**	2,434	**5,914**	4,619
Data processing	**8,077**	6,479	**14,667**	12,063
Communication	**2,435**	2,343	**5,179**	4,954
Professional fees	**3,381**	3,643	**6,513**	7,325
Loan expense	**1,816**	1,441	**3,142**	2,758
Supplies	**581**	824	**1,265**	1,477
FDIC assessment	**1,972**	1,445	**3,857**	2,886
Other real estate owned expense	**476**	1,255	**1,637**	2,013
Amortization of intangibles	**2,977**	2,003	**6,058**	3,840
Other expense	**7,462**	5,299	**12,888**	8,147
Total noninterest expense	**109,690**	98,104	**225,846**	186,356
Income before income taxes	**35,115**	26,431	**65,246**	62,183
Income tax expense	**8,959**	7,658	**18,184**	16,900
Net income	**$ 26,156**	$ 18,773	**$ 47,062**	$ 45,283
Net income per common share - basic	**$ 0.22**	$ 0.18	**$ 0.40**	$ 0.44
Net income per common share - diluted	**0.22**	0.18	**0.40**	0.44
Weighted average number of common shares outstanding - basic	**115,732**	103,904	**117,128**	101,862
Weighted average number of common shares outstanding - diluted	**116,223**	104,361	**117,634**	102,363
Dividends per common share	**$ 0.12**	$ 0.11	**$ 0.24**	$ 0.22

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

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

(dollars in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net income	**$ 26,156**	$ 18,773	**$ 47,062**	$ 45,283
Other comprehensive income (loss):				
Change in securities available-for-sale:				
Unrealized holding gains (losses) for the period	**(26,234)**	11,447	**(7,928)**	23,502
Reclassification adjustment for securities gains realized in income	**(512)**	(1,689)	**(3,195)**	(2,248)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income				100
Income tax effect	**9,716**	(3,627)	**3,920**	(8,090)
Unrealized gains on available-for-sale securities	**(17,030)**	6,131	**(7,203)**	13,264
Change in securities held-to-maturity:				
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**430**	225	**767**	622
Income tax effect	**(147)**	(58)	**(81)**	(185)
Changes from securities held-to-maturity	**283**	167	**686**	437
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges	**3,557**	(3,184)	**(2,071)**	(5,121)
Reclassification adjustment for (gains) losses realized in net income	**439**	38	**625**	38
Income tax effect	**(1,519)**	1,195	**549**	1,932
Changes from cash flow hedges	**2,477**	(1,951)	**(897)**	(3,151)
Defined benefit pension plans:				
Amortization of net loss recognized in income	**725**	591	**1,463**	943
Income tax effect	**(275)**	(349)	**(556)**	(368)
Changes from defined benefit pension plans	**450**	242	**907**	575
Other comprehensive income (loss), net of tax	**(13,820)**	4,589	**(6,507)**	11,125
Comprehensive income	**$ 12,336**	$ 23,362	**$ 40,555**	$ 56,408

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

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2013	$ 99,859	$ 900,254	$ 206,993	$ (44,466)	$ 1,162,640
Net income			45,283		45,283
Other comprehensive income (loss)				11,125	11,125
Acquisition - Tower Financial	5,626	73,101			78,727
Dividends - common stock			(22,631)		(22,631)
Common stock issued	11	146			157
Common stock repurchased	(117)	(1,480)			(1,597)
Stock based compensation expense		2,506			2,506
Stock activity under incentive compensation plans	472	827	(178)		1,121
Balance at June 30, 2014	$ 105,851	$ 975,354	$ 229,467	$ (33,341)	$ 1,277,331
Balance at December 31, 2014	**$ 116,847**	**$ 1,118,292**	**$ 262,180**	**$ (31,555)**	**$ 1,465,764**
Net income			**47,062**		**47,062**
Other comprehensive income (loss)				**(6,507)**	**(6,507)**
Acquisition - Founders Financial Corporation	**3,402**	**47,224**			**50,626**
Dividends - common stock			**(28,065)**		**(28,065)**
Common stock issued	**14**	**178**			**192**
Common stock repurchased	**(5,385)**	**(69,209)**			**(74,594)**
Stock based compensation expense		**2,236**			**2,236**
Stock activity under incentive compensation plans	**327**	**(337)**	**19**		**9**
Balance at June 30, 2015	**$ 115,205**	**$ 1,098,384**	**$ 281,196**	**$ (38,062)**	**$ 1,456,723**

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

Table of Contents

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Six Months Ended June 30, 2015	2014
Cash Flows From Operating Activities		
Net income	**$ 47,062**	$ 45,283
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**7,790**	5,897
Amortization of other intangible assets	**6,058**	3,840
Net premium amortization on investment securities	**9,481**	6,525
Amortization of FDIC indemnification asset	**2,509**	17,813
Stock compensation expense	**2,236**	2,506
Provision for loan losses	**2,272**	(363)
Net securities gains	**(3,195)**	(2,248)
Impairment on available-for-sale securities		100
Recognition of deferred gain on sale leaseback transactions	**(2,992)**	(3,047)
Net gains on sales of other assets	**(4,009)**	(1,204)
Increase in cash surrender value of company-owned life insurance	**(3,888)**	(3,107)
Residential real estate loans originated for sale	**(178,612)**	(50,557)
Proceeds from sale of residential real estate loans	**180,336**	48,540
Increase in interest receivable	**(4,379)**	(2,054)
Decrease in other real estate owned	**2,895**	3,821
(Increase) decrease in other assets	**(17,320)**	3,960
Decrease in accrued expenses and other liabilities	**(9,408)**	(4,166)
Total adjustments	**(10,226)**	26,256
Net cash flows provided by operating activities	**36,836**	71,539
Cash Flows From Investing Activities		
Net cash and cash equivalents of acquired banks	**(37,098)**	24,701
Purchases of investment securities available-for-sale	**(481,038)**	(257,481)
Purchases of investment securities held-to-maturity	**(13,406)**	(103,299)
Purchases of Federal Home Loan Bank/Federal Reserve stock	**(7,394)**	
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	**401,579**	178,156
Proceeds from sales of investment securities available-for-sale	**196,584**	76,295
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	**30,285**	10,438
Proceeds from sales of investment securities held-to-maturity	**855**	
Proceeds from sales of Federal Home Loan Bank/Federal Reserve stock	**8,710**	
Reimbursements under FDIC loss share agreements	**2,231**	20,306

Net principal collected from (loans made to) loan customers	**(108,498)**	(85,480)
Proceeds from sale of premises and equipment and other assets	**7,093**	43
Purchases of premises and equipment and other assets	**(10,713)**	(7,442)
Net cash flows used in investing activities	**(10,810)**	(143,763)
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Deposits	**(57,750)**	(184,422)
Short-term borrowings	**(33,424)**	(13,652)
Payments for maturities on other borrowings	**(227,433)**	(181,019)
Proceeds from issuance of other borrowings	**350,000**	505,000
Cash dividends paid on common stock	**(28,065)**	(22,631)
Common stock repurchased	**(74,594)**	(1,597)
Proceeds from exercise of stock options, including tax benefit	**298**	358
Common stock issued	**192**	157
Net cash flows provided by (used in) financing activities	**(70,776)**	102,194
Net increase (decrease) in cash and cash equivalents	**(44,750)**	29,970
Cash and cash equivalents at beginning of period	**239,963**	206,723
Cash and cash equivalents at end of period	**$ 195,213**	$ 236,693
Supplemental cash flow information:		
Total interest paid	**$ 15,384**	$ 10,044
Total taxes paid (net of refunds)	**$ 3,784**	$ 9,501

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

OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of June 30, 2015 and 2014, and December 31, 2014, and the results of its operations for the three and six months ended June 30, 2015 and 2014. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2014.

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

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

Table of Contents

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. In July 2015, the FASB approved the deferral of the amendments in this update for one year. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

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

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

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

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

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

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

FASB ASC 944 In May 2015, the FASB issued an update (ASU No. 2015-09, Disclosures about Short-Duration Contracts). This update applies to all insurance entities that issue short-duration contracts as defined in Topic 944, Financial Services Insurance. The amendment requires insurance entities to disclose for annual reporting periods information about the liability for unpaid claims and claim adjustment expenses, and information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a roll-forward of the liability for unpaid claims and claim adjustment expenses. The amendments in this update become effective for annual periods beginning after December 15, 2015, and interim periods within 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.

NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

Tower Financial Corporation

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

Table of Contents

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

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

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

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

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

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

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

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

11

Table of Contents

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 doubled 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 $7.5 million associated with the acquisition have been expensed and remaining integration costs will be expensed in future quarters as incurred.

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

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

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

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

Table of Contents

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

	Estimated Fair Value (in millions)	Estimated Useful Lives (Years)
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:

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

LSB Financial Corp.

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

The total purchase price for LSB was $69.6 million, consisting of $17.8 million of cash and the issuance of 3.6 million shares of Old National Common Stock valued at $51.8 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. To date, transaction and integration costs of $3.2 million associated with the acquisition have been expensed and remaining integration costs will be expensed in future quarters as incurred.

Table of Contents

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

Cash and cash equivalents	$ 7,589
Investment securities	63,684
Federal Home Loan Bank stock	3,185
Loans held for sale	1,035
Loans	235,377
Premises and equipment	6,492
Accrued interest receivable	1,044
Other real estate owned	30
Company-owned life insurance	7,438
Other assets	11,490
Deposits	(292,068)
Other borrowings	(15,203)
Accrued expenses and other liabilities	(4,582)
Net tangible assets acquired	25,511
Definite-lived intangible assets acquired	2,618
Loan servicing rights	990
Goodwill	40,476
Purchase price	$ 69,595

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively. During the first half of 2015, immaterial adjustments were made to the purchase price allocations that affected the amounts allocated to goodwill, loans and other assets.

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

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

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

(in thousands)	**Fair Value of Acquired Loans at Acquisition Date**	**Gross Contractual Amounts Receivable at Acquisition Date**	**Best Estimate at Acquisition Date of**

		at Acquisition Date	Contractual Cash Flows Not Expected to be Collected
Acquired receivables subject to ASC 310-30	$ 11,986	$ 24,493	$ 9,903
Acquired receivables not subject to ASC 310-30	$ 223,391	$ 340,832	$ 57,884

Founders Financial Corporation

On July 28, 2014, Old National announced that it had entered into an agreement to acquire Grand Rapids, Michigan-based Founders Financial Corporation (Founders) through a stock and cash merger. The acquisition was completed effective January 1, 2015 (the Closing Date). Founders was a bank holding company with Founders

14

Table of Contents

Bank & Trust as its wholly-owned subsidiary and operated four full-service banking centers in Kent County. Old National believes that it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable Old National to achieve economies of scale in these areas.

The total purchase price for Founders was $91.7 million, consisting of $41.0 million of cash and the issuance of 3.4 million shares of Old National Common Stock valued at $50.6 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. To date, transaction and integration costs of $4.8 million associated with the acquisition have been expensed and remaining integration costs will be expensed in future quarters as incurred.

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

Cash and cash equivalents	$ 3,978
Investment securities	75,383
Federal Home Loan Bank stock	1,810
Loans held for sale	3,473
Loans	339,569
Premises and equipment	3,604
Accrued interest receivable	1,260
Other real estate owned	674
Company-owned life insurance	8,297
Other assets	8,804
Deposits	(376,656)
Other borrowings	(39,380)
Accrued expenses and other liabilities	(1,307)
Net tangible assets acquired	29,509
Definite-lived intangible assets acquired	5,515
Loan servicing rights	664
Goodwill	56,014
Purchase price	$ 91,702

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation retrospectively. During the second quarter of 2015, immaterial adjustments were made to the purchase price allocations that affected the amounts allocated to goodwill, other assets, and accrued expenses and other liabilities.

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

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

	Estimated Fair Value (in millions)	**Estimated Useful Lives (Years)**
Core deposit intangible	$ 3.0	7
Trust customer relationship intangible	$ 2.5	12

Table of Contents

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

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

Mutual Underwriters Insurance

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

Divestitures

On January 30, 2015, Old National announced plans to sell its southern Illinois franchise (twelve branches), four branches in eastern Indiana and one in Ohio as part of its ongoing efficiency improvements. Old National entered into branch purchase and assumption agreements with the following banks: (i) MainSource Bank to purchase deposits and banking centers in eastern Indiana and Ohio; and (ii) First Mid-Illinois Bank and Trust to purchase the deposits and banking center facilities in southern Illinois. At June 30, 2015, $197.4 million of loans associated with these transactions were classified as held for sale. Deposits of approximately $600.3 million will also be included in the sales. It is currently expected that these transactions will be completed prior to September 30, 2015. In addition, the Company has consolidated 19 branches throughout the Old National franchise during 2015 based on an ongoing assessment of our service and delivery network and on our goal to continue to move our franchise into stronger growth markets.

Table of Contents

NOTE 4 - NET INCOME PER SHARE

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

(dollars and shares in thousands, except per share data)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Basic Earnings Per Share				
Net income	**$ 26,156**	$ 18,773	**$ 47,062**	$ 45,283
Weighted average common shares outstanding	**115,732**	103,904	**117,128**	101,862
Basic Earnings Per Share	**$ 0.22**	$ 0.18	**$ 0.40**	$ 0.44
Diluted Earnings Per Share				
Net income	**$ 26,156**	$ 18,773	**$ 47,062**	$ 45,283
Weighted average common shares outstanding	**115,732**	103,904	**117,128**	101,862
Effect of dilutive securities:				
Restricted stock	**397**	424	**409**	471
Stock options (1)	**94**	33	**97**	30
Weighted average shares outstanding	**116,223**	104,361	**117,634**	102,363
Diluted Earnings Per Share	**$ 0.22**	$ 0.18	**$ 0.40**	$ 0.44

(1) Options to purchase 917 shares and 832 shares outstanding at June 30, 2015 and 2014, respectively, were not included in the computation of net income per diluted share for the three months ended June 30, 2015 and 2014, 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 917 shares and 832 shares outstanding at June 30, 2015 and 2014, respectively, were not included in the computation of net income per diluted share for the six months ended June 30, 2015 and 2014, 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 table summarizes the changes within each classification of accumulated other comprehensive income (loss) (AOCI) net of tax:

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Three Months Ended June 30, 2015					
Balance at April 1, 2015	**$ 9,079**	**$ (15,373)**	**$ (9,309)**	**$ (8,639)**	**$ (24,242)**
Other comprehensive income (loss) before reclassifications	**(16,704)**		**2,205**		**(14,499)**
Amounts reclassified from accumulated other comprehensive income (loss) (a)	**(326)**	**283**	**272**	**450**	**679**
Net other comprehensive income (loss)	**(17,030)**	**283**	**2,477**	**450**	**(13,820)**
Balance at June 30, 2015	**$ (7,951)**	**$ (15,090)**	**$ (6,832)**	**$ (8,189)**	**$ (38,062)**
Three Months Ended June 30, 2014					
Balance at April 1, 2014	$ (13,975)	$ (16,497)	$ (1,390)	$ (6,068)	$ (37,930)
Other comprehensive income (loss) before reclassifications	7,192		(1,974)		5,218
Amounts reclassified from accumulated other comprehensive income (loss) (a)	(1,061)	167	23	242	(629)
Net other comprehensive income (loss)	6,131	167	(1,951)	242	4,589
Balance at June 30, 2014	$ (7,844)	$ (16,330)	$ (3,341)	$ (5,826)	$ (33,341)
Six Months Ended June 30, 2015					
Balance at January 1, 2015	**$ (748)**	**$ (15,776)**	**$ (5,935)**	**$ (9,096)**	**$ (31,555)**
Other comprehensive income (loss) before reclassifications	**(5,189)**		**(1,284)**		**(6,473)**
Amounts reclassified from accumulated other comprehensive income (loss) (a)	**(2,014)**	**686**	**387**	**907**	**(34)**
Net other comprehensive income (loss)	**(7,203)**	**686**	**(897)**	**907**	**(6,507)**
Balance at June 30, 2015	**$ (7,951)**	**$ (15,090)**	**$ (6,832)**	**$ (8,189)**	**$ (38,062)**
Six Months Ended June 30, 2014					

Balance at January 1, 2014	$ (21,108)	$ (16,767)	$ (190)	$ (6,401)	$ (44,466)
Other comprehensive income (loss) before reclassifications	14,607		(3,174)		11,433
Amounts reclassified from accumulated other comprehensive income (loss) (a)	(1,343)	437	23	575	(308)
Net other comprehensive income (loss)	13,264	437	(3,151)	575	11,125
Balance at June 30, 2014	$ (7,844)	$ (16,330)	$ (3,341)	$ (5,826)	$ (33,341)

(a) See tables below for details about reclassifications.

