UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

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

For the transition period from __________ to __________

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

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

(812) 464-1294

(Registrant s telephone number, including area code)

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

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

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

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

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

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

OLD NATIONAL BANCORP

FORM 10-Q

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OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

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

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

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

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

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

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

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

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

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CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

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

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

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

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

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

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OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, valuation of purchased loans, FDIC indemnification asset, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of March 31, 2014 and 2013, and December 31, 2013, and the results of its operations for the three months ended March 31, 2014 and 2013. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2013.

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

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

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

NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

Bank of America

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

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

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

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

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Pending Acquisitions

On September 10, 2013, Old National announced that it had entered into an agreement to acquire Tower Financial Corporation (Tower) through a stock and cash merger. Tower is an Indiana bank holding company with Tower Bank & Trust Company as its wholly-owned subsidiary. Headquartered in Fort Wayne, Indiana, Tower has seven banking centers with approximately $671 million in assets and an additional $750 million in trust assets under management at March 31, 2014. The merger strengthens Old National s position as the third largest deposit holder in Indiana. Pursuant to the merger agreement, Tower s shareholders will receive 1.20 shares of Old National common stock and $6.75 in cash for each share of Tower common stock. The transaction received regulatory approval from the Board of Governors of the Federal Reserve System and the Office of the Comptroller of the Currency and closed on April 25, 2014, subsequent to quarter-end. At April 25, 2014, the transaction had an estimated value of $110.3 million.

On January 8, 2014, Old National announced that it had entered into an agreement to acquire United Bancorp, Inc. (United) through a stock and cash merger. United is a Michigan bank holding company with United Bank & Trust as its wholly-owned subsidiary. Headquartered in Ann Arbor, Michigan, United has eighteen banking centers with approximately $922 million in assets and an additional $685 million in trust assets under management at March 31, 2014. Pursuant to the merger agreement, shareholders of United will receive 0.70 shares of Old National common stock and $2.66 in cash for each share of United common stock. As of January 6, 2014, the transaction was valued at approximately $173.1 million. The transaction is subject to approval by regulatory authorities and United s shareholders, as well as the satisfaction of customary closing conditions.

Divestitures

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

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

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

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NOTE 4 NET INCOME PER SHARE

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

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

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

NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following tables summarize the changes within each classification of accumulated other comprehensive income (loss) (AOCI) net of tax for the three months ended March 31, 2014 and summarizes the significant amounts reclassified out of each component of AOCI:

Changes in Accumulated Other Comprehensive Income (Loss) by Component
For the Three Months Ended March 31, 2014 (a)

	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Balance at January 1, 2014	$ (21,108)	$ (16,767)	$ (190)	$ (6,401)	$ (44,466)
	7,415	0	(1,200)	0	6,215

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

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

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

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

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

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

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

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

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

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

(b) See table below for details about reclassifications.

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Reclassifications out of Accumulated Other Comprehensive Income (Loss)
For the Three Months Ended March 31, 2013

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

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

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NOTE 6 INVESTMENT SECURITIES

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

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2014				
Available-for-sale				
U.S. Treasury	**$ 15,560**	**$ 137**	**$ 0**	**$ 15,697**
U.S. Government-sponsored entities and agencies	**504,928**	**619**	**(15,467)**	**490,080**
Mortgage-backed securities Agency	**1,237,308**	**16,156**	**(23,706)**	**1,229,758**
Mortgage-backed securities Non-agency	**16,092**	**558**	**0**	**16,650**
States and political subdivisions	**241,556**	**11,386**	**(1,103)**	**251,839**
Pooled trust preferred securities	**18,107**	**0**	**(11,328)**	**6,779**
Other securities	**357,998**	**5,143**	**(4,880)**	**358,261**
Total available-for-sale securities	**$ 2,391,549**	**$ 33,999**	**$ (56,484)**	**$ 2,369,064**
Held-to-maturity				
U.S. Government-sponsored entities and agencies	**$ 169,781**	**$ 8,203**	**$ 0**	**$ 177,984**
Mortgage-backed securities Agency	**32,020**	**1,385**	**0**	**33,405**
States and political subdivisions	**577,493**	**24,562**	**(530)**	**601,525**
Total held-to-maturity securities	**$ 779,294**	**$ 34,150**	**$ (530)**	**$ 812,914**
December 31, 2013				
Available-for-sale				
U.S. Treasury	$ 12,995	$ 118	$ 0	$ 13,113
U.S. Government-sponsored entities and agencies	456,123	464	(20,999)	435,588
Mortgage-backed securities Agency	1,300,135	15,690	(26,567)	1,289,258
Mortgage-backed securities Non-agency	17,036	376	0	17,412
States and political subdivisions	260,398	10,112	(1,715)	268,795
Pooled trust preferred securities	19,215	0	(11,178)	8,037
Other securities	340,381	5,140	(5,523)	339,998
Total available-for-sale securities	$ 2,406,283	$ 31,900	$ (65,982)	$ 2,372,201
Held-to-maturity				
U.S. Government-sponsored entities and agencies	$ 170,621	$ 7,749	$ 0	$ 178,370
Mortgage-backed securities Agency	35,443	906	(1)	36,348

States and political subdivisions	556,670	10,949	(1,579)	566,040
Total held-to-maturity securities	$ 762,734	$ 19,604	$ (1,580)	$ 780,758

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

(dollars in thousands)	March 31, 2014		Weighted
Maturity	**Amortized Cost**	**Fair Value**	**Average Yield**
Available-for-sale			
Within one year	**$ 24,903**	**$ 25,081**	**2.58%**
One to five years	**270,845**	**277,262**	**2.67**
Five to ten years	**538,191**	**528,863**	**2.29**
Beyond ten years	**1,557,610**	**1,537,858**	**2.41**
Total	**$ 2,391,549**	**$ 2,369,064**	**2.42%**
Held-to-maturity			
Within one year	**$ 1,521**	**$ 1,552**	**3.13%**
One to five years	**12,484**	**13,136**	**4.10**
Five to ten years	**168,265**	**174,321**	**3.20**
Beyond ten years	**597,024**	**623,905**	**5.52**
Total	**$ 779,294**	**$ 812,914**	**4.99%**

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

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

Proceeds from sales and calls of securities available for sale were $39.9 million and $133.4 million for the three months ended March 31, 2014 and 2013, respectively. Gains of $0.5 million and $0.7 million were realized on these sales during 2014 and 2013, respectively and offsetting losses of $0.1 million were realized on these sales during 2014. Also included in net securities gains for the first three months of 2014 is $101 thousand of gains associated with the trading securities, $67 thousand of gains from mutual funds and a $100 thousand other-than-temporary impairment charge related to credit loss on one limited partnership investment, described below. Impacting earnings in the first three months of 2013 was $101 thousand of gains associated with the trading securities and $195 thousand of gains from mutual funds. There were no other-than-temporary impairment charges related to credit loss in the first three months of 2013.

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

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

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

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

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

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

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

Non-agency Mortgage-backed Securities

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

Pooled Trust Preferred Securities

At March 31, 2014, our securities portfolio contained three pooled trust preferred securities with a fair value of $6.8 million and unrealized losses of $11.3 million. One of the pooled trust preferred securities in our portfolio falls within the scope of FASB ASC 325-10 (EITF 99-20) and has a fair value of $0.3 million with an unrealized loss of $3.8 million at March 31, 2014. This security was rated A3 at inception, but at March 31, 2014, this security is rated D. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. We use the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the three months ended March 31, 2014, our model indicated no other-than-temporary-impairment losses on this security. At March 31, 2014, we have no intent to sell any of these securities that are in an unrealized loss position nor is it expected that we would be required to sell these securities.

Two of our pooled trust preferred securities with a fair value of $6.5 million and unrealized losses of $7.6 million at March 31, 2014 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. Our analysis indicated no other-than-temporary-impairment on these securities.

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

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

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

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

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Trust preferred securities

March 31, 2014

(Dollars in Thousands)

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

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

On July 19, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act contains provisions (the Volcker

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

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

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

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

NOTE 7 LOANS HELD FOR SALE

Residential loans that Old National has committed to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). At March 31, 2014 and December 31, 2013, Old National had residential loans held for sale of $6.2 million and $7.7 million, respectively.

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

During the third quarter of 2013, residential real estate loans held for investment of $96.9 million were reclassified to loans held for sale at the lower of cost or fair value and sold for $96.9 million, resulting in no gain or loss. These longer duration loans were sold to reduce interest rate risk in the loan portfolio. At March 31, 2014, there were no loans held for sale under this arrangement.

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

During the first three months of 2013, commercial and commercial real estate loans held for investment of $2.5 million, including $0.4 million of purchased impaired loans, were reclassified to loans held for sale at the lower of cost or fair value and sold for $3.2 million, resulting in a charge-off of $0.3 million and other noninterest income of $1.0 million. At March 31, 2013, there were no loans held for sale under this arrangement.

