OLD NATIONAL BANCORP /IN/
Form 10-Q
May 06, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

¨ **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 114,352,000 shares outstanding at March 31, 2016.

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CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	March 31, 2016 (unaudited)	December 31, 2015	March 31, 2015 (unaudited)
Assets			
Cash and due from banks	**$ 153,259**	$ 91,311	$ 195,970
Money market and other interest-earning investments	**22,299**	128,507	19,343
Total cash and cash equivalents	**175,558**	219,818	215,313
Trading securities - at fair value	**3,699**	3,941	3,964
Investment securities - available-for-sale, at fair value:			
U.S. Treasury	**12,243**	12,150	25,178
U.S. government-sponsored entities and agencies	**603,457**	613,550	709,379
Mortgage-backed securities	**990,984**	1,066,361	1,090,731
States and political subdivisions	**400,236**	387,296	340,630
Other securities	**341,523**	338,864	379,552
Total investment securities - available-for-sale	**2,348,443**	2,418,221	2,545,470
Investment securities - held-to-maturity, at amortized cost (fair value $932,590; $929,417; and $899,653, respectively)	**869,012**	872,111	836,038
Federal Home Loan Bank/Federal Reserve Bank stock, at cost	**86,146**	86,146	75,068
Loans held for sale ($22,546; $13,810; and $24,344, respectively at fair value)	**22,546**	13,810	210,513
Loans:			
Commercial	**1,784,970**	1,804,615	1,668,275
Commercial real estate	**1,907,834**	1,847,821	1,813,579
Residential real estate	**1,634,132**	1,644,614	1,625,354
Consumer credit, net of unearned income	**1,584,735**	1,543,768	1,408,491
Covered loans, net of discount	**95,403**	107,587	136,840
Total loans	**7,007,074**	6,948,405	6,652,539
Allowance for loan losses	**(49,856)**	(51,296)	(46,675)
Allowance for loan losses - covered loans	**(844)**	(937)	(2,203)
Net loans	**6,956,374**	6,896,172	6,603,661
FDIC indemnification asset	**7,703**	9,030	20,024
Premises and equipment, net	**198,065**	196,676	132,101
Accrued interest receivable	**68,641**	69,098	62,503
Goodwill	**584,634**	584,634	587,904
Other intangible assets	**32,443**	35,308	43,738
Company-owned life insurance	**342,292**	341,294	335,976
Assets held for sale	**2,038**	5,679	14,636
Other real estate owned and repossessed personal property	**7,019**	7,594	8,482

Other real estate owned - covered	**6,503**	4,904	7,084
Other assets	**221,210**	227,091	247,375
Total assets	**$ 11,932,326**	$ 11,991,527	$ 11,949,850
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 2,491,767**	$ 2,488,855	$ 2,553,801
Interest-bearing:			
NOW	**2,178,690**	2,133,536	2,218,243
Savings	**2,271,341**	2,201,352	2,384,502
Money market	**561,250**	577,050	636,933
Time	**1,085,847**	1,000,067	1,134,041
Total deposits	**8,588,895**	8,400,860	8,927,520
Short-term borrowings	**494,380**	628,499	463,007
Other borrowings	**1,167,811**	1,291,747	869,123
Accrued expenses and other liabilities	**172,597**	179,251	206,929
Total liabilities	**10,423,683**	10,500,357	10,466,579
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, $1.00 per share stated value, 150,000 shares authorized, 114,352; 114,297; and 116,983 shares issued and outstanding, respectively	**114,352**	114,297	116,983
Capital surplus	**1,088,037**	1,087,911	1,121,594
Retained earnings	**335,839**	323,759	268,936
Accumulated other comprehensive income (loss), net of tax	**(29,585)**	(34,797)	(24,242)
Total shareholders equity	**1,508,643**	1,491,170	1,483,271
Total liabilities and shareholders equity	**$ 11,932,326**	$ 11,991,527	$ 11,949,850