18

Table of Contents

The following table summarize the significant amounts reclassified out of each component of AOCI for the three months ended June 30, 2015 and 2014:

Details about AOCI Components	Amount Reclassified from AOCI Three Months Ended June 30,		Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)	**2015**	**2014**	
Unrealized gains and losses on available-for-sale securities	**$ 512**	$ 1,689	Net securities gains
			Impairment losses
	512	1,689	Total before tax
	(186)	(628)	Tax (expense) or benefit
	$ 326	$ 1,061	Net of tax
Unrealized gains and losses on held-to-maturity securities	**$ (430)**	$ (225)	Interest income/(expense)
	147	58	Tax (expense) or benefit
	$ (283)	$ (167)	Net of tax
Gains and losses on cash flow hedges			
Interest rate contracts	**$ (439)**	$ (38)	Interest income/(expense)
	167	15	Tax (expense) or benefit
	$ (272)	$ (23)	Net of tax
Amortization of defined benefit pension items			
Actuarial gains/(losses)	**$ (725)**	$ (591)	Salaries and employee benefits
	275	349	Tax (expense) or benefit
	$ (450)	$ (242)	Net of tax
Total reclassifications for the period	**$ (679)**	$ 629	Net of tax

Table of Contents

The following table summarize the significant amounts reclassified out of each component of AOCI for the six months ended June 30, 2015 and 2014:

Details about AOCI Components	Amount Reclassified from AOCI Six Months Ended June 30,		Affected Line Item in the Statement Where Net Income is Presented
(dollars in thousands)	**2015**	**2014**	
Unrealized gains and losses on available-for-sale securities	**$ 3,195**	$ 2,248	Net securities gains
		(100)	Impairment losses
	3,195	2,148	Total before tax
	(1,181)	(805)	Tax (expense) or benefit
	$ 2,014	$ 1,343	Net of tax
Unrealized gains and losses on held-to-maturity securities	**$ (767)**	$ (622)	Interest income/(expense)
	81	185	Tax (expense) or benefit
	$ (686)	$ (437)	Net of tax
Gains and losses on cash flow hedges			
Interest rate contracts	**$ (625)**	$ (38)	Interest income/(expense)
	238	15	Tax (expense) or benefit
	$ (387)	$ (23)	Net of tax
Amortization of defined benefit pension items			
Actuarial gains/(losses)	**$ (1,463)**	$ (943)	Salaries and employee benefits
	556	368	Tax (expense) or benefit
	$ (907)	$ (575)	Net of tax
Total reclassifications for the period	**$ 34**	$ 308	Net of tax

Table of Contents

NOTE 6 - INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at June 30, 2015 and December 31, 2014 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2015				
Available-for-Sale				
U.S. Treasury	**$ 11,973**	**$ 198**	**$**	**$ 12,171**
U.S. government-sponsored entities and agencies	**699,972**	**1,522**	**(6,420)**	**695,074**
Mortgage-backed securities - Agency	**1,101,161**	**15,466**	**(12,482)**	**1,104,145**
States and political subdivisions	**385,889**	**7,436**	**(5,286)**	**388,039**
Pooled trust preferred securities	**17,460**		**(10,364)**	**7,096**
Other securities	**368,487**	**1,826**	**(4,317)**	**365,996**
Total available-for-sale securities	**$ 2,584,942**	**$ 26,448**	**$ (38,869)**	**$ 2,572,521**
Held-to-Maturity				
U.S. government-sponsored entities and agencies	**$ 144,501**	**$ 4,889**	**$**	**$ 149,390**
Mortgage-backed securities - Agency	**19,547**	**791**		**20,338**
States and political subdivisions	**659,207**	**38,991**	**(581)**	**697,617**
Total held-to-maturity securities	**$ 823,255**	**$ 44,671**	**$ (581)**	**$ 867,345**
December 31, 2014				
Available-for-Sale				
U.S. Treasury	$ 14,978	$ 196	$ (8)	$ 15,166
U.S. government-sponsored entities and agencies	692,704	1,533	(8,286)	685,951
Mortgage-backed securities - Agency	1,233,811	18,219	(10,368)	1,241,662
States and political subdivisions	304,435	11,023	(917)	314,541
Pooled trust preferred securities	17,965		(11,358)	6,607
Other securities	365,235	2,338	(3,669)	363,904
Total available-for-sale securities	$ 2,629,128	$ 33,309	$ (34,606)	$ 2,627,831
Held-to-Maturity				
U.S. government-sponsored entities and agencies	$ 167,207	$ 6,279	$	$ 173,486
Mortgage-backed securities - Agency	23,648	926		24,574

States and political subdivisions		653,199		52,753		(77)		705,875
Total held-to-maturity securities	$	844,054	$	59,958	$	(77)	$	903,935

Table of Contents

Proceeds from sales or calls of available-for-sale investment securities, the resulting realized gains and realized losses, and other securities gains or losses were as follows for the three and six months ended June 30:

(dollars in thousands)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Proceeds from sales of available-for-sale securities	**$ 26,319**	$ 59,772	**$ 196,584**	$ 76,295
Proceeds from calls of available-for-sale securities	**161,408**	1,165	**213,002**	24,540
Total	**$ 187,727**	$ 60,937	**$ 409,586**	$ 100,835
Realized gains on sales of available-for-sale securities	**$ 316**	$ 1,691	**$ 2,797**	$ 2,349
Realized gains on calls of available-for-sale securities	**212**		**380**	
Realized losses on sales of available-for-sale securities	**(22)**	(37)	**(47)**	(37)
Realized losses on calls of available-for-sale securities	**(12)**		**(15)**	(267)
Other securities gains (1)	**18**	35	**80**	203
Net securities gains	**$ 512**	$ 1,689	**$ 3,195**	$ 2,248

(1) Other securities gains includes net realized gains or losses associated with trading securities and mutual funds. Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $4.0 million at June 30, 2015 and $3.9 million at December 31, 2014.

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

(dollars in thousands) **Maturity**	June 30, 2015 **Amortized Cost**	June 30, 2015 **Fair Value**	**Weighted Average Yield**
Available-for-Sale			
Within one year	**$ 36,432**	**$ 36,663**	**2.39%**
One to five years	**402,946**	**404,980**	**1.81**
Five to ten years	**661,269**	**660,466**	**2.21**
Beyond ten years	**1,484,295**	**1,470,412**	**2.51**

Total	**$ 2,584,942**	**$ 2,572,521**	**2.32%**
Held-to-Maturity			
Within one year	**$**	**$**	%
One to five years	**38,270**	**39,943**	**4.63**
Five to ten years	**189,143**	**195,415**	**3.46**
Beyond ten years	**595,842**	**631,987**	**5.55**
Total	**$ 823,255**	**$ 867,345**	**5.03%**

Table of Contents

The following table summarizes the investment securities with unrealized losses at June 30, 2015 and December 31, 2014 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2015						
Available-for-Sale						
U.S. government-sponsored entities and agencies	**$ 241,912**	**$ (2,000)**	**$ 202,635**	**$ (4,420)**	**$ 444,547**	**$ (6,420)**
Mortgage-backed securities - Agency	**219,062**	**(3,331)**	**271,006**	**(9,151)**	**490,068**	**(12,482)**
States and political subdivisions	**180,993**	**(4,699)**	**6,303**	**(587)**	**187,296**	**(5,286)**
Pooled trust preferred securities			**7,096**	**(10,364)**	**7,096**	**(10,364)**
Other securities	**130,780**	**(1,759)**	**92,096**	**(2,558)**	**222,876**	**(4,317)**
Total available-for-sale	**$ 772,747**	**$ (11,789)**	**$ 579,136**	**$ (27,080)**	**$ 1,351,883**	**$ (38,869)**
Held-to-Maturity						
States and political subdivisions	**$ 65,272**	**$ (581)**	**$**	**$**	**$ 65,272**	**$ (581)**
Total held-to-maturity	**$ 65,272**	**$ (581)**	**$**	**$**	**$ 65,272**	**$ (581)**
December 31, 2014						
Available-for-Sale						
U.S. Treasury	$ 9,524	$ (8)	$	$	$ 9,524	$ (8)
U.S. government-sponsored entities and agencies	180,488	(563)	257,914	(7,723)	438,402	(8,286)
Mortgage-backed securities - Agency	31,304	(122)	386,788	(10,246)	418,092	(10,368)
States and political subdivisions	41,481	(288)	9,534	(629)	51,015	(917)
Pooled trust preferred securities			6,607	(11,358)	6,607	(11,358)
Other securities	115,973	(906)	95,344	(2,763)	211,317	(3,669)
Total available-for-sale	$ 378,770	$ (1,887)	$ 756,187	$ (32,719)	$ 1,134,957	$ (34,606)
Held-to-Maturity						
States and political subdivisions	$ 6,171	$ (77)	$	$	$ 6,171	$ (77)
Total held-to-maturity	$ 6,171	$ (77)	$	$	$ 6,171	$ (77)

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.

We did not record other-than-temporary-impairments during the six months ended June 30, 2015. Other-than-temporary-impairments totaled $100 thousand during the six months ended June 30, 2014.

As of June 30, 2015, Old National s securities portfolio consisted of 1,737 securities, 356 of which were in an unrealized loss position. The unrealized losses attributable to our U.S. government-sponsored entities and agencies, our agency mortgage-backed securities, and our other securities are the result of fluctuations in interest rates. Our pooled trust preferred securities are discussed below.

Pooled Trust Preferred Securities

At June 30, 2015, our securities portfolio contained three pooled trust preferred securities with a fair value of $7.1 million and unrealized losses of $10.4 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 $3.3 million at June 30, 2015. This security was rated A3 at inception, but is rated D at June 30, 2015. The issuers in this security are banks. We use the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress this CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the six months ended June 30, 2015 and 2014, our model indicated no other-than-temporary-impairment losses on this security. At June 30, 2015, we have no intent to sell any securities that are in an unrealized loss position nor is it expected that we would be required to sell any securities.

Two of our pooled trust preferred securities with a fair value of $6.9 million and unrealized losses of $7.1 million at June 30, 2015 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. For the six months ended June 30, 2015 and 2014, our analysis indicated no other-than-temporary-impairment on these securities.

Table of Contents

The table below summarizes the relevant characteristics of our pooled trust preferred securities as well as our single issuer trust preferred securities that are included in the other securities category in this footnote. Each of the pooled trust preferred securities support a more senior tranche of security holders. All three pooled trust preferred securities have experienced credit defaults. However, two of these securities have excess subordination and are not other-than-temporarily-impaired as a result of their class hierarchy, which provides more loss protection.

Trust preferred securities June 30, 2015 (dollars in thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2015	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a % 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	$ 3,541	$ 241	$ (3,300)	$	26/41	31.8%	8.9%	0.0%
Pretsl XXVII LTD	B	B	4,468	2,465	(2,003)		34/46	22.7%	5.4%	41.7%
Trapeza Ser 13A	A2A	BB+	9,451	4,390	(5,061)		50/59	12.1%	5.2%	52.3%
			17,460	7,096	(10,364)					
Single Issuer trust preferred securities:										
Fleet Cap Tr V (BOA)		BB	3,384	2,922	(462)					
JP Morgan Chase Cap XIII		BBB-	4,751	4,206	(545)					
NB-Global		BB	760	838	78					
Chase Cap II		BBB-	800	852	52					
			9,695	8,818	(877)					
Total			$ 27,155	$ 15,914	$ (11,241)	$				

(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. Old National has a limited partnership that falls under these restrictions and has to be divested by July 2017. 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 June 30, 2015, and the related life-to-date credit losses recognized in earnings:

(dollars in thousands)	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary impairment recognized in earnings Six Months Ended June 30, 2015	2014	Life-to date
Reg Div Funding	2004	D	$ 3,541	$	$	$ 5,685
Limited partnership			730		100	100
Total			$ 4,271	$	$ 100	$ 5,785

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

NOTE 7 - LOANS HELD FOR SALE

Loans held for sale were $217.7 million at June 30, 2015, compared to $213.5 million at December 31, 2014. Included in loans held for sale at June 30, 2015 were $197.4 million of loans identified to be sold in connection with the southern Illinois and eastern Indiana banking centers, and $20.3 million of mortgage loans held for immediate sale in the secondary market. Residential loans that Old National has originated with a commitment to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). Old National had residential loans held for sale of $15.6 million at December 31,

2014. Prior to mid-2014, residential loans originated by Old National were primarily sold on a servicing released basis. Beginning with the inception of an in-house servicing unit in the third quarter of 2014, conventional mortgage production is now sold on a servicing retained basis. Certain loans, such as government guaranteed mortgage loans continue to be sold on servicing released basis.

The following table summarizes loans held for sale that were reclassified from loans held for investment at June 30, 2015 and December 31, 2014:

(dollars in thousands)	June 30, 2015	December 31, 2014
Commercial	**$ 47,251**	$ 45,500
Commercial real estate	**31,277**	30,690
Residential real estate	**65,716**	71,680
Consumer credit	**53,136**	50,058
Total	**$ 197,380**	$ 197,928

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

NOTE 8 LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The composition of loans by lending classification was as follows:

(dollars in thousands)	June 30, 2015	December 31, 2014
Commercial (1)	**$ 1,775,954**	$ 1,629,600
Commercial real estate:		
Construction	**163,914**	134,552
Other	**1,603,427**	1,576,558
Residential real estate	**1,622,819**	1,519,156
Consumer credit:		
Heloc	**369,961**	360,320
Auto	**955,859**	846,969
Other	**138,721**	103,338
Covered loans	**135,407**	147,708

Total loans	**6,766,062**	6,318,201
Allowance for loan losses	**(48,479)**	(44,297)
Allowance for loan losses - covered loans	**(1,712)**	(3,552)
Net loans	**$ 6,715,871**	$ 6,270,352

(1) Includes direct finance leases of $17.7 million at June 30, 2015 and $19.3 million at December 31, 2014.
The risk characteristics of each loan portfolio segment are as follows:

Commercial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and

the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate

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

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

Residential

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

Consumer

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

Covered loans

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements whereby Old National is indemnified against 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million. As of June 30, 2015, we do not expect losses to exceed $275.0 million. See Note 9 to the consolidated financial statements for further details on our covered loans.

Allowance for loan losses

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

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

We adopted the probability of default and loss given default model for commercial loans because we believe this approach has a tendency to react more quickly to credit cycle shifts (both positive and negative). Switching from migration analysis to the probability of default and loss given default model for our performing commercial and commercial real estate loans did not have a material effect on our allowance for loan losses at the date of adoption.

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

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

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

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

28

Table of Contents

Old National s activity in the allowance for loan losses for the three and six months ended June 30, 2015 and 2014 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Unallocated	Total
Three Months Ended June 30, 2015						
Balance at April 1, 2015	**$ 24,703**	**$ 13,807**	**$ 2,919**	**$ 7,449**	**$**	**$ 48,878**
Charge-offs	**(1,846)**	**(265)**	**(22)**	**(1,494)**		**(3,627)**
Recoveries	**763**	**760**	**59**	**1,087**		**2,669**
Provision	**(186)**	**2,023**	**(375)**	**809**		**2,271**
Balance at June 30, 2015	**$ 23,434**	**$ 16,325**	**$ 2,581**	**$ 7,851**	**$**	**$ 50,191**
Three Months Ended June 30, 2014						
Balance at April 1, 2014	$ 19,506	$ 19,310	$ 3,359	$ 5,378	$	$ 47,553
Charge-offs	(926)	(1,039)	(220)	(958)		(3,143)
Recoveries	794	480	27	841		2,142
Provision	(548)	(987)	407	728		(400)
Balance at June 30, 2014	$ 18,826	$ 17,764	$ 3,573	$ 5,989	$	$ 46,152
Six Months Ended June 30, 2015						
Balance at January 1, 2015	**$ 20,670**	**$ 17,348**	**$ 2,962**	**$ 6,869**	**$**	**$ 47,849**
Charge-offs	**(1,802)**	**445**	**(396)**	**(3,098)**		**(4,851)**
Recoveries	**1,945**	**927**	**87**	**1,962**		**4,921**
Provision	**2,621**	**(2,395)**	**(72)**	**2,118**		**2,272**
Balance at June 30, 2015	**$ 23,434**	**$ 16,325**	**$ 2,581**	**$ 7,851**	**$**	**$ 50,191**
Six Months Ended June 30, 2014						
Balance at January 1, 2014	$ 16,565	$ 22,401	$ 3,239	$ 4,940	$	$ 47,145
Charge-offs	(2,073)	(1,207)	(199)	(2,083)		(5,562)
Recoveries	1,586	1,575	109	1,662		4,932
Provision	2,748	(5,005)	424	1,470		(363)
Balance at June 30, 2014	$ 18,826	$ 17,764	$ 3,573	$ 5,989	$	$ 46,152

Table of Contents

The following table provides Old National s recorded investment in financing receivables by portfolio segment at June 30, 2015 and December 31, 2014 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Unallocated	Total
June 30, 2015						
Allowance for loan losses:						
Individually evaluated for impairment	**$ 8,793**	**$ 4,138**	**$**	**$**	**$**	**$ 12,931**
Collectively evaluated for impairment	**13,780**	**11,584**	**2,531**	**7,567**		**35,462**
Noncovered loans acquired with deteriorated credit quality	**443**	**603**	**14**	**79**		**1,139**
Covered loans acquired with deteriorated credit quality	**418**		**36**	**205**		**659**
Total allowance for loan losses	**$ 23,434**	**$ 16,325**	**$ 2,581**	**$ 7,851**	**$**	**$ 50,191**
Loans and leases outstanding:						
Individually evaluated for impairment	**$ 73,632**	**$ 49,418**	**$**	**$**	**$**	**$ 123,050**
Collectively evaluated for impairment	**1,708,389**	**1,696,526**	**1,622,841**	**1,512,980**		**6,540,736**
Loans acquired with deteriorated credit quality	**2,536**	**28,769**	**130**	**5,303**		**36,738**
Covered loans acquired with deteriorated credit quality	**4,355**	**31,538**	**19,129**	**10,516**		**65,538**
Total loans and leases outstanding	**$ 1,788,912**	**$ 1,806,251**	**$ 1,642,100**	**$ 1,528,799**	**$**	**$ 6,766,062**
December 31, 2014						
Allowance for loan losses:						
Individually evaluated for impairment	$ 7,280	$ 2,945	$	$	$	$ 10,225
Collectively evaluated for impairment	12,163	13,354	2,945	6,519		34,981
Noncovered loans acquired with deteriorated credit quality	406	1,049	17	67		1,539
Covered loans acquired with deteriorated credit quality	821			283		1,104
Total allowance for loan losses	$ 20,670	$ 17,348	$ 2,962	$ 6,869	$	$ 47,849
Loans and leases outstanding:						

Individually evaluated for impairment	$ 38,485	$ 45,335	$	$	$	$ 83,820
Collectively evaluated for impairment	1,598,352	1,631,794	1,519,171	1,359,537		6,108,854
Loans acquired with deteriorated credit quality	2,770	37,394	133	7,073		47,370
Covered loans acquired with deteriorated credit quality	7,160	37,384	21,106	12,507		78,157
Total loans and leases outstanding	$ 1,646,767	$ 1,751,907	$ 1,540,410	$ 1,379,117	$	$ 6,318,201