NOTE 8 LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The composition of loans by lending classification was as follows:

(dollars in thousands)	**March 31, 2014**	December 31, 2013
Commercial (1)	**$ 1,367,486**	$ 1,373,415
Commercial real estate:		
Construction	**92,536**	88,630
Other	**1,064,057**	1,072,260
Residential real estate	**1,356,233**	1,359,569
Consumer credit:		
Heloc	**251,300**	251,102
Auto	**649,680**	620,473
Other	**96,828**	99,683
Covered loans	**194,161**	217,832
Total loans	**5,072,281**	5,082,964
Allowance for loan losses	**(41,539)**	(41,741)
Allowance for loan losses - covered loans	**(6,014)**	(5,404)
Net loans	**$ 5,024,728**	$ 5,035,819

(1) Includes direct finance leases of $24.7 million at March 31, 2014 and $27.8 million at December 31, 2013. Portfolio loans, or loans Old National intends to hold for investment purposes, are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for

loan losses. Interest income is accrued on the principal balances of loans outstanding.

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

Commercial

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

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Commercial real estate

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

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

Residential

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

Consumer

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

Covered Loans

On July 29, 2011, Old National acquired the banking operations of Integra in an FDIC assisted transaction. As part of the purchase and assumption agreement, Old National and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), OREO and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million. As of March 31, 2014, we do not expect losses to exceed $275.0 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has previously reimbursed Old National under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

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Allowance for loan losses

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

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

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

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

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

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

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

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

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

Credit Quality

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

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

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

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

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

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

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

(dollars in thousands)

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

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

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

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

Impaired Loans

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

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

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

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

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

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

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

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

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

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

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

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

Loan Participations

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

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Troubled Debt Restructurings

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

Any loans that are modified are reviewed by Old National to identify if a troubled debt restructuring (TDR) has occurred, which is when for economic or legal reasons related to a borrower s financial difficulties, the Bank grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. During the three months ended March 31, 2014, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the current market rate of new debt with similar risk, or a permanent reduction of the recorded investment of the loan.

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

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

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

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

At March 31, 2014, our TDRs consisted of $21.6 million of commercial loans, $21.0 million of commercial real estate loans, $1.7 million of consumer loans and $2.3 million of residential loans, totaling $46.6 million. Approximately $26.2 million of the TDRs at March 31, 2014 were included with nonaccrual loans. At December 31, 2013, our TDRs consisted of $22.5 million of commercial loans, $22.6 million of commercial real estate loans, $1.4 million of consumer loans and $2.4 million of residential loans, totaling $48.9 million. Approximately $33.1 million of the TDRs at December 31, 2013 were included with nonaccrual loans.

As of March 31, 2014 and December 31, 2013, Old National has allocated $6.2 million and $4.1 million of specific reserves to customers whose loan terms have been modified in TDRs, respectively. Old National has not committed to lend any additional amounts as of March 31, 2014 and December 31, 2012, respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

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

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

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

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

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

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

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

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

Number of	Recorded

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

The TDRs that subsequently defaulted, described above, had no material impact on the allowance for loan losses and resulted in no charge-offs during the three months ended March 31, 2014.

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

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

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

The terms of certain other loans were modified during the three months ended March 31, 2014 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have had the maturity date extended. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

Purchased credit impaired (PCI) loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool. As of March 31, 2014, it has not been necessary to remove any loans from PCI accounting.

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

The following table presents activity in troubled debt restructurings for the three months ended March 31, 2014 and 2013:

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

(dollars in thousands)	Commercial	Commercial Real Estate	Consumer	Residential	Total
2013					
Troubled debt restructuring:					
Balance, January 1, 2013	$ 12,660	$ 18,422	$ 473	$ 499	$ 32,054
(Charge-offs)/recoveries	(27)	(2)	(87)	0	(116)
Payments	(1,286)	(1,722)	(12)	(34)	(3,054)
Additions	668	949	472	5	2,094
Balance March 31, 2013	$ 12,015	$ 17,647	$ 846	$ 470	$ 30,978

Purchased Impaired Loans (non-covered loans)

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

Old National has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. Of these acquired credit impaired loans, $4.0 million in carrying balances did not meet the criteria to be accounted for under the guidance of ASC 310-30 as they were revolving lines of credit, thus these lines have not been included in the following table. For these noncovered loans that meet the criteria of ASC 310-30 treatment, the carrying amount is as follows:

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(dollars in thousands)	March 31, 2014	December 31, 2013
Commercial	$ 610	$ 648
Commercial real estate	18,534	23,618
Consumer	11,243	12,725
Residential	159	154
Carrying amount	$ 30,546	$ 37,145
Carrying amount, net of allowance	$ 28,664	$ 34,576
Allowance for loan losses	$ 1,882	$ 2,569

The outstanding balance of noncovered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $101.5 million and $115.0 million as of March 31, 2014 and December 31, 2013, respectively.

The accretable difference on purchased loans acquired in a business combination is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. Accretion of $6.4 million has been recorded as loan interest income through the three months ended March 31, 2014. Accretion of $4.0 million was recorded as loan interest income through the three months ended March 31, 2013. Improvement in cash flow expectations has resulted in a reclassification from nonaccretable difference to accretable yield.

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

(dollars in thousands)	Monroe	Integra Noncovered	IBT	Total
Balance at January 1, 2014	$ 6,787	$ 2,425	$ 19,079	$ 28,291
Accretion of income	(1,253)	(258)	(4,879)	(6,390)
Reclassifications from (to) nonaccretable difference	(1,383)	(82)	3,504	2,039
Disposals/other adjustments	633	0	0	633
Balance at March 31, 2014	$ 4,784	$ 2,085	$ 17,704	$ 24,573

Included in Old National s allowance for loan losses is $1.9 million related to the purchased loans disclosed above for the first three months of 2014. Included in Old National s allowance for loan losses was $2.6 million related to the purchased loans in 2013. An immaterial amount of allowances for loan losses were reversed during 2013 related to these loans.

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

	Monroe	Integra

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

(1) Includes covered and noncovered.

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

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NOTE 9 COVERED LOANS

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. The carrying amount of covered loans was $194.2 million at March 31, 2014. The composition of covered loans by lending classification was as follows:

	At March 31, 2014		
(dollars in thousands)	Loans Accounted for Under ASC 310-30 (Purchased Credit Impaired)	Loans excluded from ASC 310-30 (1) (Not Purchased Credit Impaired)	Total Covered Purchased Loans
Commercial	$ 9,430	$ 13,205	$ 22,635
Commercial real estate	64,714	4,086	68,800
Residential	26,245	152	26,397
Consumer	16,412	59,917	76,329
Covered loans	116,801	77,360	194,161
Allowance for loan losses	(2,301)	(3,713)	(6,014)
Covered loans, net	$ 114,500	$ 73,647	$ 188,147

(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 $383.2 million and $406.3 million as of March 31, 2014 and December 31, 2013, respectively.

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

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

Balance at January 1, 2014	$ 251,042	$ (46,793)	$ (73,211)	$ 131,038
Principal reductions and interest payments	(25,353)	(221)	0	(25,574)
Accretion of loan discount	0	0	11,339	11,339
Changes in contractual and expected cash flows due to remeasurement	(3,159)	18,105	(13,412)	1,534
Removals due to foreclosure or sale	(3,133)	1,302	(2,006)	(3,837)
Balance at March 31, 2014	$ 219,397	$ (27,607)	$ (77,290)	$ 114,500

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

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

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The following table is a roll-forward of acquired impaired loans accounted for under ASC 310-30 for the three months ended March 31, 2013:

(dollars in thousands)	Contractual Cash Flows (1)	Nonaccretable Difference	Accretable Yield	Carrying Amount (2)
Balance at January 1, 2013	$ 424,527	$ (90,996)	$ (85,779)	$ 247,752
Principal reductions and interest payments	(44,452)	(768)	0	(45,220)
Accretion of loan discount	0	0	10,343	10,343
Changes in contractual and expected cash flows due to remeasurement	(11,948)	19,039	(7,553)	(462)
Removals due to foreclosure or sale	(2,412)	975	(438)	(1,875)
Balance at March 31, 2013	$ 365,715	$ (71,750)	$ (83,427)	$ 210,538

(1) The balance of contractual cash flows includes future contractual interest and is net of amounts charged off and interest collected on nonaccrual loans.
(2) Carrying amount for this table is net of allowance for loan losses.

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

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

(dollars in thousands)	2014	2013
Balance at January 1,	$ 73,211	$ 85,779
New loans purchased	0	0
Accretion of income	(11,339)	(10,343)
Reclassifications from (to) nonaccretable difference	13,412	7,554
Disposals/other adjustments	2,006	437
Balance at March 31,	$ 77,290	$ 83,427

At March 31, 2014, the $65.7 million loss sharing asset is comprised of a $60.6 million FDIC indemnification asset and a $5.1 million FDIC loss share receivable. The loss share receivable represents actual incurred losses where reimbursement has not yet been received from the FDIC. The indemnification asset represents future cash flows we expect to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that are being amortized over the same period for which those improved cash flows are being accreted into income. At March 31, 2014, $22.4 million of the FDIC indemnification asset is related to expected indemnification payments and $38.2 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income. At March 31, 2013, $84.3 million of the FDIC indemnification asset was related to expected indemnification payments and $12.9 million was expected to be amortized and reported in noninterest income as an offset to future accreted interest income.