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

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CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2016	2015
Interest Income		
Loans including fees:		
Taxable	**$ 71,572**	$ 74,959
Nontaxable	**3,004**	2,943
Investment securities:		
Taxable	**13,722**	14,726
Nontaxable	**6,982**	5,960
Money market and other interest-earning investments	**49**	6
Total interest income	**95,329**	98,594
Interest Expense		
Deposits	**3,493**	3,563
Short-term borrowings	**182**	96
Other borrowings	**6,011**	3,942
Total interest expense	**9,686**	7,601
Net interest income	**85,643**	90,993
Provision for loan losses	**91**	1
Net interest income after provision for loan losses	**85,552**	90,992
Noninterest Income		
Wealth management fees	**8,121**	8,520
Service charges on deposit accounts	**9,639**	11,045
Debit card and ATM fees	**3,785**	6,732
Mortgage banking revenue	**2,920**	2,963
Insurance premiums and commissions	**13,121**	12,113
Investment product fees	**3,905**	4,403
Company-owned life insurance	**2,038**	2,152
Net securities gains	**1,106**	2,683
Recognition of deferred gain on sale leaseback transactions	**1,052**	1,524
Change in FDIC indemnification asset	**(655)**	(968)
Other income	**4,419**	4,128
Total noninterest income	**49,451**	55,295
Noninterest Expense		

Salaries and employee benefits	**56,972**	69,694
Occupancy	**12,844**	14,293
Equipment	**2,893**	3,904
Marketing	**2,486**	2,236
Data processing	**7,123**	6,590
Communication	**1,864**	2,744
Professional fees	**3,368**	3,132
Loan expense	**1,333**	1,326
Supplies	**583**	684
FDIC assessment	**1,919**	1,885
Other real estate owned expense	**424**	1,161
Amortization of intangibles	**2,647**	3,081
Other expense	**3,899**	5,426
Total noninterest expense	**98,355**	116,156
Income before income taxes	**36,648**	30,131
Income tax expense	**9,671**	9,225
Net income	**$ 26,977**	$ 20,906
Net income per common share - basic	**$ 0.24**	$ 0.18
Net income per common share - diluted	**0.24**	0.18
Weighted average number of common shares outstanding - basic	**113,998**	118,540
Weighted average number of common shares outstanding - diluted	**114,563**	119,076
Dividends per common share	**$ 0.13**	$ 0.12

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 (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2016	2015
Net income	**$ 26,977**	$ 20,906
Other comprehensive income:		
Change in securities available-for-sale:		
Unrealized holding gains for the period	**17,857**	18,306
Reclassification adjustment for securities gains realized in income	**(1,106)**	(2,683)
Income tax effect	**(6,168)**	(5,796)
Unrealized gains on available-for-sale securities	**10,583**	9,827
Change in securities held-to-maturity:		
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**465**	337
Income tax effect	**(159)**	66
Changes from securities held-to-maturity	**306**	403
Cash flow hedges:		
Net unrealized derivative losses on cash flow hedges	**(11,130)**	(5,628)
Reclassification adjustment for losses realized in net income	**1,273**	186
Income tax effect	**3,746**	2,068
Changes from cash flow hedges	**(6,111)**	(3,374)
Defined benefit pension plans:		
Amortization of net loss recognized in income	**700**	738
Income tax effect	**(266)**	(281)
Changes from defined benefit pension plans	**434**	457
Other comprehensive income, net of tax	**5,212**	7,313
Comprehensive income	**$ 32,189**	$ 28,219