30

Table of Contents

Credit Quality

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

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

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

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

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

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

As of June 30, 2015 and December 31, 2014, the risk category of loans, excluding covered loans, by class of loans is as follows:

(dollars in thousands)

	Commercial		Commercial Real Estate-Construction		Commercial Real Estate-Other	
Corporate Credit Exposure Credit Risk Profile by Internally Assigned Grade	**June 30, 2015**	**December 31, 2014**	**June 30, 2015**	**December 31, 2014**	**June 30, 2015**	**December 31, 2014**
Grade:						
Pass	**$ 1,597,390**	$ 1,442,904	**$ 154,353**	$ 119,958	**$ 1,409,446**	$ 1,374,191
Criticized	**71,652**	89,775	**3,037**	2,229	**88,971**	102,805
Classified - substandard	**36,247**	58,461	**2,312**	5,866	**42,972**	38,659
Classified - nonaccrual	**69,777**	38,003	**4,212**	6,499	**61,760**	59,771
Classified - doubtful	**888**	457			**278**	1,132

Total	**$ 1,775,954**	$ 1,629,600	**$ 163,914**	$ 134,552	**$ 1,603,427**	$ 1,576,558

31

Table of Contents

Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of June 30, 2015 and December 31, 2014, excluding covered loans:

(dollars in thousands)	**Residential**	**Consumer Heloc**	**Consumer Auto**	**Consumer Other**
June 30, 2015				
Performing	**$ 1,608,761**	**$ 367,245**	**$ 954,616**	**$ 137,291**
Nonperforming	**14,058**	**2,716**	**1,243**	**1,430**
Total	**$ 1,622,819**	**$ 369,961**	**$ 955,859**	**$ 138,721**
December 31, 2014				
Performing	$ 1,505,188	$ 357,205	$ 845,708	$ 101,811
Nonperforming	13,968	3,115	1,261	1,527
Total	$ 1,519,156	$ 360,320	$ 846,969	$ 103,338

Impaired Loans

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

Table of Contents

The following table shows Old National s impaired loans, excluding covered loans, which are individually evaluated as of June 30, 2015 and December 31, 2014, respectively. Of the loans purchased without FDIC loss share coverage, only those that have experienced subsequent impairment since the date acquired are included in the table below.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
June 30, 2015			
With no related allowance recorded:			
Commercial	**$ 33,660**	**$ 34,031**	**$**
Commercial Real Estate - Construction	**1,880**	**1,883**	
Commercial Real Estate - Other	**34,005**	**36,987**	
Residential	**933**	**1,055**	
Consumer	**962**	**1,060**	
With an allowance recorded:			
Commercial	**35,247**	**35,255**	**7,979**
Commercial Real Estate - Construction			
Commercial Real Estate - Other	**13,526**	**14,960**	**4,138**
Residential	**1,463**	**1,463**	**73**
Consumer	**1,594**	**1,594**	**80**
Total Loans	**$ 123,270**	**$ 128,288**	**$ 12,270**
December 31, 2014			
With no related allowance recorded:			
Commercial	$ 25,483	$ 25,854	$
Commercial Real Estate - Construction	2,168	1,397	
Commercial Real Estate - Other	28,637	30,723	
Residential	588	658	
Consumer	685	748	
With an allowance recorded:			
Commercial	7,471	10,488	4,883
Commercial Real Estate - Construction	98	98	11
Commercial Real Estate - Other	14,432	16,503	2,934
Residential	1,476	1,476	74
Consumer	1,543	1,543	77
Total Loans	$ 82,581	$ 89,488	$ 7,979

Table of Contents

The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the three months ended June 30, 2015 and 2014 are included in the table below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
Three Months Ended June 30, 2015		
With no related allowance recorded:		
Commercial	**$ 30,769**	**$ 85**
Commercial Real Estate - Construction	**2,107**	**1**
Commercial Real Estate - Other	**38,758**	**189**
Residential	**920**	**1**
Consumer	**869**	**1**
With an allowance recorded:		
Commercial	**25,069**	**355**
Commercial Real Estate - Construction	**117**	
Commercial Real Estate - Other	**10,274**	**121**
Residential	**1,469**	**2**
Consumer	**1,518**	**29**
Total Loans	**$ 111,870**	**$ 784**
Three Months Ended June 30, 2014		
With no related allowance recorded:		
Commercial	$ 17,040	$ 1
Commercial Real Estate - Construction	1,449	15
Commercial Real Estate - Other	19,537	106
Residential	98	
Consumer	348	2
With an allowance recorded:		
Commercial	11,764	54
Commercial Real Estate - Construction		
Commercial Real Estate - Other	18,614	52
Residential	2,308	24
Consumer	1,248	14
Total Loans	$ 72,406	$ 268

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

Table of Contents

The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the six months ended June 30, 2015 and 2014 are included in the table below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
Six Months Ended June 30, 2015		
With no related allowance recorded:		
Commercial	**$ 31,505**	**$ 127**
Commercial Real Estate - Construction	**2,025**	**4**
Commercial Real Estate - Other	**32,402**	**274**
Residential	**761**	**1**
Consumer	**824**	**2**
With an allowance recorded:		
Commercial	**21,359**	**403**
Commercial Real Estate - Construction	**49**	
Commercial Real Estate - Other	**13,980**	**122**
Residential	**1,469**	**64**
Consumer	**1,568**	**49**
Total Loans	**$ 105,942**	**$ 1,046**
Six Months Ended June 30, 2014		
With no related allowance recorded:		
Commercial	$ 18,975	$ 34
Commercial Real Estate - Construction	1,024	15
Commercial Real Estate - Other	19,402	160
Residential	102	
Consumer	343	4
With an allowance recorded:		
Commercial	10,002	108
Commercial Real Estate - Construction		
Commercial Real Estate - Other	17,490	164
Residential	2,307	41
Consumer	1,127	26
Total Loans	$ 70,772	$ 552

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

For all loan classes, a loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. Interest accrued during the current year on such loans is reversed against earnings. Interest accrued in the prior year, if any, is charged to the allowance for loan losses. Cash interest received

on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for six months and future payments are reasonably assured.

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

Old National s past due financing receivables as of June 30, 2015 and December 31, 2014 are as follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment > 90 Days and Accruing	Nonaccrual	Total Past Due	Current
June 30, 2015						
Commercial	**$ 704**	**$ 1,107**	**$ 325**	**$ 70,665**	**$ 72,801**	**$ 1,703,153**
Commercial Real Estate:						
Construction				**4,212**	**4,212**	**159,702**
Other	**1,005**	**301**		**62,038**	**63,344**	**1,540,083**
Residential	**10,055**	**1,878**	**88**	**14,058**	**26,079**	**1,596,740**
Consumer:						
Heloc	**566**	**196**		**2,716**	**3,478**	**366,483**
Auto	**2,995**	**592**	**27**	**1,243**	**4,857**	**951,002**
Other	**500**	**174**	**158**	**1,430**	**2,262**	**136,459**
Covered loans	**657**	**407**		**11,440**	**12,504**	**122,903**
Total loans	**$ 16,482**	**$ 4,655**	**$ 598**	**$ 167,802**	**$ 189,537**	**$ 6,576,525**
December 31, 2014						
Commercial	$ 649	$ 813	$ 33	$ 38,460	$ 39,955	$ 1,589,645
Commercial Real Estate:						
Construction				6,499	6,499	128,053
Other	3,834	1,468	138	60,903	66,343	1,510,215
Residential	11,606	3,959	1	13,968	29,534	1,489,622
Consumer:						
Heloc	577	376		3,115	4,068	356,252
Auto	3,349	695	203	1,261	5,508	841,461
Other	969	129	83	1,527	2,708	100,630
Covered loans	1,477	584		15,124	17,185	130,523
Total loans	$ 22,461	$ 8,024	$ 458	$ 140,857	$ 171,800	$ 6,146,401

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At June 30, 2015, these loans totaled $330.5 million, of which $170.0 million had been sold to other financial institutions and $160.5 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.

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 90 days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

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

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

The following table presents activity in TDRs for the six months ended June 30, 2015 and 2014:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
Six Months Ended June 30, 2015					
Balance at January 1, 2015	**$ 15,205**	**$ 15,226**	**$ 2,063**	**$ 2,459**	**$ 34,953**
(Charge-offs)/recoveries	**574**	**648**	**(15)**	**(27)**	**1,180**
Payments	**(3,505)**	**(3,135)**	**(85)**	**(320)**	**(7,045)**
Additions	**5,573**	**3,321**	**419**	**681**	**9,994**
Balance at June 30, 2015	**$ 17,847**	**$ 16,060**	**$ 2,382**	**$ 2,793**	**$ 39,082**
Six Months Ended June 30, 2014					
Balance at January 1, 2014	$ 22,443	$ 22,639	$ 2,344	$ 1,441	$ 48,867
(Charge-offs)/recoveries	(252)	167	1	(21)	(105)
Payments	(12,408)	(4,220)	(47)	(229)	(16,904)
Additions	8,833	1,822	175	831	11,661
Balance at June 30, 2014	$ 18,616	$ 20,408	$ 2,473	$ 2,022	$ 43,519

Approximately $25.5 million of the TDRs at June 30, 2015 were included with nonaccrual loans, compared to $22.1 million at December 31, 2014. Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling $0.9 million at June 30, 2015 and $2.8 million at December 31, 2014. As of June 30, 2015, Old National had committed to lend an additional $0.9 million to customers with outstanding loans that are classified as TDRs.

Table of Contents

The pre-modification and post-modification outstanding recorded investments of loans modified as TDRs during the six months ended June 30, 2015 and 2014 are the same since the loan modifications did not involve the forgiveness of principal. Old National did not record any charge-offs at the modification date. The following table presents loans by class modified as TDRs that occurred during the six months ended June 30, 2015:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	**18**	**$ 5,573**	**$ 5,573**
Commercial Real Estate - construction	**5**	**1,162**	**1,162**
Commercial Real Estate - other	**14**	**2,159**	**2,159**
Residential	**3**	**419**	**419**
Consumer - other	**18**	**681**	**681**
Total	**58**	**$ 9,994**	**$ 9,994**

The TDRs described above resulted in immaterial changes in the allowance for loan losses and charge-offs during the six months ended June 30, 2015.

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

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

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

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

There were three commercial loans and four commercial real estate loans totaling $0.5 million that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the six months ended June 30, 2015.

There were three commercial loans and two commercial real estate loans totaling $0.2 million that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the six months ended June 30, 2014.

The terms of certain other loans were modified during the six months ended June 30, 2015 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable 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.

Table of Contents

PCI loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool. As of June 30, 2015, it has not been necessary to remove any loans from PCI accounting.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR, and therefore impaired, until it is paid in full, otherwise settled, sold or charged off. However, recent guidance also permits for loans to be removed from TDR status under these circumstances: (1) at the time of the subsequent restructuring, the borrower is not experiencing financial difficulties, and this is documented by a current credit evaluation at the time of the restructuring, (2) under the terms of the subsequent restructuring agreement, the institution has granted no concession to the borrower; and (3) the subsequent restructuring agreement includes market terms that are no less favorable than those that would be offered for a comparable new loan. For loans subsequently restructured that have cumulative principal forgiveness, the loan should continue to be measured in accordance with ASC 310-10, Receivables Overall . However, consistent with ASC 310-40-50-2, Troubled Debt Restructurings by Creditors, Creditor Disclosure of Troubled Debt Restructurings, the loan would not be required to be reported in the years following the restructuring if the subsequent restructuring meets both of these criteria: (1) has an interest rate at the time of the subsequent restructuring that is not less than a market interest rate; and (2) is performing in compliance with its modified terms after the subsequent restructuring.

Purchased Impaired Loans (noncovered loans)

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

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

(dollars in thousands)	June 30, 2015	December 31, 2014
Commercial	**$ 2,536**	$ 2,770
Commercial real estate	**28,769**	37,394
Residential	**130**	133
Consumer	**5,303**	7,073

Carrying amount	**$ 36,738**	$ 47,370
Carrying amount, net of allowance	**$ 35,599**	$ 45,831
Allowance for loan losses	**$ 1,139**	$ 1,539

The outstanding balance of noncovered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $105.3 million at June 30, 2015 and $135.9 million at December 31, 2014.

Table of Contents

The accretable difference on purchased loans acquired in a business combination is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. Accretion recorded as loan interest income totaled $8.2 million during the six months ended June 30, 2015 and $9.8 million during the six months ended June 30, 2014. Improvement in cash flow expectations has resulted in a reclassification from nonaccretable difference to accretable yield.

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

(dollars in thousands)	Monroe	Integra Noncovered	IBT	Tower	United	LSB	Founders	Total
Balance at January 1, 2015	$ 3,564	$ 1,389	$ 13,354	$ 4,559	$ 1,516	$ 2,409	$	$ 26,791
New loans purchased							1,812	1,812
Accretion of income	(1,513)	(286)	(4,410)	(645)	(476)	(640)	(236)	(8,206)
Reclassifications from (to) nonaccretable difference	(207)	117	487	(224)	858	2,506	1,023	4,560
Disposals/other adjustments	502	(85)	961	32	240			1,650
Balance at June 30, 2015	$ 2,346	$ 1,135	$ 10,392	$ 3,722	$ 2,138	$ 4,275	$ 2,599	$ 26,607

Included in Old National s allowance for loan losses is $1.1 million related to the purchased loans disclosed above at June 30, 2015, compared to $1.5 million at December 31, 2014. An immaterial amount of allowance for loan losses was reversed during 2014 related to these loans.

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

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

(1) Includes covered and noncovered.

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

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 $135.4 million at June 30, 2015, compared to $147.7 million at December 31, 2014. The composition of covered loans by lending classification was as follows:

	At June 30, 2015		
(dollars in thousands)	Loans Accounted for Under ASC 310-30 (Purchased Credit Impaired)	Loans Excluded from ASC 310-30 (1) (Not Purchased Credit Impaired)	Total Covered Purchased Loans
Commercial	$ 4,355	$ 8,603	$ 12,958
Commercial real estate	31,538	7,372	38,910
Residential	19,129	152	19,281
Consumer	10,516	53,742	64,258
Covered loans	65,538	69,869	135,407
Allowance for loan losses	(659)	(1,053)	(1,712)
Covered loans, net	$ 64,879	$ 68,816	$ 133,695

(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 $223.2 million at June 30, 2015 and $241.9 million at December 31, 2014.

Table of Contents

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

(dollars in thousands)	Contractual Cash Flows (1)	Nonaccretable Difference	Accretable Yield	Carrying Amount (2)
Six Months Ended June 30, 2015				
Balance at January 1, 2015	**$ 124,809**	**$ (12,014)**	**$ (35,742)**	**$ 77,053**
Principal reductions and interest payments	**(18,178)**	**(814)**		**(18,992)**
Accretion of loan discount			**7,259**	**7,259**
Changes in contractual and expected cash flows due to remeasurement	**(3,633)**	**4,412**	**(733)**	**46**
Removals due to foreclosure or sale	**(506)**	**162**	**(143)**	**(487)**
Balance at June 30, 2015	**$ 102,492**	**$ (8,254)**	**$ (29,359)**	**$ 64,879**
Six Months Ended June 30, 2014				
Balance at January 1, 2014	$ 251,042	$ (46,793)	$ (73,211)	$ 131,038
Principal reductions and interest payments	(56,475)	(828)	(940)	(58,243)
Accretion of loan discount			24,950	24,950
Changes in contractual and expected cash flows due to remeasurement	(6,170)	23,017	(14,494)	2,353
Removals due to foreclosure or sale	(6,138)	1,670	(965)	(5,433)
Balance at June 30, 2014	$ 182,259	$ (22,934)	$ (64,660)	$ 94,665

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

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

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 loans determined using the effective interest rates has decreased and if so, recognize a provision for loan losses. For any increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the loan s or pool s remaining life. Eighty percent of the prospective yield adjustments are offset as Old National will recognize a corresponding decrease in cash flows expected from the indemnification asset prospectively in a similar manner. The indemnification asset is adjusted over the shorter of the life of the underlying investment or the indemnification agreement.

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

(dollars in thousands)	2015	2014
Balance at January 1,	**$ 35,742**	$ 73,211
Accretion of income	**(7,259)**	(24,950)
Reclassifications from (to) nonaccretable difference	**733**	14,494
Disposals/other adjustments	**143**	1,905
Balance at June 30,	**$ 29,359**	$ 64,660

At June 30, 2015, the $16.5 million loss sharing asset is comprised of a $14.1 million FDIC indemnification asset and a $2.4 million FDIC loss share receivable. The loss share receivable represents actual incurred losses where reimbursement has not yet been received from the FDIC. The indemnification asset represents future cash flows we expect to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that are being amortized over the same period for which those improved cash flows are being accreted into income. At June 30, 2015, $6.8 million of the FDIC indemnification asset is related to expected indemnification payments and $7.3 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income. At June 30, 2014, $17.0 million of the FDIC indemnification asset was related to expected indemnification payments and $28.9 million was expected to be amortized and reported in noninterest income as an offset to future accreted interest income.