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

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

The following table shows a detailed analysis of the FDIC loss sharing asset for the three months ended March 31, 2014 and 2013:

(dollars in thousands)	2014	2013
Balance at January 1,	$ 88,513	$ 116,624
Adjustments not reflected in income:		
Cash received from FDIC	(15,989)	(3,923)
Loan expenses to be reimbursed	598	380
Other	(80)	(918)
Adjustments reflected in income:		
(Amortization) accretion	(5,203)	(1,612)
Higher (lower) loan loss expectations	(412)	120
Write-downs/(gain) on sale of other real estate	(1,728)	372
Recovery amounts due to FDIC	0	(1,243)
Other	0	61
Balance at March 31,	$ 65,699	$ 109,861

NOTE 10 OTHER REAL ESTATE OWNED

The following table shows the carrying amount for other real estate owned at March 31, 2014 and 2013:

(dollars in thousands)	Other Real Estate Owned (1)	Other Real Estate Owned, Covered
Balance, January 1, 2014	$ 7,562	$ 13,670
Additions	1,341	4,443
Sales	(938)	(4,688)
Write-downs/other adjustments	(336)	(507)
Balance, March 31, 2014	$ 7,629	$ 12,918

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

	Other Real Estate	Other Real Estate

(dollars in thousands)	Owned (1)	Owned, Covered
Balance, January 1, 2013	$ 11,179	$ 26,137
Additions	1,141	2,035
Sales	(2,613)	(1,356)
Write-downs/other adjustments	(604)	(702)
Balance, March 31, 2013	$ 9,103	$ 26,114

(1) Includes $0.4 million of repossessed personal property at March 31, 2013.

Covered OREO expenses and valuation write-downs are recorded in the noninterest expense section of the consolidated statements of income. Under the loss sharing agreements, the FDIC will reimburse us for 80% of expenses and valuation write-downs related to covered assets up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0%, and 80% of losses in excess of $467.2 million. As of March 31, 2014, we do not expect losses to exceed $275.0 million. The reimbursable portion of these expenses is recorded in the FDIC indemnification asset. Changes in the FDIC indemnification asset are recorded in the noninterest income section of the consolidated statements of income.

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NOTE 11 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the three months ended March 31, 2014 and 2013:

(dollars in thousands)	Banking	Insurance	Wealth Management	Other	Total
Balance, January 1, 2014	**$ 310,964**	**$ 39,873**	**$ 1,892**	**$ 0**	**$ 352,729**
Goodwill acquired during the period	**0**	**0**	**0**	**0**	**0**
Balance, March 31, 2014	**$ 310,964**	**$ 39,873**	**$ 1,892**	**$ 0**	**$ 352,729**
Balance, January 1, 2013	$ 297,055	$ 39,873	$ 1,892	$ 0	$ 338,820
Goodwill acquired during the period	0	0	0	0	0
Balance, March 31, 2013	$ 297,055	$ 39,873	$ 1,892	$ 0	$ 338,820

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

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

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
March 31, 2014			
Amortized intangible assets:			
Core deposit	**$ 44,021**	**$ (32,426)**	**$ 11,595**
Customer business relationships	**27,848**	**(20,233)**	**7,615**
Customer trust relationships	**5,352**	**(1,980)**	**3,372**
Customer loan relationships	**4,413**	**(2,875)**	**1,538**
Total intangible assets	**$ 81,634**	**$ (57,514)**	**$ 24,120**
December 31, 2013			
Amortized intangible assets:			
Core deposit	$ 44,021	$ (31,266)	$ 12,755
Customer business relationships	27,848	(19,826)	8,022

Customer trust relationships	5,352	(1,810)	3,542
Customer loan relationships	4,413	(2,775)	1,638
Total intangible assets	$ 81,634	$ (55,677)	$ 25,957

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 fourth quarter of 2013, Old National increased customer business relationships by $1.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment. During the third quarter of 2013, Old National increased core deposit intangibles by $3.5 million related to the acquisition of 24 retail bank branches from Bank of America, which is included in the Banking segment. During the second quarter of 2013, Old National increased customer business relationships by $0.1 million related to the purchase of an insurance book of business, which is included in the Insurance segment. Also during the second quarter of 2013, Old National decreased customer business relationships by $0.1 million related to the sale of an insurance book of business, which is included in the Insurance segment. See Note 20 to the consolidated financial statements for a description of the Company s operating segments.

Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. No impairment charges were recorded in 2014 or 2013. Total amortization expense associated with other intangible assets for the three months ended March 31 was $1.8 million in 2014 and $2.5 million in 2013. Included in expense for the first quarter of 2013 is $0.6 million related to the branch sales that occurred in the first quarter.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2014 remaining	$ 5,035
2015	5,610
2016	4,539
2017	3,145
2018	2,178
Thereafter	3,613
Total	$ 24,120

NOTE 12 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of March 31, 2014:

(dollars in thousands)	**Federal Funds Purchased**	**Repurchase Agreements**	**Total**
2014			
Outstanding at March 31, 2014	**$ 108,666**	**$ 301,462**	**$ 410,128**
Average amount outstanding	**63,888**	**316,302**	**380,190**
Maximum amount outstanding at any month-end	**108,666**	**317,261**	
Weighted average interest rate:			
During three months ended			
March 31, 2014	**0.16%**	**0.05%**	**0.07%**
At March 31, 2014	**0.17**	**0.05**	**0.08**

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NOTE 13 FINANCING ACTIVITIES

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

(dollars in thousands)	March 31, 2014	December 31, 2013
Old National Bancorp:		
Junior subordinated debenture (variable rates of 1.84% to 1.99%) maturing March 2035 to June 2037	**$ 28,000**	$ 28,000
ASC 815 fair value hedge and other basis adjustments	**(3,242)**	(3,262)
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 0.21% to 8.34% and variable rates 0.32% to 0.36%) maturing April 2014 to January 2023	**427,750**	477,856
Capital lease obligation	**4,143**	4,157
ASC 815 fair value hedge and other basis adjustments	**131**	(363)
Total other borrowings	**$ 506,782**	$ 556,388

Contractual maturities of other borrowings at March 31, 2014, were as follows:

(dollars in thousands)	
Due in 2014	$ 125,743
Due in 2015	63
Due in 2016	117,395
Due in 2017	46,020
Due in 2018	145,635
Thereafter	75,037
ASC 815 fair value hedge and other basis adjustments	(3,111)
Total	$ 506,782

FEDERAL HOME LOAN BANK

Federal Home Loan Bank (FHLB) advances had weighted-average rates of 1.04% and 0.94% at March 31, 2014, and December 31, 2013, respectively. These borrowings are collateralized by investment securities and residential real estate loans up to 145% of outstanding debt.

During 2013, Old National terminated $50.0 million of FHLB advances, resulting in a loss on extinguishment of debt of $1.0 million. Old National also restructured $33.4 million pertaining to two FHLB advances in the first quarter of

2013, which lowered their effective interest rates from 3.27% and 3.29% to 2.04% and 2.49%, respectively.

JUNIOR SUBORDINATED DEBENTURES

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

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

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

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

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.

At March 31, 2014, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2014 remaining	$ 307
2015	410
2016	410
2017	410
2018	410
Thereafter	9,265
Total minimum lease payments	11,212
Less amounts representing interest	7,069
Present value of net minimum lease payments	$ 4,143

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NOTE 14 EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

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

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

Old National contributed $30 thousand to cover benefit payments from the Restoration Plan during the first three months of 2014. Old National expects to contribute an additional $90 thousand to cover benefit payments from the Restoration Plan during the remainder of 2014.

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

	Three Months Ended March 31,	
(dollars in thousands)	**2014**	**2013**
Interest cost	**$ 439**	$ 435
Expected return on plan assets	**(560)**	(551)
Recognized actuarial loss	**329**	580
Settlement	**0**	279
Net periodic benefit cost	**$ 208**	$ 743

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

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

NOTE 15 STOCK-BASED COMPENSATION

At March 31, 2014, Old National had 4.8 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 66 thousand time-based restricted stock awards to certain key officers during the first quarter of 2014, with shares vesting over a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of March 31, 2014, unrecognized compensation expense was estimated to be $1.8 million for unvested restricted share awards.

Old National recorded expense of $0.2 million, net of tax, during the first three months of 2014, compared to expense of $0.2 million during the first three months of 2013 related to the vesting of restricted share awards.

Restricted Stock Units

The Company granted 253 thousand shares of performance based restricted stock units to certain key officers during the first quarter of 2014, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. For certain awards, the level of performance could increase or decrease the percentage of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants.

Old National recorded $0.5 million of stock based compensation expense, net of tax, during the first three months of 2014. Old National recorded $0.4 million of stock based compensation expense, net of tax, during the first three months of 2013.

Stock Options

Old National has not granted stock options since 2009. Old National did not record any stock based compensation expense related to stock options during the first three months of 2014 or 2013, respectively.