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 in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance at December 31, 2014	$ 116,847	$ 1,118,292	$ 262,180	$ (31,555)	$ 1,465,764
Net income			20,906		20,906
Other comprehensive income				7,313	7,313
Acquisition - Founders Financial Corporation	3,402	47,224			50,626
Dividends - common stock			(14,238)		(14,238)
Common stock issued	7	90			97
Common stock repurchased	(3,468)	(44,735)			(48,203)
Stock based compensation expense		1,204			1,204
Stock activity under incentive compensation plans	195	(481)	88		(198)
Balance at March 31, 2015	$ 116,983	$ 1,121,594	$ 268,936	$ (24,242)	$ 1,483,271
Balance at December 31, 2015	**$ 114,297**	**$ 1,087,911**	**$ 323,759**	**$ (34,797)**	**$ 1,491,170**
Net income			**26,977**		**26,977**
Other comprehensive income				**5,212**	**5,212**
Dividends - common stock			**(14,865)**		**(14,865)**
Common stock issued	**8**	**96**			**104**
Common stock repurchased	**(41)**	**(451)**			**(492)**
Stock based compensation expense		**1,268**			**1,268**
Stock activity under incentive compensation plans	**88**	**(787)**	**(32)**		**(731)**
Balance at March 31, 2016	**$ 114,352**	**$ 1,088,037**	**$ 335,839**	**$ (29,585)**	**$ 1,508,643**

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2016	2015
Cash Flows From Operating Activities		
Net income	**$ 26,977**	$ 20,906
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**3,527**	4,140
Amortization of other intangible assets	**2,647**	3,081
Net premium amortization on investment securities	**4,412**	4,792
Amortization of FDIC indemnification asset	**655**	968
Stock compensation expense	**1,268**	1,204
Provision for loan losses	**91**	1
Net securities gains	**(1,106)**	(2,683)
Recognition of deferred gain on sale leaseback transactions	**(1,052)**	(1,524)
Net gains on sales of other assets	**(792)**	(52)
Increase in cash surrender value of company-owned life insurance	**(998)**	(2,062)
Residential real estate loans originated for sale	**(70,754)**	(78,224)
Proceeds from sale of residential real estate loans	**62,795**	73,968
(Increase) decrease in interest receivable	**457**	(277)
(Increase) decrease in other real estate owned	**(1,024)**	1,470
(Increase) decrease in other assets	**3,460**	(4,516)
Decrease in accrued expenses and other liabilities	**(14,802)**	(18,072)
Total adjustments	**(11,216)**	(17,786)
Net cash flows provided by operating activities	**15,761**	3,120
Cash Flows From Investing Activities		
Net cash and cash equivalents of acquired banks		(37,098)
Purchases of investment securities available-for-sale	**(289,184)**	(129,563)
Purchases of Federal Home Loan Bank/Federal Reserve Bank stock		(2,083)
Proceeds from maturities, prepayments, and calls of investment securities available-for-sale	**298,147**	132,471
Proceeds from sales of investment securities available-for-sale	**76,650**	170,265
Proceeds from maturities, prepayments, and calls of investment securities held-to-maturity	**1,439**	5,609
Proceeds from sales of investment securities held-to-maturity		855
Reimbursements under FDIC loss share agreements	**877**	
Net principal collected from (loans made to) loan customers	**(60,293)**	18,424
Proceeds from sale of premises and equipment and other assets	**3,656**	4
Purchases of premises and equipment and other assets	**(4,928)**	(6,959)

Net cash flows provided by investing activities	**26,364**	151,925
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Deposits	**188,035**	60,200
Short-term borrowings	**(134,119)**	(100,794)
Payments for maturities on other borrowings	**(475,138)**	(227,017)
Proceeds from issuance of other borrowings	**350,000**	150,000
Cash dividends paid on common stock	**(14,865)**	(14,238)
Common stock repurchased	**(492)**	(48,203)
Proceeds from exercise of stock options, including tax benefit	**90**	260
Common stock issued	**104**	97
Net cash flows used in financing activities	**(86,385)**	(179,695)
Net decrease in cash and cash equivalents	**(44,260)**	(24,650)
Cash and cash equivalents at beginning of period	**219,818**	239,963
Cash and cash equivalents at end of period	**$ 175,558**	$ 215,313
Supplemental cash flow information:		
Total interest paid	**$ 11,265**	$ 9,374
Total taxes paid (net of refunds)	**$ 2,000**	$ (49)

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of March 31, 2016 and 2015, and December 31, 2015, and the results of its operations for the three months ended March 31, 2016 and 2015. 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, 2015.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the 2016 presentation. Such reclassifications had no effect on net income or shareholders equity and were insignificant amounts.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