Table of Contents

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

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

The following table shows a detailed analysis of the FDIC loss sharing asset for the six months ended June 30, 2015 and 2014:

(dollars in thousands)	**2015**	**2014**
Balance at January 1,	**$ 20,603**	$ 88,513
Adjustments not reflected in income:		
Cash received from FDIC	**(2,231)**	(20,306)
Other	**612**	1,037
Adjustments reflected in income:		
(Amortization) accretion	**(3,830)**	(15,988)
Higher (lower) loan loss expectations	**109**	(18)
Write-downs/(gain) on sale of other real estate	**1,212**	(1,807)
Balance at June 30,	**$ 16,475**	$ 51,431

NOTE 10 OTHER REAL ESTATE OWNED

The following table presents activity in other real estate owned for the six months ended June 30, 2015 and 2014:

(dollars in thousands)	**Other Real Estate Owned (1)**	**Other Real Estate Owned, Covered**
Six Months Ended June 30, 2015		
Balance at January 1, 2015	**$ 7,241**	**$ 9,121**
Additions	**4,579**	**429**
Sales	**(2,153)**	**(4,580)**
Gains (losses)/Write-downs	**(279)**	**(217)**
Balance at June 30, 2015	**$ 9,388**	**$ 4,753**
Six Months Ended June 30, 2014		

Balance at January 1, 2014	$	7,562	$	13,670
Additions		2,878		7,387
Sales		(2,909)		(8,113)
Gains (losses)/Write-downs		(802)		(1,789)
Balance at June 30, 2014	$	6,729	$	11,155

(1) Includes repossessed personal property of $0.3 million at June 30, 2015 and $0.4 million at June 30, 2014.

Table of Contents

At June 30, 2015, foreclosed residential real estate property included in the table above totaled $1.0 million. At June 30, 2015, consumer mortgage loans collateralized by residential real property that were in the process of foreclosure totaled $8.3 million.

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income. Under the loss sharing agreements, the FDIC will reimburse us for 80% of expenses and valuation write-downs related to covered assets up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0%, and 80% of losses in excess of $467.2 million. As of June 30, 2015, we do not expect losses to exceed $275.0 million. The reimbursable portion of these expenses is recorded in the FDIC indemnification asset. Changes in the FDIC indemnification asset are recorded in the noninterest income section of the consolidated statements of income.

NOTE 11 - GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the six months ended June 30, 2015 and 2014:

(dollars in thousands)	Banking	Insurance	Total
Six Months Ended June 30, 2015			
Balance at January 1, 2015	**$ 490,972**	**$ 39,873**	**$ 530,845**
Goodwill acquired during the period	**56,529**	**1,090**	**57,619**
Balance at June 30, 2015	**$ 547,501**	**$ 40,963**	**$ 588,464**
Six Months Ended June 30, 2014			
Balance at January 1, 2014	$ 312,856	$ 39,873	$ 352,729
Goodwill acquired during the period	55,745		55,745
Balance at June 30, 2014	$ 368,601	$ 39,873	$ 408,474

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 carrying value of goodwill exceeds fair value. During the first half of 2015, Old National recorded $56.0 million of goodwill associated with the acquisition of Founders that was allocated to the Banking segment. Also during the first half of 2015, Old National recorded a $0.5 million increase to goodwill associated with the acquisition of LSB that was allocated to the Banking segment and an increase of $1.1 million of goodwill associated with the acquisition of Mutual Underwriters that was allocated to the Insurance segment. See Note 3 to the consolidated financial statements for detail regarding goodwill recorded in 2014 associated with acquisitions.

Table of Contents

The gross carrying amount and accumulated amortization of other intangible assets at June 30, 2015 and December 31, 2014 was as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
June 30, 2015			
Amortized intangible assets:			
Core deposit	**$ 60,103**	**$ (40,613)**	**$ 19,490**
Customer business relationships	**30,787**	**(22,400)**	**8,387**
Customer trust relationships	**16,547**	**(4,375)**	**12,172**
Customer loan relationships	**4,413**	**(3,466)**	**947**
Total intangible assets	**$ 111,850**	**$ (70,854)**	**$ 40,996**
December 31, 2014			
Amortized intangible assets:			
Core deposit	$ 57,149	$ (36,950)	$ 20,199
Customer business relationships	27,942	(21,438)	6,504
Customer trust relationships	13,986	(3,232)	10,754
Customer loan relationships	4,413	(3,176)	1,237
Total intangible assets	$ 103,490	$ (64,796)	$ 38,694

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 5 to 15 years. During the first quarter of 2015, Old National increased core deposit intangibles by $2.9 million and customer trust relationships by $2.6 million related to the Founders acquisition that is included in the Banking segment. Also during the first quarter of 2015, Old National increased customer business relationships intangibles by $2.6 million related to the Mutual Underwriters acquisition that is included in the Insurance segment. During the second quarter of 2015, Old National increased customer business relationships intangibles by $0.2 million related to the purchase 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 during the six months ended June 30, 2015 or 2014. Total amortization expense associated with intangible assets was $6.1 million for the six months ended June 30, 2015 and $3.8 million for the six months ended June 30, 2014.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2015 remaining	$ 5,674

2016	9,869
2017	7,587
2018	5,816
2019	4,371
Thereafter	7,679
Total	$ 40,996

NOTE 12 LOAN SERVICING RIGHTS

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

45

At June 30, 2015, loan servicing rights derived from loans sold with servicing retained totaled $10.0 million and were included in other assets in the consolidated balance sheet, compared to $9.5 million at December 31, 2014. Loans serviced for others are not reported as assets. The principal balance of loans serviced for others was $1.165 billion at June 30, 2015, compared to $1.124 billion at December 31, 2014. Approximately 96% of the loans serviced for others at June 30, 2015 were residential mortgage loans. Custodial escrow balances maintained in connection with serviced loans were $9.1 million at June 30, 2015 and $16.5 million at December 31, 2014.

The following table summarizes the activity related to loan servicing rights and the related valuation allowance for the six months ended June 30, 2015 and 2014:

(dollars in thousands)	2015	2014
Balance at January 1,	$ 9,584	$
Additions	1,754	
Amortization	(1,271)	
Balance before valuation allowance at June 30,	10,067	
Valuation allowance:		
Balance at January 1,	(50)	
(Additions)/recoveries	10	
Balance at June 30,	(40)	
Loan servicing rights, net	$ 10,027	$

At June 30, 2015, the fair value of servicing rights was $10.9 million, which was determined using a discount rate of 11.25% and a weighted average prepayment speed of 163% PSA. At December 31, 2014, the fair value of servicing rights was $9.5 million, which was determined using a discount rate of 12% and a weighted average prepayment speed of 192% PSA.

NOTE 13 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of June 30, 2015:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements / Sweeps	Total
2015			
Outstanding at June 30, 2015	$ 173,468	$ 356,909	$ 530,377
Average amount outstanding	110,705	349,858	460,563
Maximum amount outstanding at any month-end	173,468	369,515	
Weighted average interest rate:			

During the six months ended June 30, 2015	**0.19%**	**0.06%**	**0.09%**
At June 30, 2015	**0.12**	**0.07**	**0.08**

The following table presents the contractual maturity of our secured borrowings and class of collateral pledged:

	At June 30, 2015				
	Remaining Contractual Maturity of the Agreements				
(dollars in thousands)	**Overnight and Continuous**	**Up to 30 Days**	**30-90 Days**	**Greater Than 90 days**	**Total**
Repurchase Agreements:					
U.S. Treasury and agency securities	**$ 356,341**	**$**	**$**	**$ 568**	**$ 356,909**
Total	**$ 356,341**	**$**	**$**	**$ 568**	**$ 356,909**

46

Table of Contents

NOTE 14 - FINANCING ACTIVITIES

The following table summarizes Old National s and its subsidiaries other borrowings at June 30, 2015 and December 31, 2014:

(dollars in thousands)	June 30, 2015	December 31, 2014
Old National Bancorp:		
Senior unsecured bank notes (fixed rate 4.125%) maturing August 2024	**$ 175,000**	$ 175,000
Junior subordinated debentures (variable rates of 1.63% to 2.03%) maturing March 2035 to June 2037	**45,000**	45,000
ASC 815 fair value hedge and other basis adjustments	**(4,666)**	(4,884)
Old National Bank:		
Securities sold under agreements to repurchase (fixed rates 2.47% to 2.50%) maturing January 2017 to January 2018	**50,000**	50,000
Federal Home Loan Bank advances (fixed rates 0.18% to 6.76% and variable rates 0.35% to 0.43%) maturing July 2015 to January 2025	**799,473**	649,987
Capital lease obligation	**4,068**	4,099
ASC 815 fair value hedge and other basis adjustments	**534**	900
Total other borrowings	**$ 1,069,409**	$ 920,102

Contractual maturities of other borrowings at June 30, 2015 were as follows:

(dollars in thousands)	
Due in 2015	$ 250,032
Due in 2016	117,376
Due in 2017	95,887
Due in 2018	145,399
Due in 2019	2,935
Thereafter	461,912
ASC 815 fair value hedge and other basis adjustments	(4,132)
Total	$ 1,069,409

SENIOR NOTES

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

FEDERAL HOME LOAN BANK

Federal Home Loan Bank (FHLB) advances had weighted-average rates of 0.70% at June 30, 2015 and 0.77% at December 31, 2014. These borrowings are collateralized by investment securities and residential real estate loans up to 144% of outstanding debt.

JUNIOR SUBORDINATED DEBENTURES

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

In 2007, Old National acquired St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St.

Joseph Capital Trust II. St. Joseph Capital Trust II issued $5.0 million in preferred securities in March 2005. The preferred securities have a variable rate of interest priced at the three-month London Interbank Offered Rate (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.

In 2011, Old National acquired Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II in conjunction with its acquisition of Monroe Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II. Monroe Bancorp Capital Trust I issued $3.0 million in preferred securities in July 2006. The preferred securities have a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Capital Trust I. Monroe Bancorp Statutory Trust II issued $5.0 million in preferred securities in March 2007. The preferred securities have a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Statutory Trust II.

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.

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.

48

Table of Contents

At June 30, 2015, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2015 remaining	$ 205
2016	410
2017	410
2018	410
2019	429
Thereafter	8,836
Total minimum lease payments	10,700
Less amounts representing interest	6,632
Present value of net minimum lease payments	$ 4,068

NOTE 15 - EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National s policy is to contribute at least the minimum funding requirement determined by the plan s actuary. Old National expects to contribute approximately $361 thousand to the Retirement Plan in 2015.

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

Old National contributed $43 thousand to cover benefit payments from the Restoration Plan during the six months ended June 30, 2015. Old National expects to contribute an additional $22 thousand to cover benefit payments from the Restoration Plan during the remainder of 2015.

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Interest cost	**$ 415**	$ 438	**$ 830**	$ 877
Expected return on plan assets	**(511)**	(560)	**(1,023)**	(1,120)
Recognized actuarial loss	**531**	329	**1,062**	658
Settlement	**196**	285	**402**	285

Net periodic benefit cost	**$ 631**	$ 492	**$ 1,271**	$ 700

NOTE 16 - STOCK-BASED COMPENSATION

At June 30, 2015, Old National had 4.9 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 187 thousand time-based restricted stock awards to certain key officers during the six months ended June 30, 2015, with shares vesting over a thirty-six month period. Compensation expense is recognized on a

straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of June 30, 2015, unrecognized compensation expense was estimated to be $4.1 million for unvested restricted stock awards.

Old National recorded expense of $0.5 million, net of tax, during the six months ended June 30, 2015, compared to $0.4 million, net of tax, during the six months ended June 30, 2014 related to the vesting of restricted stock awards.

Restricted Stock Units

The Company granted 279 thousand shares of performance based restricted stock units to certain key officers during the six months ended June 30, 2015, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. For certain awards, the level of performance could increase or decrease the percentage of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of June 30, 2015, unrecognized compensation expense was estimated to be $5.1 million.

Old National recorded stock based compensation expense, net of tax, related to restricted stock units of $0.8 million during the six months ended June 30, 2015 and $1.1 million during the six months ended June 30, 2014.

Stock Options

Old National has not granted stock options since 2009. However, Old National did acquire stock options through prior year acquisitions. Old National did not record any stock based compensation expense related to these stock options during the six months ended June 30, 2015 or 2014.

Stock Appreciation Rights

Old National has never granted stock appreciation rights. However, Old National did acquire stock appreciation rights through a prior year acquisition. Old National did not record any stock-based compensation expense related to these stock appreciation rights during the six months ended June 30, 2015 or 2014.

NOTE 17 - INCOME TAXES

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Provision at statutory rate of 35%	**$ 12,290**	$ 9,251	**$ 22,836**	$ 21,764
Tax-exempt income	**(3,930)**	(3,422)	**(7,783)**	(6,559)
State income taxes	**520**	182	**1,796**	825
Interim period effective rate adjustment	**314**	2,149	**1,821**	124
State statutory rate change		(218)		904
Other, net	**(235)**	(284)	**(486)**	(158)

Income tax expense	**$ 8,959**	$ 7,658	**$ 18,184**	$ 16,900
Effective tax rate	**25.5%**	29.0%	**27.9%**	27.2%

In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at June 30, 2015 and 2014 based on the current estimate of the effective annual rate.

The lower effective tax rate during the three months ended June 30, 2015 when compared to the three months ended June 30, 2014 is the result of quarterly effective tax rate fluctuations based on the timing of the actual effective tax rate of the second quarter of 2014 as compared to the forecasted full year effective tax rate for 2014. The higher

Table of Contents

effective tax rate during the six months ended June 30, 2015 when compared to the six months ended June 30, 2014 is the result of an increase in the forecasted effective tax rate for 2015 as compared to 2014, as well as an increase in state income taxes due to the acquisition of Founders and the Indiana tax rate reductions in the first quarter of 2015.

No valuation allowance was recorded at June 30, 2015 or 2014 because, based on current expectations, Old National believes it will generate sufficient income in future years to realize deferred tax assets.

Unrecognized Tax Benefits

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

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

(dollars in thousands)	**2015**	**2014**
Balance at January 1,	**$ 77**	$ 3,847
Additions (reductions) based on tax positions related to the current year	**27**	21
Balance at June 30,	**$ 104**	$ 3,868

If recognized, approximately $0.1 million of unrecognized tax benefits, net of interest, would favorably affect the effective income tax rate in future periods.

NOTE 18 - DERIVATIVE FINANCIAL INSTRUMENTS

As part of our overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was $708.0 million at June 30, 2015 and $608.0 million at December 31, 2014. The June 30, 2015 balances consist of $38.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, $625.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances and $45.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its commercial loans. The December 31, 2014 balances consist of $38.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, $525.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances and $45.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its commercial loans. These hedges were entered into to manage interest rate risk. 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 June 30, 2015, the notional amount of the interest rate lock commitments was $52.9 million and forward commitments were $60.1 million. At December 31, 2014, the notional amount of the interest rate lock commitments was $19.7 million and forward commitments were $29.1 million. It is our practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitment to fund the loans.

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 $401.4 million and $401.4 million, respectively, at June 30, 2015. At December 31, 2014, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $435.6 million and $435.6 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include 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.

Table of Contents

There are provisions in our agreements with the counterparties that allow for certain unsecured credit exposure up to an agreed threshold. Exposures in excess of the agreed thresholds are collateralized. In addition, we minimize credit risk through credit approvals, limits, and monitoring procedures.

Amounts reported in AOCI related to cash flow hedges will be reclassified to interest income or interest expense as interest payments are received or paid on the Company s derivative instruments. During the next 12 months, the Company estimates that $0.6 million will be reclassified to interest income and $4.9 million will be reclassified to interest expense.

Asset derivatives are included in other assets and liability derivatives are included in other liabilities on the balance sheet. The following table summarizes the fair value of derivative financial instruments utilized by Old National:

	June 30, 2015		**December 31, 2014**	
(dollars in thousands)	**Asset Derivatives**	**Liability Derivatives**	**Asset Derivatives**	**Liability Derivatives**
Derivatives designated as hedging instruments				
Interest rate contracts	**$ 5,011**	**$ 12,503**	$ 4,278	$ 9,951
Total derivatives designated as hedging instruments	**$ 5,011**	**$ 12,503**	$ 4,278	$ 9,951
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 11,466**	**$ 11,584**	$ 13,780	$ 13,917
Mortgage contracts	**1,817**		514	
Total derivatives not designated as hedging instruments	**$ 13,283**	**$ 11,584**	$ 14,294	$ 13,917
Total	**$ 18,294**	**$ 24,087**	$ 18,572	$ 23,868

Table of Contents

The effect of derivative instruments on the consolidated statements of income for the three and six months ended June 30, 2015 and 2014 are as follows:

(dollars in thousands)		Three Months Ended June 30, 2015	2014
Derivatives in Fair Value Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ (212)**	$ 339
Interest rate contracts (2)	Other income / (expense)	**23**	75
Total		**$ (189)**	$ 414

Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (3)	Other income / (expense)	**$ 19**	$ (4)
Mortgage contracts	Mortgage banking revenue	**362**	42
Total		**$ 381**	$ 38

(dollars in thousands)		Six Months Ended June 30, 2015	2014
Derivatives in Fair Value Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ (189)**	$ 698
Interest rate contracts (2)	Other income / (expense)	**82**	181
Total		**$ (107)**	$ 879

Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (3)	Other income / (expense)	**$ 19**	$ 69

Mortgage contracts	Mortgage banking revenue	**1,150**	122
Total		**$ 1,169**	$ 191

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

NOTE 19 - COMMITMENTS AND CONTINGENCIES

LITIGATION

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

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

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

Old National sought an interlocutory appeal on the issue of class certification on April 2, 2013, which was subsequently denied. On June 11, 2013, Old National moved for summary judgment asserting the law as applied to the material facts not in dispute should result in judgment in favor of Old National. On September 16, 2013, a hearing was held on the summary judgment motion and the Motion was denied by the Circuit Court on April 14, 2014. Subsequently, Old National sought and was granted leave to appeal the denial of its Motion for Summary Judgment. On July 11, 2014, the Indiana Court of Appeals accepted the appeal and the parties fully briefed the matter as of February 23, 2015. On April 23, 2015, the Court of Appeals affirmed in part and reversed in part the Circuit Court s denial of Old National s Motion for Summary Judgment and remanded the case to the Circuit Court for further proceedings. Specifically, the Court of Appeals rejected Old National s contention that all of plaintiffs claims were preempted by federal law but did agree that plaintiffs state law claims of conversion, unconscionability and unjust enrichment were unsupported under Indiana law. The dismissal of these claims removes any claims which would entitle plaintiffs to treble damages. The Court of Appeals determined Old National had not negated plaintiffs state law claim for breach of a duty of good faith and fair dealing as to the deposit account agreement and remanded that claim back to the Circuit Court. On May 22, 2015, Old National filed a Petition to Transfer the Case to the Indiana Supreme Court in which it asked the Court to accept an appeal of the remaining count. On July 23, 2015, the Indiana Supreme Court declined to accept transfer of the case. The case will now return to the trial court for further proceedings on the sole remaining count. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss.