NOTE 16 INCOME TAXES

Following is a summary of the major items comprising the differences in taxes from continuing operations computed at the federal statutory rate and as recorded in the consolidated statement of income for the three months ended March 31:

	Three Months Ended March 31,	
(dollars in thousands)	**2014**	**2013**
Provision at statutory rate of 35%	**$ 12,513**	$ 12,018
Tax-exempt income	**(3,137)**	(2,897)
State income taxes	**643**	1,216
State statutory rate change	**1,122**	0
Interim period effective rate adjustment	**(2,025)**	135
Other, net	**126**	(80)
Income tax expense	**$ 9,242**	$ 10,392
Effective tax rate	**25.9%**	30.3%

In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at March 31, 2014 and 2013 based on the current estimate of the effective annual rate.

For the three months ended March 31, 2014, the effective tax rate was lower than the three months ended March 31, 2013. The lower tax rate in the first three months of 2014 is the result of lower projected pre-tax book income for 2014, as well as lower projected state taxes.

No valuation allowance was recorded at March 31, 2014 and 2013 because, based on our current expectations, Old National believes that it will generate sufficient income in the future years to realize deferred tax assets.

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Unrecognized Tax Benefits

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

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

(dollars in thousands)	**2014**	2013
Balance at January 1	**$ 3,847**	$ 3,953
Additions (reductions) based on tax positions related to the current year	**12**	0
Balance at March 31	**$ 3,859**	$ 3,953

Approximately $.06 million of unrecognized tax benefits, net of interest, if recognized, would favorably affect the effective income tax rate in future periods. The Company expects the total amount of unrecognized tax benefits to decrease by approximately $3.8 million in the next nine months.

NOTE 17 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 $464.5 million and $464.5 million at March 31, 2014 and December 31, 2013, respectively. The March 31, 2014 balances consist of $39.5 million notional amount of receive-fixed pay variable interest rate swaps and $425.0 million notional amount of pay-fixed, receive variable interest rate swaps on certain of its FHLB advances. The December 31, 2013 balances consist of $39.5 million notional amount of receive-fixed pay variable interest rate swaps and $425.0 million notional amount of pay-fixed, receive variable interest rate swaps on certain of its FHLB advances. These hedges were entered into to manage interest rate risk. These derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At March 31, 2014, the notional amount of the interest rate lock commitments and forward commitments were $13.6 million and $18.6 million, respectively. At December 31, 2013, the notional amount of the interest rate lock commitments and forward commitments were $10.5 million and $17.2 million, respectively. It is our practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitment to fund the loans. All derivative instruments are recognized on the balance sheet at their fair value.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $431.8 million and $431.8 million, respectively, at March 31, 2014. At December 31, 2013, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $436.8 million and $436.8 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps and collars. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

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

	Asset Derivatives			
	March 31, 2014		December 31, 2013	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Other assets	**$ 3,355**	Other assets	$ 3,545
Total derivatives designated as hedging instruments		**$ 3,355**		$ 3,545
Derivatives not designated as hedging instruments				
Interest rate contracts	Other assets	**$ 16,580**	Other assets	$ 18,279
Mortgage contracts	Other assets	**342**	Other assets	263
Total derivatives not designated as hedging instruments		**$ 16,922**		$ 18,542
Total derivative assets		**$ 20,277**		$ 22,087

	Liability Derivatives			
	March 31, 2014		December 31, 2013	
(dollars in thousands)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
Interest rate contracts	Other liabilities	**$ 2,444**	Other liabilities	$ 1,218
Total derivatives designated as hedging instruments		**$ 2,444**		$ 1,218
Derivatives not designated as hedging instruments				
Interest rate contracts	Other liabilities	**$ 16,732**	Other liabilities	$ 18,505
		$ 16,732		$ 18,505

Total derivatives not designated as hedging instruments		
Total derivative liabilities	**$ 19,176**	$ 19,723

The effect of derivative instruments on the Consolidated Statement of Income for the three months ended March 31, 2014 and 2013 are as follows:

(dollars in thousands)		**Three months ended March 31, 2014**	**Three months ended March 31, 2013**
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)	**$ 359**	$ 477
Interest rate contracts (2)	Other income / (expense)	**106**	27
Total		**$ 465**	$ 504

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)	**$ 73**	$ (39)
Mortgage contracts	Mortgage banking revenue	**80**	147
Total		**$ 153**	$ 108

(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.

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NOTE 18 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 restitution. On June 13, 2012, Old National filed a motion to dismiss the First Amended Complaint, which was subsequently denied by the Court. On September 7, 2012, the plaintiffs filed a motion for class certification, which was granted on March 20, 2013, and provides for a class of All Old National Bank customers in the State of Indiana who had one or more consumer accounts and who, within the applicable statutes of limitation through August 15, 2010, incurred an overdraft fee as a result of Old National Bank s practice of sequencing debit card and ATM transactions from highest to lowest. Old National sought an interlocutory appeal on the issue of class certification on April 2, 2013, which was subsequently denied. Old National does not believe there is a cause of action under Indiana law to support the plaintiffs claims. Accordingly, on June 11, 2013, Old National moved for summary judgment. On September 16, 2013, a hearing was held on the summary judgment motion and on September 27, 2013, the Court ordered the parties to mediation and informed the parties that Court will be denying the motion for summary judgment upon receiving the report of the mediator.

The parties subsequently met twice with the mediator and were unable to reach an agreement to resolve the dispute. On March 10, 2014, Old National filed a Trial Rule 53.1 Praecipe to Withdraw Cause for Delayed Decision on June 13, 2012, Motion to Dismiss Plaintiff s Amended Complaint. This Praecipe was denied on April 11, 2014. Old National s pending Motion for Summary Judgment filed June 11, 2013, was denied on April 14, 2014, and on April 23, 2014, Old National filed a Motion to Certify Denial of Summary Judgment for Interlocutory Appeal and to Stay Proceedings Pending Certification, Acceptance, and Disposition of Appeal. This Motion has not been ruled on. The case is not currently set for trial. Old National believes it has meritorious defenses to the claims brought by the plaintiffs. At this phase of the litigation, it is not possible for management of Old National to determine the probability of a material adverse outcome or reasonably estimate the amount of any loss.

LEASES

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

As of March 31, 2014 and 2013, Old National had $72.9 million and $81.7 million, respectively, of deferred gains remaining associated with prior sale leaseback transactions. The leases had original terms ranging from five to twenty-four years. These gains will be recognized over the remaining term of the leases.

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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 $1.328 billion and standby letters of credit of $61.6 million at March 31, 2014. At March 31, 2014, approximately $1.266 billion of the loan commitments had fixed rates and $62 million had floating rates, with the floating interest rates ranging from 0% to 21%. At December 31, 2013, loan commitments were $1.271 billion and standby letters of credit were $62.0 million. These commitments are not reflected in the consolidated financial statements. At March 31, 2014 and December 31, 2013, the balance of the allowance for unfunded loan commitments was $2.6 million and $2.7 million, respectively.

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

NOTE 19 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 March 31, 2014, the notional amount of standby letters of credit was $61.6 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.4 million. At December 31, 2013, the notional amount of standby letters of credit was $62.0 million, which represents the maximum amount of future funding requirements, and the carrying value was $0.4 million.

During the second quarter of 2007, Old National entered into a risk participation in an interest rate swap. The interest rate swap had a notional amount of $8.0 million at March 31, 2014.

NOTE 20 SEGMENT INFORMATION

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

<u>Banking</u>

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, and investment 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.

<u>Insurance</u>

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

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Wealth Management

The wealth management segment includes trust services and investment advisory services. A significant portion of this segment s income is derived from fees, which are generally based on the market values of assets under management. This segment is focused on assisting high-net-worth individuals and families in building and preserving their wealth.

Other

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

As of December 31, 2013, Old National changed the composition of its reportable segments to those described above and restated all prior period information. Selected business segment financial information is shown in the following table for the three months ended March 31:

(dollars in thousands)	Banking	Insurance	Wealth Management	Other	Total
Three months ended March 31, 2014					
Net interest income	**$ 83,544**	**$ 3**	**$ 10**	**$ (79)**	**$ 83,478**
Noninterest income	**22,301**	**11,976**	**5,959**	**327**	**40,563**
Noncash items:					
Depreciation and software amortization	**3,231**	**35**	**5**	**121**	**3,392**
Provision for loan losses	**37**	**0**	**0**	**0**	**37**
Amortization of intangibles	**1,260**	**407**	**170**	**0**	**1,837**
Income tax expense (benefit)	**10,859**	**803**	**365**	**(2,785)**	**9,242**
Segment profit	**22,835**	**1,873**	**666**	**1,136**	**26,510**
Segment assets	**9,399,025**	**63,180**	**13,720**	**68,855**	**9,544,780**
Three months ended March 31, 2013					
Net interest income	$ 79,200	$ 5	$ 12	$ (167)	$ 79,050
Noninterest income	29,140	10,864	5,827	484	46,315
Noncash items:					
Depreciation and software amortization	2,643	35	7	62	2,747
Provision for loan losses	845	0	0	0	845
Amortization of intangibles	1,889	450	186	0	2,525
Income tax expense (benefit)	10,415	687	317	(1,027)	10,392
Segment profit	23,735	1,051	491	(1,332)	23,945
Segment assets	9,524,064	62,009	13,821	73,797	9,673,691

NOTE 21 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.