FASB ASC 606 In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. In July 2015, the FASB approved the deferral of the amendments in this update for one year. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

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

FASB ASC 350 In April 2015, the FASB issued an update (ASU No. 2015-05, Customer s Accounting for Fees Paid in a Cloud Computing Arrangement) impacting FASB ASC 350-40, Intangibles: Goodwill and Other: Internal- Use Software. This update is part of the FASB s Simplification Initiative. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance will not change generally accepted accounting principles for a customer s accounting for service contracts. The amendments in this update became effective for interim and annual periods beginning after December 15, 2015 and did not have a material impact on the consolidated financial statements.

FASB ASC 944 In May 2015, the FASB issued an update (ASU No. 2015-09, Disclosures about Short-Duration Contracts). This update applies to all insurance entities that issue short-duration contracts as defined in Topic 944, Financial Services Insurance. The amendment requires insurance entities to disclose for annual reporting periods information about the liability for unpaid claims and claim adjustment expenses, and information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a roll-forward of the liability for unpaid claims and claim adjustment expenses. The amendments in this update become effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 805 In September 2015, the FASB issued an update (ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments). This update applies to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in this update became effective for interim and annual periods beginning after December 15, 2015 and did not have a material impact on the consolidated financial statements.

FASB ASC 825 In January 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities). The amendments in this update impact public business entities as follows: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. 3) Eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. 4) Require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 5) Require an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. 6) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. 7) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. 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 842 In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset

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that represents the lessee s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting in largely unchanged. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is expected to have a material impact.

FASB ASC 405 In March 2016, the FASB issued ASU No. 2016-04, Liabilities Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. The amendments of this ASU narrowly address breakage, which is the monetary amount of the card that ultimately is not redeemed by the cardholder for prepaid stored-value products that are redeemable for monetary values of goods or services but may also be redeemable for cash. Examples of prepaid stored-value products included in this amendment are prepaid gift cards issued by specific payment networks and redeemable at network-accepting merchant locations, prepaid telecommunication cards, and traveler s checks. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. 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 815 In March 2016, the FASB issued ASU No. 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The amendments apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. Topic 815, Derivatives and Hedging, requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met. One of those criteria is that the economic characteristics and risks of the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contract. The amendments clarify what steps are required when assessing clearly and closely related . The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 323 In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

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FASB ASC 606 In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments relate to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606, Revenue from Contracts with Customers, requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). This determination is based upon whether the entity controls the good or the service before it is transferred to the customer. Topic 606 includes indicators to assist in this evaluation. The amendments in this update affect the guidance in ASU No. 2014-09 above, which is not yet effective. The effective date will be the same as the effective date of ASU No. 2014-09. 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.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: identifying performance obligations, and the licensing implementation guidance. Before an entity can identify its performance obligations in a contract with a customer, the entity first identifies the promised goods or services in the contract. The amendments in this update are expected to reduce the cost and complexity of applying the guidance on identifying promised goods or services. To identify performance obligations in a contract, an entity evaluates whether promised goods and services are distinct. Topic 606 includes two criteria for assessing whether promises to transfer goods or services are distinct. One of those criteria is that the promises are separately identifiable. This update will improve the guidance on assessing that criterion. Topic 606 also includes implementation guidance on determining whether as entity s promise to grant a license provides a customer with either a right to use the entity s intellectual property, which is satisfied at a point in time, or a right to access the entity s intellectual property, which is satisfied over time. The amendments in this update are intended to improve the operability and understandability of the licensing implementation guidance. The amendments in this update affect the guidance in ASU No. 2014-09 above, which is not yet effective. The effective date will be the same as the effective date of ASU No. 2014-09. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 718 In March 2016, the FASB issued ASU No. 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting. The amendments are intended to improve the accounting for employee shared-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

Founders Financial Corporation

On July 28, 2014, Old National announced that it had entered into an agreement to acquire Grand Rapids, Michigan-based Founders Financial Corporation (Founders) through a stock and cash merger. The acquisition was completed effective January 1, 2015 (the Closing Date). Founders was a bank holding company with Founders Bank & Trust as its wholly-owned subsidiary and operated four full-service banking centers in Kent County. Old National believes that it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable Old National to achieve economies of scale in these areas.