LEASES

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

Old National had deferred gains remaining associated with prior sale leaseback transactions totaling $63.1 million as of June 30, 2015 and $68.3 million as of December 31, 2014. 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 $1.703 billion and standby letters of credit of $60.7 million at June 30, 2015. At June 30, 2015, approximately $1.618 billion of the loan commitments had fixed rates and $85.2 million had

floating rates, with the floating interest rates ranging from 0% to 25%. At December 31, 2014, loan commitments were $1.584 billion and standby letters of credit were $65.3 million. These commitments are not reflected in the consolidated financial statements. The allowance for unfunded loan commitments totaled $2.3 million at June 30, 2015 and $4.4 million at December 31, 2014.

Old National had credit extensions with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients totaling $18.1 million at June 30, 2015 and $13.0 million at December 31, 2014. Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $16.6 million at June 30, 2015 and $11.5 million December 31, 2014. 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 June 30, 2015, the notional amount of standby letters of credit was $60.7 million, which represented the maximum amount of future funding requirements, and the carrying value was $0.4 million. At December 31, 2014, the notional amount of standby letters of credit was $65.3 million, which represented the maximum amount of future funding requirements, and the carrying value was $0.4 million.

Old National entered into a risk participation in an interest rate swap during the second quarter of 2007, which had a notional amount of $7.6 million at June 30, 2015. Old National entered into an additional risk participation in an interest rate swap during the third quarter of 2014, which had a notional amount of $12.8 million at June 30, 2015.

NOTE 21 SEGMENT INFORMATION

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

Banking

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

Insurance

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

Other

Other Corporate Administrative units such as Human Resources or Finance, provide a wide-range of support to our other income earning segments. Expenses incurred by these support units are charged to the business segments

through an internal cost allocation process, which may not be comparable to that of other companies. The other segment includes the unallocated portion of other corporate support functions, the elimination of intercompany transactions and our Corporate Treasury unit. Corporate Treasury activities consist of corporate asset and liability management. This unit s assets and liabilities (and related interest income and expense) consist of investment securities, corporate-owned life insurance, and certain borrowings.

During the third quarter of 2014, Old National merged American National Trust & Investment Management Corp. into Old National Bank. As part of the merger, Old National re-evaluated its business segments and, as of September 30, 2014, Old National changed the composition of its reportable segments to those described above and

restated all prior period information. The Wealth Management segment has been aggregated into the banking segment as this business has never been quantitatively significant. In addition, wealth management and banking have the same customers and distribution channels, similar products and services as well as similar economic performance.

Selected business segment financial information is shown in the following table for the three and six months ended June 30:

(dollars in thousands)	Banking	Insurance	Other	Total
Three months ended June 30, 2015				
Net interest income	**$ 94,214**	**$ 3**	**$ (2,120)**	**$ 92,097**
Noninterest income	**44,300**	**10,197**	**482**	**54,979**
Noncash items:				
Depreciation and software amortization	**4,126**	**34**	**158**	**4,318**
Provision for loan losses	**2,271**			**2,271**
Amortization of intangibles	**2,491**	**486**		**2,977**
Income tax expense (benefit)	**10,406**	**213**	**(1,660)**	**8,959**
Segment profit	**28,849**	**318**	**(3,011)**	**26,156**
Segment assets	**11,927,618**	**60,773**	**87,429**	**12,075,820**
Three months ended June 30, 2014				
Net interest income	$ 84,737	$ 3	$ (258)	$ 84,482
Noninterest income	29,428	9,788	437	39,653
Noncash items:				
Depreciation and software amortization	3,351	35	135	3,521
Provision for loan losses	(400)			(400)
Amortization of intangibles	1,590	413		2,003
Income tax expense (benefit)	6,962	165	531	7,658
Segment profit	22,322	240	(3,789)	18,773
Segment assets	10,253,413	62,800	71,720	10,387,933
Six months ended June 30, 2015				
Net interest income	**$ 187,292**	**$ 5**	**$ (4,207)**	**$ 183,090**
Noninterest income	**87,139**	**22,184**	**951**	**110,274**
Noncash items:				
Depreciation and software amortization	**8,782**	**68**	**316**	**9,166**
Provision for loan losses	**2,272**			**2,272**
Amortization of intangibles	**5,096**	**962**		**6,058**
Income tax expense (benefit)	**19,703**	**828**	**(2,347)**	**18,184**
Segment profit	**53,632**	**1,282**	**(7,852)**	**47,062**
Segment assets	**11,927,618**	**60,773**	**87,429**	**12,075,820**
Six months ended June 30, 2014				
Net interest income	$ 168,291	$ 6	$ (337)	$ 167,960
Noninterest income	57,688	21,764	764	80,216
Noncash items:				
Depreciation and software amortization	6,587	70	256	6,913
Provision for loan losses	(363)			(363)

Amortization of intangibles	3,020	820		3,840
Income tax expense (benefit)	18,186	968	(2,254)	16,900
Segment profit	45,823	2,113	(2,653)	45,283
Segment assets	10,253,413	62,800	71,720	10,387,933

The banking segment noninterest income increased for the three and six months ended June 30, 2015 when compared to the same periods in 2014 primarily due to fee income associated with the acquisitions of Tower in April

56

2014, United in July 2014, LSB in November 2014, and Founders in January 2015. Also contributing to the increase in noninterest income in the banking segment was a favorable variance in adjustments to the FDIC indemnification asset. Banking segment assets increased at June 30, 2015 when compared to June 30, 2014 primarily due to the acquisitions of United, LSB, and Founders.

NOTE 22 FAIR VALUE

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

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

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

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

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

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

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

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

Table of Contents

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

		Fair Value Measurements at June 30, 2015 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Trading securities	**$ 3,995**	**$ 3,995**	**$**	**$**
Investment securities available-for-sale:				
U.S. Treasury	**12,171**	**12,171**		
U.S. government-sponsored entities and agencies	**695,074**		**695,074**	
Mortgage-backed securities - Agency	**1,104,145**		**1,104,145**	
States and political subdivisions	**388,039**		**388,039**	
Pooled trust preferred securities	**7,096**			**7,096**
Other securities	**365,996**	**31,560**	**334,436**	
Residential loans held for sale	**20,287**		**20,287**	
Derivative assets	**18,294**		**18,294**	
Financial Liabilities				
Derivative liabilities	**24,087**		**24,087**	

		Fair Value Measurements at December 31, 2014 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Trading securities	$ 3,881	$ 3,881	$	$
Investment securities available-for-sale:				
U.S. Treasury	15,166	15,166		
U.S. government-sponsored entities and agencies	685,951		685,951	
Mortgage-backed securities - Agency	1,241,662		1,241,662	

States and political subdivisions	314,541		314,216	325
Pooled trust preferred securities	6,607			6,607
Other securities	363,904	31,648	332,256	
Residential loans held for sale	15,562		15,562	
Derivative assets	18,572		18,572	
Financial Liabilities				
Derivative liabilities	23,868		23,868	

Table of Contents

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2015:

(dollars in thousands)	Pooled Trust Preferred Securities Available-for-Sale	State and Political Subdivisions
Balance at January 1, 2015	**$ 6,607**	**$ 325**
Accretion/(amortization) of discount or premium	**9**	
Sales/payments received	**(514)**	
Matured securities		**(325)**
Increase/(decrease) in fair value of securities	**994**	
Balance at June 30, 2015	**$ 7,096**	**$**

Included in the income statement is $9 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 six months ended June 30, 2014:

(dollars in thousands)	Pooled Trust Preferred Securities Available-for-Sale	State and Political Subdivisions
Balance at January 1, 2014	$ 8,037	$ 669
Accretion/(amortization) of discount or premium	9	1
Payments received	(1,034)	
Matured securities		(325)
Increase/(decrease) in fair value of securities	(590)	
Balance at June 30, 2014	$ 6,422	$ 345

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

The tables below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy as of June 30, 2015 and December 31, 2014:

(dollars in thousands)	Fair Value at June 30, 2015	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Pooled trust preferred securities	$ 7,096	Discounted cash flow	Constant prepayment rate (a)	0.00%
			Additional asset defaults (b)	4.1% - 5.4% (4.5%)
			Expected asset recoveries (c)	0.0% - 13.8% (3.7%)

(a) Assuming no prepayments.

(b) Each currently performing pool asset is assigned a default probability based on the banking environment, which is adjusted for specific issuer evaluation, of 0%, 50% or 100%.

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

Table of Contents

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

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

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

Assets measured at fair value on a non-recurring basis at June 30, 2015 are summarized below:

		Fair Value Measurements at June 30, 2015 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans				
Commercial loans	**$ 31,670**	**$**	**$**	**$ 31,670**
Commercial real estate loans	**16,375**			**16,375**
Foreclosed Assets				
Commercial real estate	**3,087**			**3,087**
Residential	**238**			**238**

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 $60.9 million, with a valuation allowance of $12.9 million at June 30, 2015. Old National recorded provision expense associated with these loans totaling $2.8 million for the three months ended June 30, 2015 and $7.6 million for the six months ended June 30, 2015. Old National recorded provision expense recapture associated with these loans totaling $1.6 million for the three months ended June 30, 2014 and provision expense of $2.6 million for the six months ended June 30, 2014.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of $3.3 million at June 30, 2015. The estimates of fair value are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral. There were write-downs of other real estate owned of $0.4 million for the three months ended June 30, 2015 and $1.5 million for the six months ended June 30, 2015. There were write-downs of other real estate owned of $1.1 million for the three months ended June 30, 2014 and $1.8 million for the six months ended June 30, 2014.

Table of Contents

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

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

As of December 31, 2014, impaired commercial and commercial real estate loans had a principal amount of $30.0 million, with a valuation allowance of $10.2 million.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of $6.4 million at December 31, 2014.

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

(dollars in thousands)	Fair Value at June 30, 2015	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Collateral Dependent Impaired Loans				
Commercial loans	$ 31,670	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 86% (31%)
Commercial real estate loans	16,375	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 74% (34%)
Foreclosed Assets				
Commercial real estate	3,087	Fair value of collateral	Discount for type of property, age of appraisal and current status	2% - 80% (26%)
Residential	238	Fair value of collateral	Discount for type of property, age of appraisal and current	28% - 42% (34%)

status

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

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

Table of Contents

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 loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement is interest income for loans held for sale totaling $45 thousand for the three months ended June 30, 2015 and $84 thousand for the six months ended June 30, 2015. Included in the income statement is interest income for loans held for sale totaling $82 thousand for the three months ended June 30, 2014 and $125 thousand for the six months ended June 30, 2014.

Residential loans held for sale

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

The difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected as of June 30, 2015 and December 31, 2014 is as follows:

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
June 30, 2015			
Residential loans held for sale	**$ 20,287**	**$ 163**	**$ 20,124**
December 31, 2014			
Residential loans held for sale	$ 15,562	$ 375	$ 15,187

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

Table of Contents

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

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Three months ended June 30, 2015				
Residential loans held for sale	**$ (430)**	**$ 1**	**$**	**$ (429)**
Three months ended June 30, 2014				
Residential loans held for sale	$ 286	$ 1	$	$ 287
Six months ended June 30, 2015				
Residential loans held for sale	**$ (213)**	**$ 1**	**$**	**$ (212)**
Six months ended June 30, 2014				
Residential loans held for sale	$ 273	$ 1	$	$ 274

63

Table of Contents

The carrying amounts and estimated fair values of financial instruments, not previously presented in this note, at June 30, 2015 and December 31, 2014 are as follows:

		Fair Value Measurements at June 30, 2015 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash, due from banks, federal funds sold and money market investments	$ 195,213	$ 195,213	$	$
Investment securities held-to-maturity:				
U.S. government-sponsored entities and agencies	144,501		149,390	
Mortgage-backed securities - Agency	19,547		20,338	
State and political subdivisions	659,207		697,617	
Federal Home Loan Bank/Federal Reserve stock	71,669		71,669	
Loans held for sale (a)	197,380		197,380	
Loans, net (including covered loans):				
Commercial	1,765,478			1,809,097
Commercial real estate	1,789,926			1,884,080
Residential real estate	1,639,519			1,766,437
Consumer credit	1,520,948			1,524,672
FDIC indemnification asset	16,475			8,439
Accrued interest receivable	66,605	29	22,488	44,088
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,557,665	$ 2,557,665	$	$
NOW, savings and money market deposits	5,169,065	5,169,065		
Time deposits	1,082,840		1,085,433	
Short-term borrowings:				
Federal funds purchased	173,468	173,468		
Repurchase agreements	356,909	356,908		
Other borrowings:				
Senior unsecured bank notes	175,000		164,257	
Junior subordinated debentures	45,000		33,330	
Repurchase agreements	50,000		51,839	
Federal Home Loan Bank advances	799,473			807,222
Capital lease obligation	4,068		5,363	
Accrued interest payable	4,736		4,736	
Standby letters of credit	370			370

Off-Balance Sheet Financial Instruments				
Commitments to extend credit	**$**	**$**	**$**	**$ 2,672**

(a) Includes loans held for sale associated with branch sales. Excludes $20.3 million of residential loans held for sale measured at fair value on a recurring basis.

Table of Contents

		Fair Value Measurements at December 31, 2014 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash, due from banks, federal funds sold and money market investments	$ 239,963	$ 239,963	$	$
Investment securities held-to-maturity:				
U.S. government-sponsored entities and agencies	167,207		173,486	
Mortgage-backed securities - Agency	23,648		24,574	
State and political subdivisions	653,199		705,875	
Federal Home Loan Bank/Federal Reserve stock	71,175		71,175	
Loans held for sale (a)	197,928		197,928	
Loans, net (including covered loans):				
Commercial	1,626,097			1,646,144
Commercial real estate	1,734,559			1,744,126
Residential real estate	1,537,448			1,615,588
Consumer credit	1,372,248			1,380,835
FDIC indemnification asset	20,603			11,358
Accrued interest receivable	60,966	29	21,633	39,304
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,427,748	$ 2,427,748	$	$
NOW, savings and money market deposits	4,973,898	4,973,898		
Time deposits	1,089,018		1,092,969	
Short-term borrowings:				
Federal funds purchased	195,188	195,188		
Repurchase agreements	356,121	356,120		
Other borrowings:				
Senior unsecured bank notes	175,000		179,792	
Junior subordinated debentures	45,000		32,754	
Repurchase agreements	50,000		51,994	
Federal Home Loan Bank advances	649,987			658,506
Capital lease obligation	4,099		5,515	
Accrued interest payable	4,564		4,564	
Standby letters of credit	358			358
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$	$	$	$ 2,030

(a) Includes loans held for sale associated with branch sales. Excludes $15.6 million of residential loans held for sale measured at fair value on a recurring basis.

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 and Federal Reserve Stock: Old National Bank is a member of the FHLB and the Federal Reserve System. The carrying value approximates the fair value based on the redemption provisions of the stock (Level 2).

Loans held for sale: The fair value of loans held for sale is estimated based on binding contracts from third party investors (Level 2).

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

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

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

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

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

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

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

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

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

Table of Contents

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

The following discussion is an analysis of our results of operations for the three and six months ended June 30, 2015 and 2014, and financial condition as of June 30, 2015, compared to June 30, 2014 and December 31, 2014. 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 second quarter of 2015, net income was $26.2 million, or $0.22 per diluted share. This compares to $18.8 million, or $0.18 per diluted share reported in the second quarter of 2014.

Year to date, we have consolidated 19 banking centers as part of our initiative to increase deposits per branch, reduce expenses, and transition the franchise into higher growth markets. In addition, we are preparing to sell another 17 banking centers for a gain during the third quarter. These actions resulted in $4.0 million of expense in the second quarter. In addition, we converted the recently acquired Grand Rapids, Michigan-based Founders Financial Corporation (Founders) to our computer systems in April. We recorded $1.5 million of acquisition and integration charges in conjunction with our merger activities.

The integration of Founders went well and management has now turned its focus back to basic banking loan growth, fee income and expense management. This discussion will focus on first quarter 2015 compared to second quarter 2015 since year-over-year improvements are explained by our recent acquisitions.

Loan Growth: Total loan balances, including those loans held for sale, increased $120.7 million during the second quarter, or 7.0% annualized. We did not acquire any loans during the quarter, so this growth is entirely attributable to new production in both our legacy and newly acquired markets. Management understands that in order to achieve their strategic imperative of consistent quality earnings, a continuum of loan growth is required and that the balance between this growth and credit quality requires a sound plan, which they believe is in place under the current program.

Fee Income: We saw increases in all of our lines of business, except Insurance. Insurance declined as a result of lower contingency revenues which are seasonal, and typically received during the first quarter. It would be important to note that even though we saw improvement in our debit card and ATM fees in the second quarter, the Durbin Amendment, which limits interchange fees on debit card transactions for banks with $10 billion or more in assets, will become effective for us on July 1, 2015. We believe that the Durbin Amendment will negatively impact debit card and ATM fees by $4 to $6 million, pre-tax, in the second half of 2015.

Expenses: Expenses remain elevated as we complete our acquisition and integration activities and our branch consolidations. We expect these actions to be complete by the end of the third quarter and believe we should begin seeing the benefits of our nearly 10% reduction in workforce and the synergies of our new partnerships.