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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).

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 March 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	**$ 3,681**	**$ 3,681**	**$ 0**	**$ 0**
Investment securities available-for-sale:				
U.S. Treasury	**15,697**	**15,697**	**0**	**0**
U.S. Government-sponsored entities and agencies	**490,080**	**0**	**490,080**	**0**
Mortgage-backed securities - Agency	**1,229,758**	**0**	**1,229,758**	**0**
Mortgage-backed securities - Non-agency	**16,650**	**0**	**16,650**	**0**
States and political subdivisions	**251,839**	**0**	**251,495**	**344**

Pooled trust preferred securities	**6,779**	**0**		**6,779**
Other securities	**358,261**	**31,087**	**327,174**	**0**
Residential loans held for sale	**6,169**	**0**	**6,169**	**0**
Derivative assets	**20,277**	**0**	**20,277**	**0**
Financial Liabilities				
Derivative liabilities	**19,176**	**0**	**19,176**	**0**

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		Fair Value Measurements at December 31, 2013 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	$ 3,566	$ 3,566	$ 0	$ 0
Investment securities available-for-sale:				
U.S. Treasury	13,113	13,113	0	0
U.S. Government-sponsored entities and agencies	435,588	0	435,588	0
Mortgage-backed securities - Agency	1,289,258	0	1,289,258	0
Mortgage-backed securities - Non-agency	17,412	0	17,412	0
States and political subdivisions	268,795	0	268,126	669
Pooled trust preferred securities	8,037	0	0	8,037
Other securities	339,988	31,254	308,734	0
Residential loans held for sale	7,705	0	7,705	0
Derivative assets	22,087	0	22,087	0
Financial Liabilities				
Derivative liabilities	19,723	0	19,723	0

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2014:

	Fair Value Measurements using Significant Unobservable Inputs (Level 3)	
(dollars in thousands)	Pooled Trust Preferred Securities Available-for-Sale	State and Political Subdivisions
Beginning balance, January 1, 2014	$ 8,037	$ 669
Accretion/(amortization) of discount or premium	4	1
Sales/payments received	(963)	0
Matured securities	0	(326)
Increase/(decrease) in fair value of securities	(299)	0
Ending balance, March 31, 2014	$ 6,779	$ 344

Included in the income statement is $5 thousand of income included in interest income from the accretion of discounts on securities. The decrease in fair value is reflected in the balance sheet as an 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.

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The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2013:

	Fair Value Measurements using Significant Unobservable Inputs (Level 3)	
(dollars in thousands)	**Pooled Trust Preferred Securities Available-for-Sale**	**State and Political Subdivisions**
Beginning balance, January 1, 2013	**$ 9,359**	**$ 984**
Accretion/(amortization) of discount or premium	**4**	**1**
Payments received	**(1,323)**	**0**
Matured securities	**0**	**(310)**
Increase/(decrease) in fair value of securities	**514**	**0**
Ending balance, March 31, 2013	**$ 8,554**	**$ 675**

Included in the income statement is $5 thousand of income included in interest income from the accretion of discounts on securities. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for sale, an increase in accumulated other comprehensive income, which is included in shareholders equity, and a decrease in other assets related to the tax impact.

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

		Quantitative Information about Level 3 Fair Value Measurements		
(dollars in thousands)	Fair Value at March 31, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Pooled trust preferred securities	$ 6,779	Discounted cash flow	Constant prepayment rate (a)	0.00%
			Additional asset defaults (b)	4.3% - 5.5% (4.8%)
			Expected asset recoveries (c)	3.1% - 12.3% (5.0%)
State and political subdivision securities	344	Discounted cash flow	No unobservable inputs Illiquid local municipality issuance Old National owns 100% Carried at par	NA

(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. Three of the four pooled trust preferred securities Old National owns are subordinate note classes that rely on an ongoing cash flow stream to support their values. The senior note classes receive the benefit of prepayments to the detriment of subordinate note classes since the ongoing interest cash flow stream is reduced by the early redemption. Generally, a change in prepayment rates or additional pool asset defaults has an impact that is directionally opposite from a change in the expected recovery of a defaulted pool asset.

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

		Fair Value Measurements at March 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	**$ 13,390**	**0**	**0**	**$ 13,390**
Commercial real estate loans	**20,986**	**0**	**0**	**20,986**
Foreclosed Assets				
Commercial real estate	**5,385**	**0**	**0**	**5,385**
Residential	**487**	**0**	**0**	**487**

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 $47.0 million, with a valuation allowance of $12.5 million at March 31, 2014. Old National recorded $4.2 million of provision expense associated with these loans for the three months ended March 31, 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 $5.9 million. The estimates of fair value are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property and other related factors to estimate the current value of the collateral. There were write-downs of other real estate owned of $0.7 million and net gains on sale of other real estate owned of $2.2 million in the first three months of 2014.

		Fair Value Measurements at December 31, 2013 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	**$ 9,224**	**0**	**0**	**$ 9,224**
Commercial real estate loans	**7,851**	**0**	**0**	**7,851**
Foreclosed Assets				
Commercial real estate	**9,069**	**0**	**0**	**9,069**
Residential	**283**	**0**	**0**	**283**

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

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

During the second quarter of 2013, finance leases of $11.6 million were transferred from the commercial loan category at fair value, which is the offer price, and a loss of $0.2 million was recognized. The finance leases were sold during the third quarter of 2013.

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

(dollars in thousands)	Fair Value at March 31, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
	Quantitative Information about Level 3 Fair Value Measurements			
Collateral Dependent Impaired Loans				
Commercial loans	$ 13,390	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 69% (29%)
Commercial real estate loans	20,986	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 50% (29%)
Foreclosed Assets				
Commercial real estate	5,385	Fair value of collateral	Discount for type of property, age of appraisal and current status	2% - 85% (30%)
Residential	487	Fair value of collateral	Discount for type of property, age of appraisal and current status	18% - 77% (40%)

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

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

Financial instruments recorded using fair value option

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

We have elected the fair value option for residential mortgage loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement are $43 thousand and $101 thousand of interest income for residential loans held for sale for the three months ended March 31, 2014 and 2013, respectively.

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Residential mortgage loans held for sale

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

As of March 31, 2014, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected is as follows. Accrued interest at period end is included in the fair value of the instruments.

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

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the three months ended March 31, 2014:

	Changes in Fair Value for the Three Months ended March 31, 2014, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	**$ (13)**	**$ 0**	**$ 0**	**$ (13)**

As of March 31, 2013, the difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected was as follows. Accrued interest at period end is included in the fair value of the instruments.

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential loans held for sale	**$ 14,583**	**$ 411**	**$ 14,172**

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the three months ended March 31, 2013:

	Changes in Fair Value for the Three Months ended March 31, 2013, for Items Measured at Fair Value Pursuant to Election of the Fair Value Option			
(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Residential loans held for sale	**$ 54**	**$ 3**	**$ 0**	**$ 57**

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

		Fair Value Measurements at March 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)
March 31, 2014				
Financial Assets				
Cash, due from banks, federal funds sold and money market investments	$ 214,524	$ 214,524	$ 0	$ 0
Investment securities held-to-maturity:				
U.S. Government-sponsored entities and agencies	169,781	0	177,984	0
Mortgage-backed securities Agency	32,020	0	33,405	0
State and political subdivisions	577,493	0	601,525	0
Federal Home Loan Bank stock	40,584	0	40,584	0
Loans, net (including covered loans):				
Commercial	1,370,615	0	0	1,404,085
Commercial real estate	1,206,083	0	0	1,257,451
Residential real estate	1,379,271	0	0	1,474,262
Consumer credit	1,068,759	0	0	1,078,436
FDIC indemnification asset	65,699	0	0	26,239
Accrued interest receivable	48,764	110	19,288	29,366
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,047,664	$ 2,047,664	$ 0	$ 0
NOW, savings and money market deposits	4,249,694	4,249,694	0	0
Time deposits	960,804	0	968,980	0
Short-term borrowings:				
Federal funds purchased	108,666	108,666	0	0
Repurchase agreements	301,462	301,461	0	0
Other borrowings:				
Junior subordinated debenture	28,000	0	17,636	0
Repurchase agreements	50,000	0	52,476	0
Federal Home Loan Bank advances	427,750	0	0	436,519
Capital lease obligation	4,143	0	5,384	0
Accrued interest payable	1,730	0	1,730	0
Standby letters of credit	358	0	0	358
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$ 0	$ 0	$ 0	$ 1,747

(dollars in thousands)	Carrying Value	Fair Value Measurements at December 31, 2013 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2013				
Financial Assets				
Cash, due from banks, federal funds sold and money market investments	$ 206,723	$ 206,723	$ 0	$ 0
Investment securities held-to-maturity:				
U.S. Government-sponsored entities and agencies	170,621	0	178,370	0
Mortgage-backed securities Agency	35,443	0	36,348	0
State and political subdivisions	556,670	0	566,040	0
Federal Home Loan Bank stock	40,584	0	40,584	0
Loans, net (including covered loans):				
Commercial	1,386,185	0	0	1,414,184
Commercial real estate	1,220,417	0	0	1,273,070
Residential real estate	1,384,183	0	0	1,475,710
Consumer credit	1,045,034	0	0	1,058,021
FDIC indemnification asset	88,513	0	0	55,368
Accrued interest receivable	50,205	42	20,708	29,455
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,026,490	$ 2,026,490	$ 0	$ 0
NOW, savings and money market deposits	4,166,438	4,166,438	0	0
Time deposits	1,017,975	0	1,028,043	0
Short-term borrowings:				
Federal funds purchased	115,103	115,103	0	0
Repurchase agreements	347,229	347,226	0	0
Other borrowings:				
Junior subordinated debenture	28,000	0	17,605	0
Repurchase agreements	50,000	0	52,633	0
Federal Home Loan Bank advances	447,856	0	0	485,759
Capital lease obligation	4,157	0	5,245	0
Accrued interest payable	1,877	0	1,877	0
Standby letters of credit	380	0	0	380
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$ 0	$ 0	$ 0	$ 1,648

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

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

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

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

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 18 and 19.