The total purchase price for Founders was $91.7 million, consisting of $41.0 million of cash and the issuance of 3.4 million shares of Old National Common Stock valued at $50.6 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. Through December 31, 2015, transaction and integration costs of $4.9 million associated with the acquisition had been expensed.

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As of December 31, 2015, the Company finalized its valuation of all assets and liabilities acquired, resulting in no material change to purchase accounting adjustments. A summary of the final purchase price allocation is as follows (in thousands):

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

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

The components of the estimated fair value of the acquired identifiable intangible assets are in the table below. These intangible assets will be amortized on an accelerated basis over their estimated lives and are included in the Banking segment.

	Estimated Fair Value (in millions)	Estimated Useful Lives (Years)
Core deposit intangible	$ 2.9	7
Trust customer relationship intangible	$ 2.6	12

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

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

			Date		Cash Flows Not Expected to be Collected
Acquired receivables subject to ASC 310-30	$ 6,607	$	11,103	$	2,684
Acquired receivables not subject to ASC 310-30	$ 332,962	$	439,031	$	61,113

Insurance Acquisitions

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

On May 8, 2015, the Company issued cash consideration of $0.1 million to purchase a book of business. The acquisition terms call for further cash consideration of approximately $0.1 million if certain operating targets are met. The fair value of these payments was booked at acquisition and added $0.2 million of customer business relationships intangibles, which is included in the Insurance segment. The customer business relationship intangibles will be amortized using an accelerated method over an estimated useful life of 10 years.

Divestitures

On August 14, 2015, the Company completed its previously announced branch sales. The Company divested its southern Illinois region (twelve branches) along with four branches in eastern Indiana and one in Ohio. At closing, the purchasers assumed loans of $193.6 million and deposits of $555.8 million. The Company recorded a net pre-tax gain of $15.6 million in connection with the divestitures, which included a deposit premium of $19.3 million, goodwill allocation of $3.8 million, and $0.9 million of other transaction expenses.

In addition, the Company consolidated 23 branches throughout the Old National franchise during 2015 based on an ongoing assessment of our service and delivery network and on our goal to continue to move our franchise into stronger growth markets.

Pending Acquisitions at March 31, 2016

On January 12, 2016, Old National announced that it had entered into an agreement to acquire Madison, Wisconsin-based Anchor BanCorp Wisconsin Inc. (Anchor) through a stock and cash merger. Anchor is a savings and loan holding company with AnchorBank, fsb (AnchorBank) as its wholly-owned subsidiary. AnchorBank operates 46 banking centers, including 32 banking centers in the Madison, Milwaukee and Fox Valley triangle. At March 31, 2016, AnchorBank reported total assets of $2.231 billion and $1.816 billion of deposit liabilities. Pursuant to the merger agreement, shareholders of Anchor could elect to receive either 3.5505 shares of Old National common stock or $48.50 in cash for each share of Anchor they held, subject to no more than 40% of the outstanding shares of Anchor could receive cash. The transaction closed on May 1, 2016. Based on Old National s closing share price of $13.40 on May 1, 2016, this represents a total transaction value of approximately $460 million. Due to the timing of the acquisition, the Company is continuing to determine the preliminary fair values of the assets and liabilities assumed and the purchase price allocation. The Company expects to finalize the analysis of the acquired assets and liabilities over the next few months and within one year of the acquisition.

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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, 2016 and 2015:

	Three Months Ended March 31,	
(dollars and shares in thousands, except per share data)	**2016**	**2015**
Basic Earnings Per Share		
Net income	**$ 26,977**	$ 20,906
Weighted average common shares outstanding	**113,998**	118,540
Basic Earnings Per Share	**$ 0.24**	**$ 0.18**
Diluted Earnings Per Share		
Net income	**$ 26,977**	$ 20,906
Weighted average common shares outstanding	**113,998**	118,540
Effect of dilutive securities:		
Restricted stock (1)	**526**	438
Stock options (2)	**39**	98
Weighted average shares outstanding	**114,563**	119,076
Diluted Earnings Per Share	**$ 0.24**	**$ 0.18**

(1) 4 thousand shares of restricted stock and restricted stock units at March 31, 2016 were not included in the computation of net income per diluted share because the effect would be antidilutive. There were no antidilutive shares excluded from the computation at March 31, 2015.