Table of Contents

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
(dollars in thousands)	2015	2014	Change	2015	2014	Change
Income Statement Summary:						
Net interest income	**$ 92,097**	$ 84,482	9.0%	**$ 183,090**	$ 167,960	9.0%
Provision for loan losses	**2,271**	(400)	(667.8)	**2,272**	(363)	(725.9)
Noninterest income	**54,979**	39,653	38.7	**110,274**	80,216	37.5
Noninterest expense	**109,690**	98,104	11.8	**225,846**	186,356	21.2
Other Data:						
Return on average common equity	**7.11%**	6.00%		**6.33%**	7.47%	
Efficiency ratio (1)	**70.52**	75.85		**73.36**	71.80	
Tier 1 leverage ratio	**8.20**	9.27		**8.20**	9.27	
Net charge-offs to average loans	**0.06**	0.07		**0.00**	0.02	

(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 the most significant component of our earnings, comprising over 62% of revenues for the six months ended June 30, 2015. 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.

Table of Contents

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.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Net interest income	**$ 92,097**	$ 84,482	**$ 183,090**	$ 167,960
Taxable equivalent adjustment	**4,757**	4,256	**9,415**	8,187
Net interest income - taxable equivalent	**$ 96,854**	$ 88,738	**$ 192,505**	$ 176,147
Average earning assets	**$ 10,325,938**	$ 8,730,063	**$ 10,335,997**	$ 8,504,418
Net interest margin	**3.57%**	3.87%	**3.54%**	3.95%
Net interest margin - fully taxable equivalent	**3.75%**	4.07%	**3.72%**	4.14%

Net interest income for the three and six months ended June 30, 2015 and 2014 includes accretion income (interest income in excess of contractual interest income) associated with acquired loans. Excluding this accretion income, net interest income on a fully taxable equivalent basis would have been $81.3 million for the three months ended June 30, 2015 and $162.4 million for the six months ended June 30, 2015, compared to $71.1 million for the three months ended June 30, 2014 and $140.6 million for the six months ended June 30, 2014; and the net interest margin on a fully taxable equivalent basis would have been 3.15% for the three months ended June 30, 2015 and 3.14% for the six months ended June 30, 2015 compared to 3.26% for the three months ended June 30, 2014 and 3.31% for the six months ended June 30, 2014.

The increase in net interest income for the three and six months ended June 30, 2015 when compared to the same periods in 2014 was primarily due to increases in average earning assets of $1.596 billion in the three months ended June 30, 2015 and $1.832 billion in the six months ended June 30, 2015 when compared to the same periods in 2014. Partially offsetting the higher average earning asset balances were decreases in accretion income of $2.1 million recorded in the three months ended June 30, 2015 and $5.4 million in the six months ended June 30, 2015 when compared to the same periods in 2014 reflecting the payoff of several large purchased credit impaired loans over the last twelve months. We expect accretion income to gradually decrease over time. It should be noted that the accretion income associated with our Integra acquisition 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. Also contributing to the increase in net interest income in the three and six months ended June 30, 2015 when compared to the same periods in 2014 is a change in the mix of interest earning assets and interest bearing liabilities. Commercial and commercial real estate loans including covered loans, which typically generate higher interest income than investment securities with similar securities, became the largest classification within earning assets beginning in 2015.

The decrease in the net interest margin for the three and six months ended June 30, 2015 when compared to the same periods in 2014 was primarily due to lower yields associated with decreased accretion income on acquired loans, lower interest rates on interest earning assets, and a change in the mix of average interest earning assets and interest bearing liabilities resulting from the United, LSB, and Founders acquisitions. The yield on interest earning assets decreased 24 basis points and the cost of interest-bearing liabilities increased 10 basis points in the quarterly year-over-year comparison. The yield on interest earning assets is calculated by dividing annualized taxable equivalent net interest income by average interest earning assets while the cost of interest-bearing liabilities is calculated by dividing annualized interest expense by average interest-bearing liabilities. The yield on interest earning assets decreased 36 basis points and the cost of interest-bearing liabilities increased 9 basis points in the six months ended June 30, 2015 when compared to the same period in 2014.

Average earning assets were $10.326 billion for the three months ended June 30, 2015, compared to $8.730 billion for the three months ended June 30, 2014, an increase of $1.596 billion, or 18%. Average earning assets were $10.336 billion for the six months ended June 30, 2015, compared to $8.504 billion for the six months ended June 30, 2014, an increase of $1.832 billion, or 22%. The increases in average earning assets for the three and six months ended June 30, 2015 were primarily due to the Tower, United, LSB, and Founders acquisitions. The loan portfolio including loans held for sale, which generally has an average yield higher than the investment portfolio, was approximately 67% of average interest earning assets for the six months ended June 30, 2015, compared to 61% for the six months ended June 30, 2014.

Average loans excluding loans held for sale increased $1.324 billion for the three months ended June 30, 2015 and $1.448 billion for the six months ended June 30, 2015 when compared to the same periods in 2014 reflecting the Tower, United, LSB and Founders acquisitions, along with organic loan growth. These increases were partially offset by decreases in average covered loans of $51.7 million for the three months ended June 30, 2015 and $56.8 million for the six months ended June 30, 2015 and the reclassification of loans to loans held for sale, which decreased average loans by approximately $191.8 million for the three months ended June 30, 2015 and $193.8 million for the six months ended June 30, 2015.

Average investments increased $75.3 million for the three months ended June 30, 2015 and $184.1 million for the six months ended June 30, 2015 when compared to the same periods in 2014 reflecting the Tower, United, LSB and Founders acquisitions.

Average non-interest bearing deposits increased $460.2 for the three months ended June 30, 2015 when compared the same period in 2014, while interest bearing deposits increased $904.6 million reflecting the Tower, United, LSB and Founders acquisitions. Average non-interest bearing deposits increased $488.3 for the six months ended June 30, 2015 when compared the same period in 2014, while interest bearing deposits increased $1.035 billion reflecting the Tower, United, LSB and Founders acquisitions.

Average borrowed funds increased $280.8 million for the three months ended June 30, 2015 and $346.2 million for the six months ended June 30, 2015 when compared to the same periods in 2014 and includes 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 $2.3 million for the three months ended June 30, 2015, compared to a credit of $0.4 million for the three months ended June 30, 2014. Net charge-offs totaled $1.0 million during the three months ended June 30, 2015 and 2014. The provision for loan losses was an expense of $2.3 million for the six months ended June 30, 2015, compared to a credit of $0.4 million for the six months ended June 30, 2014. Net recoveries totaled $0.1 million during the six months ended June 30, 2015, compared to net charge-offs of $0.6 million during the six months ended June 30, 2014. Loan growth during the quarter, as well as higher impairments associated with an increased level of nonperforming loans, 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 June 30, 2015 was $55.0 million, an increase of $15.3 million, or 39%, compared to $39.7 million for the three months ended June 30, 2014. The increase was due to the acquisitions of Tower, United, LSB, and Founders and also due to a negative adjustment of $1.5 million for the FDIC indemnification asset for the three months ended June 30, 2015 compared to a negative adjustment of $10.5 million for the FDIC indemnification asset for the three months ended June 30, 2014. The increase in noninterest income reflected higher mortgage banking revenue and wealth management fees. Noninterest income for the six months ended June 30, 2015 was $110.3 million, an increase of $30.1 million, or 38%, compared to $80.2 million for the six months ended June 30, 2014. The increase was due to the acquisitions of Tower, United, LSB, and Founders and also due to a negative adjustment of $2.5 million for the FDIC indemnification asset for the six months ended June 30, 2015 compared to a negative adjustment of $17.8 million for the FDIC indemnification asset for the six

months ended June 30, 2014. The increase in noninterest income reflected higher mortgage banking revenue, wealth management fees, and debit card and ATM fees.

Wealth management fees increased $1.9 million for the three months ended June 30, 2015 and $4.7 million for the six months ended June 30, 2015 when compared to the same periods in 2014 reflecting the Tower, United, LSB and Founders acquisitions. In addition, wealth management fees grow in tandem with the fixed income and equities markets.

Table of Contents

Service charges and overdraft fees on deposit accounts, our largest source of noninterest income, continued to be challenged. Service charges and overdraft fees were $11.3 million for the three months ended June 30, 2015, a $0.5 million decrease from $11.8 million for the three months ended June 30, 2014. Service charges and overdraft fees were $22.3 million for the six months ended June 30, 2015, a $0.7 million decrease from $23.0 million for the six months ended June 30, 2014. Service charges and overdraft fees on deposit accounts associated with the acquisitions of Tower, United, LSB, and Founders totaled $1.3 million for the three months ended June 30, 2015 and $2.6 million for the six months ended June 30, 2015.

Debit card and ATM fees increased $0.6 million for the three months ended June 30, 2015 and $1.6 million for the six months ended June 30, 2015 when compared to the same periods in 2014 primarily due to the Tower, United, LSB, and Founders acquisitions. The Durbin Amendment, which limits interchange fees on debit card transactions for banks with $10 billion or more in assets, will become effective for Old National on July 1, 2015. We believe that the Durbin Amendment will negatively impact debit card and ATM fees by approximately $4 to $6 million in 2015.

Mortgage banking revenue increased $3.0 million for the three months ended June 30, 2015 and $5.3 million for the six months ended June 30, 2015 when compared to the same periods in 2014. These increases were primarily due to increased sales to the secondary market in 2015 and an increase in production attributable to our new associates from acquired banks.

Insurance premiums and commissions increased $0.4 million to $10.2 million for the three months ended June 30, 2015 when compared to the three months ended June 30, 2014 primarily reflecting higher commissions on property and casualty insurance. Insurance premiums and commissions increased $0.5 million to $22.3 million for the six months ended June 30, 2015 when compared to the six months ended June 30, 2014 reflecting higher commissions on property and casualty as well as life and health insurance. These increases were partially offset by lower contingency income for the six months ended June 30, 2015 when compared to the six months ended June 30, 2014.

Net securities gains were $0.5 million for the three months ended June 30, 2015, compared to $1.7 million for the three months ended June 30, 2014. Net securities gains were $3.2 million for the six months ended June 30, 2015, compared to $2.1 million for the six months ended June 30, 2014. Included in the six months ended June 30, 2014 is a $100 thousand other-than-temporary-impairment charge on one limited partnership investment.

Other income increased $1.1 million for the three months ended June 30, 2015 and $0.2 million for the six months ended June 30, 2015 when compared to the same periods in 2014. These increases were primarily due to favorable variances in net gains (losses) on sales of property and other assets, partially offset by unfavorable variances in net gains (losses) on sales of foreclosed properties.

Noninterest Income Related to Covered Assets

The FDIC has agreed to reimburse Old National for losses incurred on certain acquired loans, and we recorded an indemnification asset at fair value on the date that we acquired these loans. The indemnification asset, on the acquisition date, reflected the reimbursements expected to be received from the FDIC. Deterioration in the expected credit quality of both OREO and loans would increase the basis of the indemnification asset. 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.

Changes in the FDIC indemnification asset resulted in a negative adjustment to noninterest income of $1.5 million for the three months ended June 30, 2015, compared to a negative adjustment to noninterest income of $10.5 million for the three months ended June 30, 2014. Changes in the FDIC indemnification asset resulted in a negative adjustment to noninterest income of $2.5 million for the six months ended June 30, 2015, compared to a negative adjustment to noninterest income of $17.8 million for the six months ended June 30, 2014. Several large loans paid off during the last twelve months resulting in a large decrease in the indemnification asset, and lower amortization expense during the three and six months ended June 30, 2015. At June 30, 2015, $7.3 million of the remaining indemnification asset is expected to be amortized and reported as a reduction of noninterest income over the next 15 months.

Table of Contents

Noninterest Expense

Noninterest expense for the three months ended June 30, 2015, totaled $109.7 million, an increase of $11.6 million, or 12%, from $98.1 million for the three months ended June 30, 2014. The increase was primarily due to higher salaries and benefits, other expense, data processing expense, occupancy expenses, and marketing. Operating expenses associated with the acquisitions of Tower, United, LSB, and Founders totaled $10.5 million for the three months ended June 30, 2015, compared to $2.2 million for the three months ended June 30, 2014. In addition, noninterest expense also included acquisition and integration costs associated with these transactions totaling $1.5 million for the three months ended June 30, 2015, compared to $6.3 million for the three months ended June 30, 2014. Noninterest expense also included costs associated with branch divestitures, closures and consolidations totaling $4.0 million for the three months ended June 30, 2015.

Noninterest expense for the six months ended June 30, 2015, totaled $225.8 million, an increase of $39.4 million, or 21%, from $186.4 million for the six months ended June 30, 2014. The increase was primarily due to higher salaries and benefits, occupancy expenses, other expense, data processing expense, and amortization of intangibles. Operating expenses associated with the acquisitions of Tower, United, LSB, and Founders totaled $20.5 million for the six months ended June 30, 2015, compared to $2.2 million for the six months ended June 30, 2014. In addition, noninterest expense also included acquisition and integration costs associated with these transactions totaling $5.5 million for the six months ended June 30, 2015, compared to $8.8 million for the six months ended June 30, 2014. Noninterest expense also included costs associated with branch divestitures, closures and consolidations totaling $6.6 million for the six months ended June 30, 2015.

Salaries and benefits is the largest component of noninterest expense. For the three months ended June 30, 2015, salaries and benefits increased $4.2 million to $59.2 million when compared to $55.1 million for the three months ended June 30, 2014. Salaries and benefits associated with the acquisitions of Tower, United, LSB, and Founders totaled $6.8 million for the three months ended June 30, 2015, compared to $4.2 million for the three months ended June 30, 2014. For the six months ended June 30, 2015, salaries and benefits increased $22.5 million to $128.9 million when compared to $106.4 million for the six months ended June 30, 2014. Salaries and benefits associated with the acquisitions of Tower, United, LSB, and Founders totaled $16.2 million for the six months ended June 30, 2015, compared to $5.1 million for the six months ended June 30, 2014. Also included in the six months ended June 30, 2015 is $4.4 million of severance expense related to early retirement offers and other workforce reductions, increases in employment taxes of $1.8 million, hospitalization expense of $1.6 million, incentives of $1.3 million, and retirement benefit expenses of $1.1 million.

Occupancy expenses increased $1.4 million to $14.1 million for the three months ended June 30, 2015 when compared to the three months ended June 30, 2014. Occupancy expenses increased $4.8 million to $28.4 million for the six months ended June 30, 2015 when compared to the six months ended June 30, 2014. The increases were primarily due to the Tower, United, LSB, and Founders acquisitions. In addition, occupancy expenses include leasehold improvement amortization associated with branch divestitures, closures and consolidations totaling $0.3 million for the three months ended June 30, 2015 and $0.7 million for the six months ended June 30, 2015. Also contributing to the increase in occupancy expenses for the six months ended June 30, 2015 when compared to the six months ended June 30, 2014 were higher real estate taxes of $2.4 million. Real estate taxes for the six months ended June 30, 2014 included a refund of $1.3 million.

Data processing expense increased $1.6 million for the three months ended June 30, 2015 and $2.6 million for the six months ended June 30, 2015 when compared to the same periods in 2014 primarily due to higher expenses related to upgrades in software and equipment.

Amortization of intangibles increased $1.0 million for the three months ended June 30, 2015 and $2.2 million for the six months ended June 30, 2015 when compared to the same periods in 2014 reflecting additional customer relationship and core deposit intangibles associated with the Tower, United, LSB, and Founders acquisitions.

Other expense was $7.5 million for the three months ended June 30, 2015, compared to $5.3 million for the three months ended June 30, 2014. Other expense was $12.9 million for the six months ended June 30, 2015, compared to $8.1 million for the six months ended June 30, 2014. The increases reflected costs associated with branch divestitures, closures and consolidations totaling $3.4 million for the three months ended June 30, 2015 and $5.3 million for the six months ended June 30, 2015 primarily due to asset impairments and lease termination settlements.

Offsetting these increases were favorable variances in the provision for unfunded commitments totaling $0.2 million for the three months ended June 30, 2015 and $1.8 million for the six months ended June 30, 2015 when compared to the same periods in 2014. In addition, contributions expense increased $1.3 million for the six months ended June 30, 2015 when compared to the same period in 2014.

Noninterest Expense Related to Covered Assets

Noninterest expense related to covered assets are included in OREO expense, legal and professional expense and other 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 20% of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition are not reimbursable by the FDIC and are recorded as noninterest expense. The remaining 80% is recorded as a receivable from the FDIC. Non-reimbursable expenses associated with holding and maintaining covered assets assumed in the Integra acquisition recorded in noninterest expense were not material during the six months ended June 30, 2015 or 2014.

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 25.5% for the three months ended June 30, 2015, compared to 29.0% for the three months ended June 30, 2014. The provision for income taxes, as a percentage of pre-tax income, was 27.9% for the six months ended June 30, 2015, compared to 27.2% for the six months ended June 30, 2014. In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at June 30, 2015 based on the current estimate of the effective annual rate. The lower effective tax rate during the three months ended June 30, 2015 when compared to the three months ended June 30, 2014 is the result of quarterly effective tax rate fluctuations based on the timing of the actual effective tax rate of the second quarter of 2014 as compared to the forecasted full year effective tax rate for 2014. The higher effective tax rate during the six months ended June 30, 2015 when compared to the six months ended June 30, 2014 is the result of an increase in the forecasted effective tax rate for 2015 as compared to 2014, as well as an increase in state income taxes due to the acquisition of Founders and the Indiana tax rate reductions in the first quarter of 2015. See Note 17 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

Overview

At June 30, 2015, our assets were $12.076 billion, a 16% increase compared to assets of $10.388 billion at June 30, 2014, and an increase of 4% compared to assets of $11.648 billion at December 31, 2014. The increase from June 30, 2014 to June 30, 2015 was primarily due to the acquisitions of United in July 2014, LSB in November 2014, and Founders in January 2015.

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 $10.471 billion at June 30, 2015, an increase of 16% from June 30, 2014.