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

EXECUTIVE SUMMARY

During the first quarter of 2014, net income was $26.5 million, or $0.26 per share. This compares to the $23.9 million, or $0.24 per share reported in the first quarter of 2013. The improvement is primarily the result of lower non-interest expenses. Total revenue remained relatively flat as the improvement in interest income and insurance contingency fees were offset by higher amortization expense associated with our FDIC indemnification asset.

Loan growth is our top focus and our new chief banking officer has this at the top of his agenda. He encourages a culture of cooperation and teamwork and considers both the originators and underwriters to be critical members of the lending team. Loan growth in our new higher-growth markets was encouraging during the quarter but our strong work out efforts of purchased credit impaired loans continue to keep loan balances relatively constant as these loans, subject to FDIC loss-sharing agreements, purposely decline.

Credit quality remained strong. Nonaccrual loan balances were $112.1 million at March 31, 2014, a decrease of $98.4 million since March 31, 2013, and a decrease of $16.3 million since December 31, 2013. Criticized loans have also improved to $119.8 million at March 31, 2014, compared to $141.5 million and $143.8 million at March 31, 2013 and December 31, 2013, respectively. We had net recoveries of $0.4 million and recorded $37 thousand of provision expense in the first quarter of 2014.

Management continues to focus on expanding our distribution network and transitioning the franchise to higher growth markets. Subsequent to quarter-end, Old National received regulatory approval of the previously announced agreement and plan of merger with Tower Financial Corporation (Tower). This transaction expands our presence in the attractive Fort Wayne market and helps to solidify our standing as Indiana s bank. Tower operates six full-service banking centers in Fort Wayne and one in Warsaw, Indiana with loans of approximately $408 million, deposits of $577 million, and a $750 million wealth management portfolio at March 31, 2014. The transaction closed on April 25, 2014.

The previously announced agreement and plan of merger with Ann Arbor-based United Bancorp, Inc. (United) remains pending and is currently expected to close early in the third quarter, subject to approval by United s shareholders and regulatory authorities, as well as the satisfaction of other customary closing conditions. This acquisition is expected to add an additional 18 branch offices in Southern Michigan, approximately $657 million in loans, $813 million in deposits, and a $685 million wealth management portfolio at March 31, 2014. This transaction will double Old National s presence in Michigan to thirty-six banking centers.

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RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three months ended March 31, 2014 and 2013:

	Three Months Ended March 31,		%
(dollars in thousands)	**2014**	**2013**	**Change**
Income Statement Summary:			
Net interest income	**$ 83,478**	$ 79,050	5.6%
Provision for loan losses	**37**	845	(95.6)
Noninterest income	**40,563**	46,315	(12.4)
Noninterest expense	**88,252**	90,183	(2.1)
Other Data:			
Return on average common equity	**9.03%**	8.00%	
Efficiency ratio (1)	**67.77**	68.34	
Tier 1 leverage ratio	**9.32**	8.71	
Net charge-offs to average loans	**(0.03)**	0.17	

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

Net Interest Income

Net interest income is our most significant component of earnings, comprising over 67% of revenues at March 31, 2014. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources and interest rate fluctuations. Other factors include 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 cost less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

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

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(dollars in thousands)	Three Months Ended March 31, 2014	2013
Net interest income	**$ 83,478**	$ 79,050
Taxable equivalent adjustment	**3,931**	3,912
Net interest income taxable equivalent	**$ 87,409**	$ 82,962
Average earning assets	**$ 8,276,267**	$ 8,210,526
Net interest margin	**4.03%**	3.85%
Net interest margin fully taxable equivalent	**4.22%**	4.04%

Net interest income was $83.5 million for the three months ended March 31, 2014, up from the $79.1 million reported for the three months ended March 31, 2013. Taxable equivalent net interest income was $87.4 million for the three months ended March 31, 2014, up from the $83.0 million reported for the three months ended March 31, 2013. The net interest margin on a fully taxable equivalent basis was 4.22% for the three months ended March 31, 2014, compared to 4.04% for the three months ended March 31, 2013. Both the three months ended March 31, 2014 and 2013 include accretion income (interest income in excess of contractual interest income) associated with purchased credit impaired loans. Excluding this accretion income in both periods, net interest income on a fully taxable equivalent basis would have been $69.5 million for the three months ended March 31, 2014, compared to $68.0 million for the three months ended March 31, 2013; and the net interest margin on a fully taxable equivalent basis would have been 3.36% in 2014 and 3.31% in 2013.

The increase in net interest income is primarily due to the increase in accretion income recorded in the first three months of 2014 compared to the first three months of 2013, combined with a change in the mix of interest earning assets and interest-bearing liabilities. We expect this accretion income to decline over time.

The increase in the net interest margin is primarily due to the yield on average earning assets increasing while the cost of interest-bearing liabilities decreased. The yield on interest earning assets increased 7 basis points while the cost of interest-bearing liabilities decreased 15 basis points in the quarterly year-over-year comparison. The yield on interest earning asset is calculated by dividing annualized taxable equivalent net interest income by average interest assets while the cost of interest-bearing liabilities is calculated by dividing annualized interest expense by average interest-bearing liabilities.

Average earning assets were $8.276 billion for the three months ended March 31, 2014, compared to $8.211 billion for the three months ended March 31, 2013, an increase of 0.8%, or $65.7 million. Affecting average earning assets at March 31, 2014 compared to March 31, 2013, was the increase in the size of the investment portfolio combined with a decrease in the size of the loan portfolio. Despite the sale of $96.9 million of residential real estate loans during the third quarter of 2013, our residential mortgage loan portfolio grew $19.7 million over the past twelve months. In addition, we experienced growth of $43.8 million in our commercial loan portfolio and $85.9 million in our consumer loan portfolio over the past twelve months. These increases were more than offset by the $69.8 million decrease in our commercial real estate loan portfolio and the $150.5 million decrease in our covered loan portfolio. The loan portfolio, which generally has an average yield higher than the investment portfolio, was approximately 61% of average interest earning assets at March 31, 2014.

The $143.6 million increase in the average balance of the investment portfolio from March 31, 2013 to March 31, 2014 can be attributed to the reinvestment of excess cash acquired as part of the Bank of America branch acquisition.

Positively affecting margin were increases in noninterest-bearing demand deposits, NOW and savings accounts, money market accounts combined with a decrease in time deposits and borrowed funds. Average time deposits, which have an average interest rate higher than other types of deposits, decreased $243.7 million since March 31, 2013. In addition, average borrowed funds declined $17.6 million year over year.

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Provision for Loan Losses

The provision for loan losses was $37 thousand for the three months ended March 31, 2014, compared to $845 thousand for the three months ended March 31, 2013. Impacting the provision over the past twelve months are the following factors: (1) the loss factors applied to our performing loan portfolio have decreased over time as charge-offs were substantially lower, (2) improvement associated with our purchased credit impaired loans accounted for under ASC310-30, (3) the continuing trend in improved credit quality, and (4) a decrease in our commercial real estate loan balances (which carry higher loss rates than other loan categories) in conjunction with improving average asset quality ratings on the remaining commercial real estate loans in our portfolio.

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 March 31, 2014 was $40.6 million, a decrease of $5.7 million, or 12.4%, from the $46.3 million reported for the three months ended March 31, 2013. The decrease is primarily the result of adjustments to the FDIC indemnification asset and the gain on branch divestitures that was recorded in the first quarter of 2013. There was no corresponding branch divestiture transaction in the first quarter of 2014. Partially offsetting these decreases were increases in insurance revenue, insurance contingency fees and gains on the sale of foreclosed properties.

Net securities gains were $0.5 million for the three months ended March 31, 2014, compared to net securities gains of $1.0 million for the three months ended March 31, 2013. Included in the first three months of 2014 is a $100 thousand other-than-temporary-impairment charge on one limited partnership investment.