(2) Options to purchase 0.8 million shares and 0.9 million shares outstanding at March 31, 2016 and 2015, respectively, were not included 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.

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NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes within each classification of accumulated other comprehensive income (loss) (AOCI) net of tax for the three months ended March 31, 2016 and 2015:

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Three Months Ended March 31, 2016					
Balance at January 1, 2016	**$ (3,806)**	**$ (14,480)**	**$ (9,276)**	**$ (7,235)**	**$ (34,797)**
Other comprehensive income (loss) before reclassifications	**11,282**		**(6,900)**		**4,382**
Amounts reclassified from accumulated other comprehensive income (loss) (a)	**(699)**	**306**	**789**	**434**	**830**
Net other comprehensive income (loss)	**10,583**	**306**	**(6,111)**	**434**	**5,212**
Balance at March 31, 2016	**$ 6,777**	**$ (14,174)**	**$ (15,387)**	**$ (6,801)**	**$ (29,585)**
Three Months Ended March 31, 2015					
Balance at January 1, 2015	$ (748)	$ (15,776)	$ (5,935)	$ (9,096)	$ (31,555)
Other comprehensive income (loss) before reclassifications	11,515		(3,489)		8,026
Amounts reclassified from accumulated other comprehensive income (loss) (a)	(1,688)	403	115	457	(713)
Net other comprehensive income (loss)	9,827	403	(3,374)	457	7,313
Balance at March 31, 2015	$ 9,079	$ (15,373)	$ (9,309)	$ (8,639)	$ (24,242)

(a) See table below for details about reclassifications.

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The following table summarize the significant amounts reclassified out of each component of AOCI for the three months ended March 31, 2016 and 2015:

Details about AOCI Components	Amount Reclassified from AOCI Three Months Ended March 31,		Affected Line Item in the Statement of Income
(dollars in thousands)	**2016**	**2015**	
Unrealized gains and losses on available-for-sale securities	**$ 1,106**	$ 2,683	Net securities gains
	(407)	(995)	Income tax (expense) benefit
	$ 699	$ 1,688	Net income
Unrealized gains and losses on held-to-maturity securities	**$ (465)**	$ (337)	Interest income/(expense)
	159	(66)	Income tax (expense) benefit
	$ (306)	$ (403)	Net income
Gains and losses on cash flow hedges Interest rate contracts	**$ (1,273)**	$ (186)	Interest income/(expense)
	484	71	Income tax (expense) benefit
	$ (789)	$ (115)	Net income
Amortization of defined benefit pension items			
Actuarial gains/(losses)	**$ (700)**	$ (738)	Salaries and employee benefits
	266	281	Income tax (expense) benefit
	$ (434)	$ (457)	Net income
Total reclassifications for the period	**$ (830)**	$ 713	Net income