Table of Contents

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 also have $19.5 million of 15- and 20-year fixed-rate mortgage-backed securities, $144.5 million of U.S. government-sponsored entity and agency securities and $659.2 million of state and political subdivision securities in our held-to-maturity investment portfolio at June 30, 2015.

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $4.0 million at June 30, 2015 compared to $3.7 million at June 30, 2014.

At June 30, 2015, the investment securities portfolio was $3.471 billion compared to $3.435 billion at June 30, 2014, an increase of $36.0 million, or 1%. Investment securities decreased $75.5 million, or 2%, compared to December 31, 2014. Included in the investment securities portfolio at June 30, 2015 are $230.3 million associated with the acquisitions of United, LSB, and Founders. Investment securities represented 33% of earning assets at June 30, 2015, compared to 38% at June 30, 2014, and 35% at December 31, 2014. 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 June 30, 2015, 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 $12.4 million at June 30, 2015, compared to net unrealized losses of $12.7 million at June 30, 2014, and net unrealized losses of $1.3 million at December 31, 2014. Net unrealized losses increased from December 31, 2014 to June 30, 2015 due to an increase in interest rates and a change in the mix of investment securities.

The investment portfolio had an effective duration of 4.23 at June 30, 2015, compared to 4.34 at June 30, 2014, and 3.71 at December 31, 2014. 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 June 30, 2015, compared to 2.89% for the three months ended June 30, 2014, and 2.74% for the three months ended December 31, 2014. The annualized average yields on investment securities, on a taxable equivalent basis, were 2.77% for the six months ended June 30, 2015, compared to 2.92% for the six months ended June 30, 2014, and 2.84% for the year ended December 31, 2014.

Loans Held for Sale

Loans held for sale were $217.7 million at June 30, 2015, compared to $11.4 million at June 30, 2014 and $213.5 million at December 31, 2014. Included in loans held for sale at June 30, 2015 were $197.4 million of loans identified to be sold in connection with the southern Illinois and eastern Indiana banking centers, and $20.3 million of mortgage loans held for immediate sale in the secondary market. The mortgage loans are sold at or prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company s balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse and Old National has experienced no material losses. Mortgage originations are subject to volatility due to interest rates and home sales.

We have elected the fair value option under FASB ASC 825-10 (SFAS No. 159) prospectively for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balance by $0.2 million as of June 30, 2015 and

$0.4 million as of June 30, 2014. The aggregate fair value exceeded the unpaid principal balance by $0.4 million as of December 31, 2014.

Table of Contents

The following table summarizes loans held for sale that were reclassified from loans held for investment at June 30, 2015 and December 31, 2014:

(dollars in thousands)	June 30, 2015	December 31, 2014
Commercial	**$ 47,251**	$ 45,500
Commercial real estate	**31,277**	30,690
Residential real estate	**65,716**	71,680
Consumer credit	**53,136**	50,058
Total	**$ 197,380**	$ 197,928

The loans held for sale were reclassified at the lower of cost or fair value during the fourth quarter of 2014. Old National intends to sell these loans in two separate transactions and anticipates that both will be complete prior to September 30, 2015. See Note 7 to the consolidated financial statements for additional information.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans, including covered loans, are the largest classification within earning assets, representing 34% of earning assets at June 30, 2015, compared to 32% at June 30, 2014, and 34% at December 31, 2014. At June 30, 2015, commercial and commercial real estate loans, including covered loans, were $3.595 billion, an increase of $669.0 million, or 23%, compared to June 30, 2014, and an increase of $196.5 million, or 6%, compared to December 31, 2014. Included in commercial and commercial real estate loans at June 30, 2015 is $684.0 million related to the outstanding loans in the new markets we acquired in the United, LSB, and Founders transactions.

Residential Real Estate Loans

At June 30, 2015, residential real estate loans, including covered loans, held in our loan portfolio were $1.642 billion, an increase of $191.9 million, or 13%, compared to June 30, 2014, and an increase of $101.7 million, or 7%, compared to December 31, 2014. Included in residential real estate loans at June 30, 2015 is $289.1 million related to the outstanding loans in the new markets we acquired in the United, LSB, and Founders transactions, a significant portion of which are variable-rate loans.

Consumer Loans

At June 30, 2015, consumer loans, including automobile loans, personal and home equity loans and lines of credit, and covered loans, increased $366.3 million, or 32%, compared to June 30, 2014, and increased $149.7 million, or 11%, from December 31, 2014. Included in consumer loans at June 30, 2015 is $168.9 million related to the outstanding loans in the new markets we acquired in the United, LSB, and Founders transactions. Old National also experienced $197.4 million of organic growth in consumer loans from June 30, 2014 to June 30, 2015.

Covered Assets

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. We entered into separate loss sharing agreements with the FDIC providing for specified credit loss

protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned (OREO). Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby Old National is indemnified against 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million with respect to covered assets. As of June 30, 2015, we do not expect losses to exceed $275.0 million.

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)	June 30, 2015	December 31, 2014
Loans, net of discount and allowance	**$ 133,695**	$ 144,156
Other real estate owned	**4,753**	9,121
Total covered assets	**$ 138,448**	$ 153,277

FDIC Indemnification Asset

Because the FDIC will reimburse Old National for losses incurred on certain acquired loans, an indemnification asset was 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, reflected the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. Reimbursement claims are submitted to the FDIC and the receivable is reduced when the FDIC pays the claim. At June 30, 2015, the $16.5 million loss sharing asset is comprised of a $14.1 million FDIC indemnification asset and a $2.4 million FDIC loss share receivable. The loss share receivable represents actual incurred losses where reimbursement has not yet been received from the FDIC. The indemnification asset represents future cash flows we expect to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that are being amortized over the same period for which those improved cash flows are being accreted into income. At June 30, 2015, $6.8 million of the FDIC indemnification asset is related to expected indemnification payments and $7.3 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 $7.3 million to be amortized over the next 15 months.

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

(dollars in thousands)	2015	2014
Balance at January 1,	**$ 20,603**	$ 88,513
Adjustments not reflected in income:		
Cash received from FDIC	**(2,231)**	(20,306)
Other	**612**	1,037
Adjustments reflected in income:		
(Amortization) accretion	**(3,830)**	(15,988)
Higher (lower) loan loss expectations	**109**	(18)
Write-downs/(gain) on sale of other real estate	**1,212**	(1,807)
Balance at June 30,	**$ 16,475**	$ 51,431

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at June 30, 2015 totaled $629.5 million, an increase of $190.2 million compared to $439.3 million at June 30, 2014, and an increase of $60.0 million compared to $569.5 million at December 31, 2014. During the first half of 2015, we recorded $61.5 million of goodwill and other intangible assets associated with the acquisition of Founders, which is included in the Banking column for segment reporting. The increase in goodwill and other intangible assets from June 30, 2014 to June 30, 2015 was primarily due to the acquisitions of United, LSB, and Founders during the last twelve months. See Note 3 to the consolidated financial statements for details regarding the goodwill and other intangible assets recorded as a result of these acquisitions.

Other Assets

Other assets increased $48.0 million, or 22%, since June 30, 2014 primarily due to increases in deferred tax assets and accrued interest. Other assets at June 30, 2015 also include $10.0 million of loan servicing rights acquired in the

United, LSB, and Founders transactions and a $7.0 million increase in low income housing partnership investments. Other assets increased $31.2 million, or 13%, since December 31, 2014 primarily due to increases in deferred tax assets, low income housing partnership investments, and accrued interest.

Funding

Total funding, comprised of deposits and wholesale borrowings, was $10.409 billion at June 30, 2015, an increase of 17% from $8.925 billion at June 30, 2014, and an increase of 5% from $9.962 billion at December 31, 2014. Included in total funding were deposits of $8.810 billion at June 30, 2015, an increase of $1.255 billion, or 17%, compared to June 30, 2014, and an increase of $318.9 million, or 4%, compared to December 31, 2014. Included in total deposits at June 30, 2015 is $1.191 billion related to the United, LSB, and Founders acquisitions. Noninterest-bearing deposits increased $428.0 million, or 20% from June 30, 2014 to June 30, 2015. NOW deposits increased $301.7 million, or 16% from June 30, 2014 to June 30, 2015, while savings deposits increased $252.7 million, or 12%. Money market deposits increased $174.3 million, or 41% from June 30, 2014 to June 30, 2015, while time deposits increased $97.9 million, or 10%.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At June 30, 2015, wholesale borrowings, including short-term borrowings and other borrowings, totaled $1.600 billion, an increase of $230.2 million, or 17%, from June 30, 2014, and an increase of $128.4 million, or 9%, from December 31, 2014. Wholesale funding as a percentage of total funding was 15% at June 30, 2015, June 30, 2014, and December 31, 2014. The increase in wholesale funding from June 30, 2014 to June 30, 2015 was primarily due to the issuance of approximately $175 million of senior unsecured debt in August 2014, which is reported in other borrowings, combined with increases in sweeps and Federal funds purchased, both of which are reported in short-term borrowings.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities increased $23.7 million, or 13%, from June 30, 2014 primarily due to increases in miscellaneous payables, accrued tax liabilities, and accrued pension expense.

Capital

Shareholders equity totaled $1.457 billion at June 30, 2015, compared to $1.277 billion at June 30, 2014 and $1.466 billion at December 31, 2014. The June 30, 2015 balance includes $123.8 million from the 9.1 million shares of common stock that were issued in conjunction with the acquisition of United, $51.8 million from the 3.6 million shares of common stock that were issued in conjunction with the acquisition of LSB, and $50.6 million from the 3.4 million shares of common stock that were issued in conjunction with the acquisition of Founders.

We paid cash dividends of $0.24 per share for six months ended June 30, 2015, which reduced equity by $28.1 million. We repurchased 5.3 million shares of stock under our buyback program, reducing shareholders equity by $74.6 million during the six months ended June 30, 2015. The change in unrealized losses on investment securities decreased equity by $7.2 million during the six months ended June 30, 2015. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders equity by $2.4 million during the six months ended June 30, 2015.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. Beginning in 2015, we are reflecting the new Basel III requirements in the tables below. At June 30, 2015, 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.

Table of Contents

As of June 30, 2015, Old National s consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

	Fully Phased-In Regulatory Guidelines Minimum	June 30, 2015	June 30, 2014	December 31, 2014
Risk-based capital:				
Tier 1 capital to total average assets (leverage ratio)	4.00%	**8.20%**	9.27%	8.79%
Common equity Tier 1 capital to risk-adjusted total assets	7.00	**11.21**	N/A	N/A
Tier 1 capital to risk-adjusted total assets	8.50	**11.60**	13.96	12.88
Total capital to risk-adjusted total assets	10.50	**12.26**	14.74	13.59
Shareholders equity to assets	N/A	**12.06**	12.30	12.58

N/A = not applicable

As of June 30, 2015, Old National Bank, Old National s bank subsidiary, maintained a strong capital position as evidenced by the following comparisons of key industry ratios.

	Fully Phased-In Regulatory Guidelines Minimum	Well Capitalized Guidelines	June 30, 2015	June 30, 2014	December 31, 2014
Risk-based capital:					
Tier 1 capital to total average assets (leverage ratio)	4.00%	5.00%	**8.52%**	7.97%	8.41%
Common equity Tier 1 capital to risk-adjusted total assets	7.00	6.50	**12.04**	N/A	N/A
Tier 1 capital to risk-adjusted total assets	8.50	8.00	**12.04**	11.98	12.31
Total capital to risk-adjusted total assets	10.50	10.00	**12.70**	12.77	13.02

N/A = not applicable

RISK MANAGEMENT

Overview

Old National has adopted a Risk Appetite Statement to enable the Board of Directors, Executive Leadership Group and Senior Management to better assess, understand, and mitigate the risks of the Company. The Risk Appetite Statement addresses the following major risks: strategic, market, liquidity, credit, operational/technology, regulatory/compliance/legal, reputational, and human resources. 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 three of these major risks: 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 June 30, 2015, we had pooled trust preferred securities with a fair value of $7.1 million, or 0.3% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and at June 30, 2015, the unrealized loss on our pooled trust preferred securities was approximately $10.4 million. There was no other-than-temporary-impairment recorded during the six months ended June 30, 2015 or 2014 on these securities.

Table of Contents

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 manages exposure to counterparty risk in connection with its derivatives transactions by generally engaging in transactions with counterparties having ratings of at least A by Standard & Poor s Rating Service or A2 by Moody s Investors Service. Total credit exposure is monitored by counterparty, and managed within limits that management believes to be prudent. Old National s net counterparty exposure was an asset of $347.5 million at June 30, 2015.

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

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

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

Table of Contents

Consumer

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

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

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

Asset Quality

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

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling and retailing. At June 30, 2015, we had no concentration of loans in any single industry exceeding 10% of our portfolio and had no exposure to foreign borrowers or sovereign debt. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, southeastern Illinois, western Kentucky and southwestern Michigan. We are experiencing a slow and gradual improvement in the economy of our principal markets. Management expects that trends in under-performing, criticized and classified loans will be influenced by the degree to which the economy strengthens or weakens.

During the third quarter of 2011, Old National acquired the banking operations of Integra Bank in an FDIC assisted transaction. As of June 30, 2015, acquired loans totaled $143.5 million and there was $4.8 million of other real estate owned. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned.

In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. At June 30, 2015, approximately $135.4 million of loans, net of discount, and $4.8 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 January 1, 2015, Old National closed on its acquisition of Founders. During the last six months of 2014, Old National acquired United and LSB. As of June 30, 2015, acquired loans from the United, LSB, and Founders transactions totaled $1.142 billion and other real estate owned totaled $3.1 million. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. Old National reviewed the acquired loans and determined that as of June 30, 2015, $51.2 million met the definition of criticized, $59.9 million were considered classified, and $0.1 were doubtful. Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These assets are included in our summary of under-performing, criticized and classified assets found below.

Table of Contents

Summary of under-performing, criticized and classified assets:

(dollars in thousands)	June 30, 2015	June 30, 2014	December 31, 2014
Nonaccrual loans:			
Commercial	**$ 70,665**	$ 30,305	$ 38,460
Commercial real estate	**66,250**	50,644	67,402
Residential real estate	**14,058**	11,401	13,968
Consumer	**5,389**	4,358	5,903
Covered loans (1)	**11,440**	21,317	15,124
Total nonaccrual loans (2)	**167,802**	118,025	140,857
Renegotiated loans not on nonaccrual:			
Noncovered loans	**13,398**	21,311	12,710
Covered loans (1)	**165**	128	148
Past due loans (90 days or more and still accruing):			
Commercial	**325**	2	33
Commercial real estate		78	138
Residential real estate	**88**	26	1
Consumer	**185**	181	286
Covered loans (1)		93	
Total past due loans	**598**	380	458
Other real estate owned	**9,388**	6,729	7,241
Other real estate owned, covered (1)	**4,753**	11,155	9,121
Total under-performing assets	**$ 196,104**	$ 157,728	$ 170,535
Classified loans (includes nonaccrual, renegotiated, past due 90 days and other problem loans)	**$ 242,681**	$ 203,874	$ 233,486
Classified loans, covered (1)	**14,425**	24,819	17,413
Other classified assets (3)	**22,119**	41,452	26,479
Criticized loans	**163,660**	112,914	194,809
Criticized loans, covered (1)	**10,261**	6,490	4,525
Total criticized and classified assets	**$ 453,146**	$ 389,549	$ 476,712
Asset Quality Ratios including covered assets:			
Non-performing loans/total loans (4) (5)	**2.68%**	2.52%	2.43%
Under-performing assets/total loans and other real estate owned (4)	**2.89**	2.84	2.69
Under-performing assets/total assets	**1.62**	1.52	1.46
Allowance for loan losses/under-performing assets (6)	**25.59**	29.26	28.06

Allowance for loan losses/nonaccrual loans (2)	**29.91**	39.10	33.97
Asset Quality Ratios excluding covered assets:			
Non-performing loans/total loans (4) (5)	**2.56**	2.20	2.24
Under-performing assets/total loans and other real estate owned (4)	**2.71**	2.33	2.37
Under-performing assets/total assets	**1.49**	1.20	1.25
Allowance for loan losses/under-performing assets (6)	**26.97**	33.99	30.31
Allowance for loan losses/nonaccrual loans (2)	**31.00**	43.94	35.23

(1) The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans and other real estate owned. At June 30, 2015, we expect 80% of any losses incurred on these covered assets to be reimbursed to Old National by the FDIC.

(2) Includes purchased credit impaired loans of approximately $31.7 million at June 30, 2015, $35.5 million at June 30, 2014 and $41.2 million at December 31, 2014 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.

(3) Includes 2 pooled trust preferred securities, 3 corporate securities and 1 insurance policy at June 30, 2015.

(4) Loans exclude loans held for sale.

(5) Non-performing loans include nonaccrual and renegotiated loans.

(6) Because the acquired loans 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.

Under-performing assets totaled $196.1 million at June 30, 2015, compared to $157.7 million at June 30, 2014 and $170.5 million at December 31, 2014. Under-performing assets as a percent of total loans and other real estate owned at June 30, 2015 were 2.89%, an increase of 5 basis points from 2.84% at June 30, 2014 and an increase of 20 basis points from 2.69% at December 31, 2014. At June 30, 2015, under-performing assets related to covered assets acquired in the Integra Bank acquisition were approximately $16.4 million, which included $11.4 million of nonaccrual loans, $0.2 million of renegotiated loans and $4.8 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 $167.8 million at June 30, 2015, compared to $118.0 million at June 30, 2014 and $140.9 million at December 31, 2014. Nonaccrual loans increased from June 30, 2014 primarily due to increases in nonaccrual commercial and commercial real estate loans, partially offset by a decrease in our acquired covered nonaccrual 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 June 30, 2015 included $45.1 million of loans related to the United, LSB, and Founders acquisitions. Because the acquired loans 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 31.00% at June 30, 2015, compared to 43.94% at June 30, 2014 and 35.23% at December 31, 2014. Purchased credit impaired loans that were included in the nonaccrual category because the collection of principal or interest is doubtful totaled $31.7 million at June 30, 2015, compared to $35.5 million at June 30, 2014 and $41.2 million at December 31, 2014. 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 criticized and classified assets were $453.1 million at June 30, 2015, an increase of $63.6 million from June 30, 2014, and a decrease of $23.6 million from December 31, 2014. Included in criticized and classified assets at June 30, 2015, is $111.3 million related to the acquisitions of United, LSB, and Founders. Other classified assets include investment securities that fell below investment grade rating totaling $22.1 million at June 30, 2015, compared to $41.5 million at June 30, 2014 and $26.5 million at December 31, 2014.