Service charges and overdraft fees on deposit accounts, our largest source of noninterest income, continued to be challenged. Service charges and overdraft fees were $11.1 million for both the three months ended March 31, 2014 and the three months ended March 31, 2013, respectively. Included in the first quarter of 2014 is $1.0 million from the newly acquired Bank of America branches.

Debit card and ATM fees decreased $0.1 million to $5.7 million for the three months ended March 31, 2014, as compared to $5.8 million for the three months ended March 31, 2013. The newly acquired Bank of America branches contributed $0.5 million during the first quarter of 2014.

Mortgage banking revenue was $0.6 million for the three months ended March 31, 2014, compared to $1.3 million for the three months ended March 31, 2013. Mortgage production slowed in the first quarter of 2014 as higher interest rates stymied refinance activity and bad weather led to low levels of mortgage production, among other factors. As a result, mortgage banking revenue decreased as we sold less production to the secondary market in 2014.

Insurance premiums and commissions increased $1.1 million to $12.0 million for the three months ended March 31, 2014, as compared to $10.9 million for the three months ended March 31, 2013, primarily as a result of higher contingency income and commissions on property and casualty insurance.

During the third quarter of 2012, Old National announced plans to sell the deposits of nine banking centers in southern Illinois and western Kentucky. The sales closed during the first quarter of 2013. Deposits at the time of sale were approximately $150.1 million and we received a deposit premium of $2.2 million on the sales.

Other income increased $1.4 million for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013. The increase is primarily a result of a $1.7 million increase in gain on sales of foreclosed properties.

Noninterest Income Related to Covered Assets

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

For the first quarter of 2014, adjustments to the FDIC indemnification asset resulted in noninterest expense of $7.3 million. This compares to noninterest expense of $2.3 million during the first quarter of 2013. The increase in expense is primarily the result of lower levels of expected loss claims on covered loans and other real estate in 2014.

At March 31, 2014, $38.2 million of the remaining indemnification asset is expected to be amortized and reported in noninterest income over the next 30 months.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2014, totaled $88.3 million, a decrease of $1.9 million, or 2.1%, from the $90.2 million recorded for the three months ended March 31, 2013. Included in the three months ended March 31, 2014 is approximately $2.8 million of operating costs related to 24 branches acquired from Bank of America during the third quarter of 2013. Also included in the three months ended March 31, 2014 is approximately $2.5 million of expense related to the upcoming acquisitions of Tower and United. Offsetting these increases were decreases in occupancy expense, amortization of intangibles and other expense.

Salaries and benefits is the largest component of noninterest expense. For the three months ended March 31, 2014, salaries and benefits were $51.4 million compared to $51.0 million for the three months ended March 31, 2013. Included in the first quarter of 2014 is $1.8 million of salaries and benefits expense associated with the newly acquired Bank of America bank branches. Also included in the first quarter of 2014 is a $0.6 million decrease in performance-based incentive compensation and a $0.7 million decrease in pension expense.

Occupancy expense was $10.9 million for the three months ended March 31, 2014, compared to $12.1 million for the three months ended March 31, 2013. A decrease in real estate tax expense combined with a decrease in rent expense associated with our recent branch closures and consolidations were the primary reasons for the decrease in occupancy expense.

Marketing expense increased $1.0 million for the three months ended March 31, 2014 as compared to the three months ended March 31, 2013. Marketing expense increased primarily as a result of our entry into the new Michigan market.

Amortization of intangibles was $1.8 million for the three months ended March 31, 2014, compared to $2.5 million for the three months ended March 31, 2013. Included in 2013 was a $0.6 million adjustment to core deposit intangible amortization expense related to the sale of the nine branches.

Other expense for the three months ended March 31, 2014, totaled $2.8 million, a decrease of $1.3 million compared to the three months ended March 31, 2013. Included in expense for the three months ended March 31, 2013 was approximately $0.7 million for loss on extinguishment of debt related to the termination of a $25.0 million FHLB advance. Included in the first three months of 2014 is a reduction of $0.5 million in the provision for unfunded commitments compared to the first three months of 2013.

Noninterest Expense Related to Covered Assets

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

Approximately $129 thousand, or twenty percent of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during the first quarter of 2014. The remaining eighty percent was recorded as a receivable from the FDIC. The reversal of additional non-reimbursable expenses of $13 thousand associated with holding and maintaining covered assets assumed in the Integra acquisition were also recorded in noninterest expense during the first quarter of 2014.

Approximately $123 thousand, or twenty percent of the expense associated with holding and maintaining covered assets assumed in the Integra acquisition, are not reimbursable by the FDIC and were recorded as noninterest expense during the first quarter of 2013. The remaining eighty percent was recorded as a receivable from the FDIC. Additional non-reimbursable expenses of $122 thousand associated with holding and maintaining covered assets assumed in the Integra acquisition were also recorded in noninterest expense during the first quarter of 2013.

Provision for Income Taxes

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 25.9% for the three months ended March 31, 2014, compared to 30.3% for the three months ended March 31, 2013. In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at March 31, 2014 based on the current estimate of the effective annual rate. The lower tax rate in the first three months of 2014 is the result of lower projected pre-tax book income for 2014, as well as lower projected state taxes. See Note 16 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

Overview

At March 31, 2014, our assets were $9.545 billion, a 1.3% decrease compared to March 31, 2013 assets of $9.674 billion, and a decrease of 0.4% compared to December 31, 2013 assets of $9.582 billion. The decrease in assets is primarily the result of decreases in the investment portfolio, the covered loan segment of the loan portfolio, and the FDIC indemnification asset.

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 $8.288 billion at March 31, 2014, a decrease of 1.7% from March 31, 2013.

Investment Securities

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we do have $32.0 million of 15- and 20-year fixed-rate mortgage-backed securities, $169.8 million of U.S. government-sponsored entity and agency securities and $577.5 million of state and political subdivision securities in our held-to-maturity investment portfolio at March 31, 2014. During the third quarter of 2013, state and political subdivision securities with a fair value of $357.8 million were transferred from the available-for-sale portfolio to the held-to-maturity portfolio. We moved these securities to our held-to-maturity portfolio to better align with the percentage of these securities held by our peers and to protect our tangible common equity against rising interest rates.

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $3.7 million at March 31, 2014 compared to $3.2 million at March 31, 2013.

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At March 31, 2014, the total investment securities portfolio was $3.193 billion compared to $3.282 billion at March 31, 2013, a decrease of $89.3 million or 2.7%. Investment securities increased $13.5 million compared to December 31, 2013, an increase of 0.4%. Investment securities represented 38.5% of earning assets at March 31, 2014, compared to 38.9% at March 31, 2013, and 38.4% at December 31, 2013. A decrease in agency mortgage-backed securities from March 31, 2013 was the primary reason for the decrease in the investment portfolio. Stronger commercial loan demand in the future and management s decision to deleverage the balance sheet could result in a further reduction in the securities portfolio. As of March 31, 2014, management does not intend to sell any securities with 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 $22.5 million at March 31, 2014, an increase of $71.7 million compared to net unrealized gains of $49.2 million at March 31, 2013, and a decrease of $11.6 million compared to net unrealized losses of $34.1 million at December 31, 2013. The decline in value from March 31, 2013 is a result of the increase in interest rates that began during the second quarter of 2013. Included in the first quarter of 2014 is a $100 thousand other-than-temporary-impairment charge on one limited partnership investment. See the consolidated statements of comprehensive income for the impact of other-than-temporary-impairment in other comprehensive income and Note 6 to the consolidated financial statements for details on management s evaluation of securities for other-than-temporary-impairment.

The investment portfolio had an average duration of 4.52 at March 31, 2014, compared to 4.06 at March 31, 2013, and 4.84 at December 31, 2013. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. Generally, there is more uncertainty in interest rates over a longer average maturity, resulting in a higher duration percentage. The annualized average yields on investment securities, on a taxable equivalent basis, were 2.94% for the three months ended March 31, 2014, compared to 2.96% for the three months ended March 31, 2013, and 2.87% for the three months ended December 31, 2013.

Residential Loans Held for Sale

Residential loans held for sale were $6.2 million at March 31, 2014, compared to $14.6 million at March 31, 2013, and $7.7 million at December 31, 2013. At March 31, 2014, loans held for sale was made up entirely of mortgage loans held for immediate sale in the secondary market with servicing released. These loans are sold at or prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company s balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse and Old National has experienced no material losses. Mortgage originations are subject to volatility due to interest rates and home sales.

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 $0.1 million and $0.4 million as of March 31, 2014 and March 31, 2013, respectively. At December 31, 2013, the aggregate fair value exceeded the unpaid principal balances by $0.1 million.