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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, 2016 and December 31, 2015 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2016				
Available-for-Sale				
U.S. Treasury	**$ 11,966**	**$ 277**	**$**	**$ 12,243**
U.S. government-sponsored entities and agencies	**600,938**	**2,578**	**(59)**	**603,457**
Mortgage-backed securities - Agency	**980,374**	**13,812**	**(3,202)**	**990,984**
States and political subdivisions	**387,916**	**12,931**	**(611)**	**400,236**
Pooled trust preferred securities	**17,192**		**(9,205)**	**7,987**
Other securities	**339,148**	**2,481**	**(8,093)**	**333,536**
Total available-for-sale securities	**$ 2,337,534**	**$ 32,079**	**$ (21,170)**	**$ 2,348,443**
Held-to-Maturity				
U.S. government-sponsored entities and agencies	**$ 142,045**	**$ 2,455**	**$**	**$ 144,500**
Mortgage-backed securities - Agency	**14,604**	**578**		**15,182**
States and political subdivisions	**712,363**	**60,545**		**772,908**
Total held-to-maturity securities	**$ 869,012**	**$ 63,578**	**$**	**$ 932,590**
December 31, 2015				
Available-for-Sale				
U.S. Treasury	$ 11,968	$ 190	$ (8)	$ 12,150
U.S. government-sponsored entities and agencies	615,578	1,495	(3,523)	613,550
Mortgage-backed securities - Agency	1,065,936	10,970	(10,545)	1,066,361
States and political subdivisions	375,671	11,960	(335)	387,296
Pooled trust preferred securities	17,320		(9,420)	7,900
Other securities	337,590	1,151	(7,777)	330,964
Total available-for-sale securities	$ 2,424,063	$ 25,766	$ (31,608)	$ 2,418,221
Held-to-Maturity				
U.S. government-sponsored entities and agencies	$ 142,864	$ 2,899	$	$ 145,763
Mortgage-backed securities - Agency	16,042	562		16,604
States and political subdivisions	713,205	53,848	(3)	767,050
Total held-to-maturity securities	$ 872,111	$ 57,309	$ (3)	$ 929,417

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Proceeds from sales or calls of available-for-sale investment securities, the resulting realized gains and realized losses, and other securities gains or losses were as follows for the three months ended March 31, 2016 and 2015:

	Three Months Ended March 31,	
(dollars in thousands)	**2016**	**2015**
Proceeds from sales of available-for-sale securities	**$ 76,650**	$ 170,265
Proceeds from calls of available-for-sale securities	**124,311**	51,594
Total	**$ 200,961**	$ 221,859
Realized gains on sales of available-for-sale securities	**$ 1,660**	$ 2,481
Realized gains on calls of available-for-sale securities	**244**	168
Realized losses on sales of available-for-sale securities	**(446)**	(25)
Realized losses on calls of available-for-sale securities	**(87)**	(3)
Other securities gains (losses) (1)	**(265)**	62
Net securities gains	**$ 1,106**	$ 2,683

(1) Other securities gains (losses) includes net realized gains or losses associated with trading securities and mutual funds.

During the three months ended March 31, 2015, the Company sold a municipal bond that was classified as held-to-maturity due to credit deterioration. Proceeds from the sale were $0.8 million and resulted in a gain of $52 thousand.

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, 2016 and $3.9 million at December 31, 2015.

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.

	At March 31, 2016		
(dollars in thousands)			**Weighted**
Maturity	**Amortized Cost**	**Fair Value**	**Average Yield**
Available-for-Sale			
Within one year	**$ 28,446**	**$ 28,505**	**1.58%**
One to five years	**508,313**	**512,104**	**1.78**
Five to ten years	**344,286**	**339,730**	**2.61**

Beyond ten years	1,456,489	1,468,104	2.60
Total	$ 2,337,534	$ 2,348,443	2.41%
Held-to-Maturity			
Within one year	$ 11,984	$ 12,154	6.29%
One to five years	32,840	34,392	4.14
Five to ten years	214,165	222,378	3.67
Beyond ten years	610,023	663,666	5.48
Total	$ 869,012	$ 932,590	5.00%

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The following table summarizes the investment securities with unrealized losses at March 31, 2016 and December 31, 2015 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, 2016						
Available-for-Sale						
U.S. government-sponsored entities and agencies	$ 38,400	$ (59)	$	$	$ 38,400	$ (59)
Mortgage-backed securities - Agency	151,882	(357)	162,982	(2,845)	314,864	(3,202)
States and political subdivisions	44,889	(458)	5,151	(153)	50,040	(611)
Pooled trust preferred securities			7,987	(9,205)	7,987	(9,205)
Other securities	96,543	(1,865)	111,346	(6,228)	207,889	(8,093)
Total available-for-sale	$ 331,714	$ (2,739)	$ 287,466	$ (18,431)	$ 619,180	$ (21,170)