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

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

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

If we are unable to resolve a nonperforming loan issue, the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based

on quantitative benchmarks or subjectively based upon certain events or particular circumstances. It is 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 90 days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

For commercial TDRs, an allocated reserve is established within the allowance for loan losses for the difference between the carrying value of the loan and its computed value. To determine the value of the loan, one of the following methods is selected: (1) the present value of expected cash flows discounted at the loan s original

effective interest rate, (2) the loan s observable market price, or (3) the fair value of the collateral value, if the loan is collateral dependent. The allocated reserve is established as the difference between the carrying value of the loan and the collectable value. If there are significant changes in the amount or timing of the loan s expected future cash flows, impairment is recalculated and the valuation allowance is adjusted accordingly.

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

At June 30, 2015, our TDRs consisted of $17.8 million of commercial loans, $16.1 million of commercial real estate loans, $2.4 million of residential loans, and $2.8 million of consumer loans totaling $39.1 million. Approximately $25.5 million of the TDRs at June 30, 2015 were included with nonaccrual loans. At December 31, 2014, our TDRs consisted of $15.2 million of commercial loans, $15.2 million of commercial real estate loans, $2.1 million of residential loans, and $2.5 million of consumer loans, totaling $35.0 million. Approximately $22.1 million of the TDRs at December 31, 2014 were included with nonaccrual loans.

Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling $0.9 million as of June 30, 2015 and $2.8 million of December 31, 2014. As of June 30, 2015, Old National had committed to lend an additional $0.9 million to customers with outstanding loans that are classified as TDRs.

The terms of certain other loans were modified during the six months ended June 30, 2015 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

Purchased credit impaired (PCI) loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool. As of June 30, 2015, it has not been necessary to remove any loans from PCI accounting.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR, and therefore impaired, until it is paid in full, otherwise settled, sold or charged off. However, recent guidance also permits for loans to be removed from TDR status under these circumstances: (1) at the time of the subsequent restructuring, the borrower is not experiencing financial difficulties, and this is documented by a current credit evaluation at the time of the restructuring, (2) under the terms of the subsequent restructuring agreement, the institution has granted no concession to the borrower; and (3) the subsequent restructuring agreement includes market terms that are no less favorable than those that would be offered for a comparable new loan. For loans subsequently restructured that have cumulative principal forgiveness, the loan should continue to be measured in accordance with ASC 310-10, Receivables Overall . However, consistent with ASC 310-40-50-2, Troubled Debt Restructurings by Creditors, Creditor Disclosure of Troubled Debt Restructurings, the loan would not be required to be reported in the years following the restructuring if the subsequent restructuring meets both of these criteria: (1) has an interest rate at the time of the subsequent restructuring that is not less than a market interest rate; and (2) is performing in compliance

with its modified terms after the subsequent restructuring.

Allowance for Loan Losses and Reserve for Unfunded Commitments

Loan charge-offs, net of recoveries, totaled $1.0 million for the three months ended June 30, 2015 and 2014. Loan charge-offs, net of recoveries, totaled $(0.1) million for the six months ended June 30, 2015 compared to $0.6 million for the six months ended June 30, 2014. Annualized, net charge-offs to average loans were 0.06% for the three months ended June 30, 2015 and 0.00% for the six months ended June 30, 2015, compared to 0.07% for the three months ended June 30, 2014 and 0.02% for the six months ended June 30, 2014. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

Table of Contents

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the consolidated loan portfolio. We began using a probability of default and loss given default model as a tool to determine the adequacy of the allowance for loan losses for performing commercial and commercial real estate loans effective January 1, 2015. We adopted the probability of default and loss given default model for commercial and commercial real estate loans because we believe this approach has a tendency to react more quickly to credit cycle shifts (both positive and negative). Switching from migration analysis to the probability of default and loss given default model for our performing commercial and commercial real estate loans did not have a material effect on our allowance for loan losses at the date of adoption. See Note 8 to the consolidated financial statements for additional information about the probability of default and loss given default model.

At June 30, 2015, the allowance for loan losses was $50.2 million, an increase of $4.0 million compared to $46.2 million at June 30, 2014, and an increase of $2.4 million compared to $47.8 million at December 31, 2014. Over the last twelve months, charge-offs have remained low. 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 0.74% at June 30, 2015, compared to 0.83% at June 30, 2014, and 0.76% at December 31, 2014. The decrease from June 30, 2014 is primarily a result of the acquisitions of United, LSB, and Founders. The acquired loans were recorded at fair value pursuant to ASC 805, and accordingly no allowance was recorded at the acquisition date.

Because the acquired loans were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. We would expect that as the fair value mark is accreted into income over future periods, a reserve will be established to absorb credit deterioration or adverse changes in expected cash flows. Through June 30, 2015, $1.0 million and $1.8 million had been reserved for these purchased credits from Monroe Bancorp and Integra Bank, respectively.

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

			Purchased Loans					
	Legacy		Covered			Non-covered		
(dollars in thousands)	FAS 5	FAS 114	FAS 5	FAS 114	SOP 03-3	FAS 5	FAS 114	SOP 03-3
Loan balance	$ 5,155,055	$ 75,796	$ 65,125	$ 4,744	$ 65,538	$ 1,320,556	$ 42,510	$ 36,738
Remaining purchase discount			2,929		28,539	66,645	10,465	28,877
Allowance, January 1, 2015	$ 33,974	$ 8,784	$ 1,007	$ 1,441	$ 1,104	$	$	$ 1,539
Charge-offs	(2,168)	(1,357)	(230)	(3)	(718)	(779)	63	341
Recoveries	774	2,872	26	3	196	294	976	(220)
Provision expense	2,644	1,817	(565)	(626)	77	485	(1,039)	(521)
Allowance, June 30, 2015	$ 35,224	$ 12,116	$ 238	$ 815	$ 659	$	$	$ 1,139

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 reserve for unfunded loan commitments is classified as a liability account on the balance sheet and totaled $2.3 million at June 30, 2015, compared to $4.4 million at December 31, 2014.

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 model 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. 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. The model shows our projected net interest income sensitivity based on interest rate changes only and does not consider other forecast assumptions.

The following table illustrates our projected net interest income sensitivity over a two year cumulative horizon based on the asset/liability model as of June 30, 2015:

	Immediate Rate Decrease		Immediate Rate Increase
(dollars in thousands)		Base	

	-50 Basis Points		+100 Basis Points	+200 Basis Points	+300 Basis Points
June 30, 2015					
Projected interest income:					
Money market, other interest earning investments and investment securities	$ 199,066	$ 209,848	$ 225,069	$ 237,314	$ 248,185
Loans	490,430	509,859	573,990	638,279	701,302
Total interest income	689,496	719,707	799,059	875,593	949,487
Projected interest expense:					
Deposits	18,810	29,199	77,705	126,211	174,716
Borrowings	43,597	47,180	64,046	80,912	97,778
Total interest expense	62,407	76,379	141,751	207,123	272,494
Net interest income	$ 627,089	$ 643,328	$ 657,308	$ 668,470	$ 676,993
Change from base	$ (16,239)		$ 13,980	$ 25,142	$ 33,665
% change from base	-2.52%		2.17%	3.91%	5.23%

At June 30, 2014, our two year cumulative horizon modeling results indicated a 0.82%, 1.54%, and 1.80% change in net interest income from base case for the +100 basis points, +200 basis points, and +300 basis points scenarios,

respectively. As a result of the already low interest rate environment, we did not include a falling interest rate scenario at June 30, 2014. Our asset sensitivity increased year over year primarily as a result of changes in our balance sheet and the shortened duration of our securities portfolio. Also contributing to the increase was the issuance of $175 million of fixed rate debt, approximately $120 million of variable-rate mortgage loans acquired from United Bancorp, and our use of derivative instruments including certain cash flow hedges on variable-rate debt with a notional amount of $625 million at June 30, 2015.

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.

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, 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 our overall sensitivity to market interest rate changes, including shocks, yield curve flattening, yield curve steepening, as well as forecasts of likely interest rate scenarios. Current expectations of changes in market rates are that short-term rates will increase incrementally beginning sometime in 2015. Long-term rates are also expected to increase, but to a somewhat lesser degree than short-term rates. Using these rate assumptions, our models indicate that net interest income should increase approximately 1.01% over the next twelve months from the June 30, 2015 base. As of June 30, 2015, our projected net interest income sensitivity based on the asset/liability models we utilize was within the limits of the Company s interest rate risk policy for the scenarios tested.

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 $5.8 million at June 30, 2015, compared to an estimated fair value loss of $5.3 million at December 31, 2014. 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.

87

Table of Contents

A time deposit maturity schedule for Old National Bank is shown in the following table for June 30, 2015.

TIME DEPOSIT MATURITY SCHEDULE JUNE 30, 2015
(dollars in thousands)

Maturity Bucket	Amount	Rate
2015	$ 349,997	0.75%
2016	371,325	1.51
2017	140,645	0.75
2018	98,925	1.14
2019	56,772	1.53
2020 and beyond	65,176	1.66
Total	$ 1,082,840	1.14%

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 affirmed the Long-Term Rating of A3 of Old National Bancorp s senior unsecured/issuer rating on May 14, 2015.

Moody s Investor Service upgraded Old National Bank s long-term deposit rating to Aa3 from A2 on May 14, 2015. The bank s short-term deposit rating was affirmed at P-1 and the bank s issuer rating was downgraded to A2 from A3.

The credit ratings of Old National and Old National Bank at June 30, 2015, are shown in the following table.

CREDIT RATINGS

	Moody s Investor Service	
	Long-term	**Short-term**
Old National Bancorp	A3	N/A
Old National Bank	Aa3	P-1

N/A = not applicable

Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposit and short-term and medium-term bank notes as well. As of June 30, 2015, Old National Bancorp and its subsidiaries had the following availability of liquid funds and borrowings.

(dollars in thousands)	Parent Company	Subsidiaries

Available liquid funds:		
Cash and due from banks	$ 70,693	$ 124,520
Unencumbered government-issued debt securities		1,220,427
Unencumbered investment grade municipal securities		365,536
Unencumbered corporate securities		91,132
Availability of borrowings:		
Amount available from Federal Reserve discount window*		442,949
Amount available from Federal Home Loan Bank Indianapolis*		484,833
Total available funds	$ 70,693	$ 2,729,397

* Based on collateral pledged

The Parent Company (Old National Bancorp) has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows and funds used for acquisitions. The Parent Company can obtain funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt and equity markets. At June 30, 2015, the Parent Company s other borrowings outstanding were $215.3 million.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. Prior regulatory approval to pay dividends was not required in 2014 or 2015 and is not currently required.

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 $1.703 billion and standby letters of credit of $60.7 million at June 30, 2015. At June 30, 2015, approximately $1.618 billion of the loan commitments had fixed rates and $85.2 million had floating rates, with the floating rates ranging from 0% to 25%. At December 31, 2014, loan commitments were $1.584 billion and standby letters of credit were $65.3 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 $7.6 million at June 30, 2015. Old National entered into an additional risk participation in an interest rate swap during the third quarter of 2014, which had a notional amount of $12.8 million at June 30, 2015.

CONTRACTUAL OBLIGATIONS

The following table presents our significant fixed and determinable contractual obligations at June 30, 2015:

CONTRACTUAL OBLIGATIONS

	Payments Due In				
(dollars in thousands)	One Year or Less (1)	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without stated maturity	$ 7,726,730	$	$	$	$ 7,726,730
IRAs, consumer and brokered certificates of deposit	349,997	511,970	155,697	65,176	1,082,840
Short-term borrowings	530,377				530,377
Other borrowings	250,032	213,263	148,334	457,780	1,069,409
Fixed interest payments (2)	11,070	12,949	8,199	23,204	55,422
Operating leases	15,046	56,362	51,952	229,555	352,915
Other long-term liabilities (3)	383				383

(1) For the remaining six months of fiscal 2015.

(2) Our senior notes, subordinated notes, certain trust preferred securities and certain Federal Home Loan Bank advances have fixed-rates ranging from 0.18% to 6.76%. All of our other long-term debt is at LIBOR based variable-rates at June 30, 2015. The projected variable interest assumes no increase in LIBOR rates from June 30, 2015.

(3) Amount expected to be contributed to the pension plans in 2015. Amounts for 2016 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 14 to the consolidated financial statements of our Annual Report on Form 10-K for the year ended December 31, 2014.

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, 2014. 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).

Table of Contents

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.

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 will not fully offset the financial effects of such a situation.

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.

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

We adopted the probability of default and loss given default model for commercial and commercial real estate loans because we believe this approach has a tendency to react more quickly to credit cycle shifts (both positive and negative). Switching from migration analysis to the probability of default and loss given default model for our performing commercial and commercial real estate loans did not have a material effect on our allowance for loan losses at the date of adoption.

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

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

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

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

Management s analysis of probable losses in the portfolio at June 30, 2015, resulted in a range for allowance for loan losses of $11.7 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 and our projection of FAS 5 loss rates inherent in the portfolio, 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 $1.0 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.

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.

Table of Contents

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 14 to the consolidated financial statements of our Annual Report on Form 10-K for the year ended December 31, 2014 for a further description of our provision and related income tax assets and liabilities.

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

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

Valuation of Securities

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

estimates of value.

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

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

- The length of time and the extent to which the fair value has been less than amortized cost;
- The financial condition and near-term prospects of the issuer;
- The underlying fundamentals of the relevant market and the outlook for such market for the near future;
- Our intent to sell the debt security or whether it is more likely than not that we will be required to sell the debt security before its anticipated recovery; and
- When applicable for purchased beneficial interests, the estimated cash flows of the securities are assessed for adverse changes.

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

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

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

FORWARD-LOOKING STATEMENTS

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

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 cannot assure that any of these statements, estimates, or beliefs will be realized and actual results may differ from those contemplated in these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised to consult further disclosures we may make on related subjects in our filings with the SEC. In addition to other factors discussed in this report, some of the important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include the following:

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

changes in the securities markets; and

changes in fiscal, monetary and tax policies.

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

ITEM 3. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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 quarterly report on 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, 2014.

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

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
04/01/15 - 04/30/15		$		1,900,468
05/01/15 - 05/31/15	1,911,753	13.78	1,900,468	
06/01/15 - 06/30/15	3,626	13.63		
Quarter-to-date 06/30/15	1,915,379	$ 13.78	1,900,468	

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. During the three months ended June 30, 2015, Old National also repurchased a limited number of shares associated with employee share-based incentive programs.

On July 23, 2015, the Board of Directors of the Company approved the adoption of a new stock repurchase plan to replace the stock repurchase plan previously adopted on October 23, 2014 which superseded the plan adopted on January 23, 2014. Under the new plan, the Company is authorized to purchase up to 7.0 million shares of the Company s common stock through January 31, 2016. These shares may be purchased from time to time in either the open market or in privately negotiated transactions, in accordance with SEC regulations. A total of approximately 6.0 million shares of the Company s common stock have been repurchased since January 2014.

ITEM 5. OTHER INFORMATION

(a) None

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

ITEM 6. EXHIBITS

Exhibit No.	Description
2.1	Purchase and Assumption Agreement Whole Bank All Deposits, among Federal Deposit Insurance Corporation, receiver of Integra Bank National Association, Evansville, Indiana, the Federal Deposit Insurance Corporation and Old National Bank, dated July 29, 2011 (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2011).
2.2	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).

2.3	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).
2.4	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).
2.5	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 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	Second Indenture Supplement, dated as of August 15, 2014, between Old National and The Bank of New York Mellon Trust Company, N.A., as trustee, providing for the issuance of its 4.125% Senior Notes due 2024 (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 August 15, 2014).
4.4	Form of 4.125% Senior Notes due 2024 (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 August 15, 2014).
10.1	Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.2	Second Amendment to the Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(b) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.3	2005 Directors Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(c) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*

10.4	Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(d) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.5	Second Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(e) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.6	Third Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(f) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.7	2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(g) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.8	Summary of Old National Bancorp s Outside Director Compensation Program (incorporated by reference to Old National s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).*
10.9	Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
10.10	Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).*
10.11	Form of 2007 Non-qualified Stock Option Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(y) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).*
10.12	Lease Agreement, dated December 20, 2006 between ONB One Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(aa) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.13	Lease Agreement, dated December 20, 2006 between ONB 123 Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ab) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.14	Lease Agreement, dated December 20, 2006 between ONB 4th Street Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ac) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.15	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord #1, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
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	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).*
10.25	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).
10.26	Form of Employment Agreement for Robert G. Jones (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).*
10.27	Form of Employment Agreement for Christopher A. Wolking 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).*
10.28	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).*
10.29	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).*
10.30	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).*

10.31	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).
10.32	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).*
10.33	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).*
10.34	Voting Agreement by and among directors of Tower Financial Corporation (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 10, 2013).
10.35	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).
10.36	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).*
10.37	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).*
10.38	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).
10.39	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).
10.40	Form of 2015 Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(au) of Old National s Annual Report on Form 10-K for the year ended December 31, 2014).*
10.41	Form of 2015 Restricted Stock Award Agreement 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, 2014).*
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Old National Bancorp s Form 10-Q Report for the quarterly period ended June 30, 2015, 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

101

Table of Contents

SIGNATURES

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

OLD NATIONAL BANCORP
(Registrant)

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

Date: July 31, 2015