Finance Leases Held for Sale

At June 30, 2013, Old National had taxable finance leases held for sale of $11.6 million. These leases were transferred from the commercial loan category at fair value and a loss of $0.2 million was recognized. The portfolio of leases held for sale had an average maturity of 2.7 years and interest rates ranging from 3.57% to 10.22%. The leases held for sale were to a variety of borrowers, with various types of equipment securing the leases, and all of the leases were current. The leases held for sale were sold in the third quarter of 2013. As of March 31, 2014, Old National does not intend to sell its nontaxable leases.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans, including covered loans, are the second largest classification within earning assets, representing 31.6% of earning assets at March 31, 2014, a decrease from 32.6% at March 31, 2013, and a decrease from 31.9% at December 31, 2013. At March 31, 2014, commercial and commercial real estate loans, including covered loans, were $2.616 billion, a decrease of $129.9 million since March 31, 2013, and a decrease of $30.1 million since December 31, 2013. At June 30, 2013, we had taxable finance leases held for sale of $11.6 million. These leases were transferred from the commercial loan category at fair value and a loss of $0.2 million was recognized. These leases were sold in the third quarter of 2013 with no additional loss. Excluding covered loans and commercial leases, commercial and commercial real estate loans increased $6.3 million from March 2013.

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Consumer Loans

At March 31, 2014, consumer loans, including automobile loans, personal and home equity loans and lines of credit, increased $94.4 million or 9.6% compared to March 31, 2013, and increased $24.2 million or 2.3% since December 31, 2013.

Residential Real Estate Loans

At March 31, 2014, residential real estate loans, including covered loans, held in our loan portfolio were $1.383 billion, a decrease of $4.8 million, or 0.3%, from December 31, 2013 and a decrease of $4.2 million, or 0.3%, from March 31, 2013.

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

Covered Assets

On July 29, 2011, Old National acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC assisted transaction. We entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned (OREO). Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby Old National is indemnified against 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million with respect to covered assets. As of March 31, 2014, we do not expect losses to exceed $275.0 million.

A summary of covered assets is presented below:

(dollars in thousands)	March 31, 2014	December 31, 2013
Loans, net of discount & allowance	$ 188,147	$ 212,428
Other real estate owned	12,918	13,670
Total covered assets	$ 201,065	$ 226,098

FDIC Indemnification Asset

Because the FDIC will reimburse Old National for losses incurred on certain acquired loans, an indemnification asset is recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The indemnification asset, on the acquisition date, reflects the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. Reimbursement claims are submitted to the FDIC and the receivable is reduced when the FDIC pays the claim. At March 31, 2014, the FDIC loss sharing asset was $65.7 million and was comprised of a $60.6 million FDIC indemnification asset and a $5.1 million FDIC loss share receivable. The loss share receivable represents actual incurred losses where reimbursement has not yet been received from the FDIC. The indemnification asset represents future cash flows we expect to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that are being amortized over the same period for which those improved cash flows are being accreted into income. At March 31, 2014, $22.4 million of the FDIC indemnification asset is related to expected indemnification payments and $38.2 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income.

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

(dollars in thousands)	2014	2013
Balance at January 1,	$ 88,513	$ 116,624
Adjustments not reflected in income:		
Cash received from FDIC	(15,989)	(3,923)
Loan expenses to be reimbursed	598	380
Other	(80)	(918)
Adjustments reflected in income:		
(Amortization) accretion	(5,203)	(1,612)
Higher (lower) loan loss expectations	(412)	120
Write-downs/(gain) on sale of other real estate	(1,728)	372
Recovery amounts due to FDIC		(1,243)
Other		61
Balance at March 31,	$ 65,699	$ 109,861

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at March 31, 2014, totaled $376.8 million, an increase of $11.3 million compared to $365.5 million at March 31, 2013, and a decrease of $1.9 million compared to $378.7 million at December 31, 2013. During the third quarter of 2013, we recorded $16.8 million of goodwill and other intangible assets associated with the acquisition of 24 retail bank branches from Bank of America, all of which is included in the Banking column for segment reporting. During the second quarter of 2013, Old National recorded $0.6 million of goodwill primarily related to the final pension settlement associated with Indiana Community Bancorp. This was allocated to the Banking segment. During the fourth quarter of 2013, we increased customer business relationships by $1.3 million related to the purchase of an insurance book of business, which is included in the Insurance segment. The decrease in other intangible assets from December 31, 2013 is primarily attributable to amortization expense associated with other intangible assets.

Assets Held for Sale

Assets held for sale were $9.0 million at March 31, 2014 compared to $9.1 million at December 31, 2013. Included in assets held for sale are four facilities associated with the Monroe Bancorp acquisition.

Other Assets

Other assets have decreased $35.1 million, or 14.9%, since December 31, 2013 primarily a result of decreases in deferred tax assets, prepaid FDIC assessment expense and the fair value of derivative financial instruments.

Funding

Total funding, comprised of deposits and wholesale borrowings, was $8.175 billion at March 31, 2014, a decrease of 0.9% from $8.247 billion at March 31, 2013, and a decrease of 0.7% from $8.230 billion at December 31, 2013. Included in total funding were deposits of $7.258 billion at March 31, 2014, an increase of $191.8 million, or 2.7%, compared to March 31, 2013, and an increase of $47.3 million, or 0.7%, compared to December 31, 2013. The increase from March 31, 2013 is primarily attributable to the $482.1 million of deposits from the Bank of America acquisition. Partially offsetting this increase is the $178.3 million of deposits that were sold in conjunction with our branch sales in the first and fourth quarter of 2013 along with a decrease in higher cost certificates of deposit that reached maturity. Noninterest-bearing deposits increased 3.8%, or $74.4 million, compared to March 31, 2013. Money market deposits increased 51.3%, or $151.2 million. NOW deposits increased 5.8% or $97.9 million, while savings deposits increased 5.1%, or $97.7 million, compared to March 31, 2013. Time deposits decreased 19.3% or $229.4 million compared to March 31, 2013. Year over year we experienced an increase in noninterest-bearing demand deposits.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At March 31, 2014, wholesale borrowings, including short-term borrowings and other borrowings, decreased $263.9 million, or 22.3%, from March 31, 2013 and decreased $101.8 million, or 10.0%, from December 31, 2013, respectively. Wholesale funding as a percentage of total funding was 11.2% at March 31, 2014, compared to 14.3% at March 31, 2013, and 12.4% at December 31, 2013. Wholesale funding increased early in 2013 in anticipation of the pending branch acquisition from Bank of America. The deposit funding assumed in the July 2013 transaction replaced the majority of the increase in short-term and other borrowings that had occurred earlier in 2013. Over the past year, we have reduced the cost of other borrowings by changing the composition of other borrowings. During 2013, we terminated $50.0 million of FHLB advances and restructured $33.4 million of FHLB advances.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities decreased $42.4 million, or 18.7%, since March 31, 2013 primarily as a result of decreases in accrued pension expense and tax liabilities combined with fluctuations in the fair value of derivative financial instruments.

Capital

Shareholders equity totaled $1.185 billion at March 31, 2014, compared to $1.200 billion at March 31, 2013, and $1.163 billion at December 31, 2013.

We paid cash dividends of $0.11 per share for the three months ended March 31, 2014, which reduced equity by $11.0 million. We paid cash dividends of $0.10 per share for the three months ended March 31, 2013, which reduced equity by $10.1 million. We repurchased shares of our stock, reducing shareholders equity by $1.6 million during the three months ended March 31, 2014, and $1.2 million during the three months ended March 31, 2013. The repurchases related primarily to our employee stock based compensation plans. The change in unrealized losses on investment securities increased equity by $7.4 million during the three months ended March 31, 2014, and decreased equity by $9.5 million during the three months ended March 31, 2013. Shares issued for reinvested dividends, stock options, restricted stock and stock compensation plans increased shareholders equity by $2.1 million during the three months ended March 31, 2014, compared to $1.4 million during the three months ended March 31, 2013.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At March 31, 2014, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition. To be categorized as well-capitalized, the bank subsidiary must maintain at least a total risk-based capital ratio of 10.0%, a Tier 1 risk-based capital ratio of 6.0% and a Tier 1 leverage ratio of 5.0%. Impacting regulatory capital ratios at March 31, 2014 is $13.3 million of goodwill and $3.5 million of core deposit intangibles recorded in conjunction with the Bank of America retail bank branch acquisition on July 12, 2013.

As of March 31, 2014, Old National s consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

	Regulatory Guidelines	March 31,	December 31,

	Minimum	2014	2013	2013
Risk-based capital:				
Tier 1 capital to total avg assets (leverage ratio)	4.00%	**9.32%**	8.71%	8.92%
Tier 1 capital to risk-adjusted total assets	4.00	**14.79**	14.10	14.32
Total capital to risk-adjusted total assets	8.00	**15.66**	15.14	15.19
Shareholders equity to assets	N/A	**12.42**	12.40	12.13

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As of March 31, 2014, Old National Bank, Old National s bank subsidiary, maintained a strong capital position as evidenced by the following comparisons of key industry ratios.

	Regulatory Guidelines Minimum	Well Capitalized Guidelines	March 31, 2014	March 31, 2013	December 31, 2013
Risk-based capital:					
Tier 1 capital to total avg assets (leverage ratio)	4.00%	5.00%	**7.87%**	8.00%	7.35%
Tier 1 capital to risk-adjusted total assets	4.00	6.00	**12.46**	12.91	11.80
Total capital to risk-adjusted total assets	8.00	10.00	**13.34**	13.96	12.67

RISK MANAGEMENT

Overview

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

Credit Risk

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

Investment Activities

While the overall residential real estate market has stabilized, we carry a