

OLD NATIONAL BANCORP /IN/

Form 10-Q

November 02, 2012

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

.. **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)

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

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

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

**47708**  
(Zip Code)

**(812) 464-1294**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock. The Registrant has one class of common stock (no par value) with 101,403,000 shares outstanding at September 30, 2012.

**Table of Contents**

**OLD NATIONAL BANCORP**

**FORM 10-Q**

**INDEX**

	Page No.
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets September 30, 2012 (unaudited), December 31, 2011 and September 30, 2011 (unaudited)</u>	3
<u>Consolidated Statements of Income (unaudited) Three and nine months ended September 30, 2012 and 2011</u>	4
<u>Consolidated Statements of Comprehensive Income (unaudited) Three and nine months ended September 30, 2012 and 2011</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity (unaudited) Nine months ended September 30, 2012 and 2011</u>	6
<u>Consolidated Statements of Cash Flows (unaudited) Nine months ended September 30, 2012 and 2011</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	62
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	89
<u>Item 4. Controls and Procedures</u>	89
<b><u>PART II OTHER INFORMATION</u></b>	90
<b><u>SIGNATURES</u></b>	97

**Table of Contents****OLD NATIONAL BANCORP****CONSOLIDATED BALANCE SHEETS**

(dollars and shares in thousands, except per share data)	September 30, 2012 (unaudited)	December 31, 2011	September 30, 2011 (unaudited)
<b>Assets</b>			
Cash and due from banks	\$ 180,490	\$ 191,626	\$ 194,606
Money market and other interest-earning investments	37,043	31,246	74,623
Total cash and cash equivalents	217,533	222,872	269,229
Trading securities at fair value	3,043	2,816	2,794
Investment securities available-for-sale, at fair value			
U.S. Treasury	15,585	65,769	65,951
U.S. Government-sponsored entities and agencies	387,176	173,185	180,934
Mortgage-backed securities	1,172,671	1,268,155	1,441,585
States and political subdivisions	557,835	402,844	391,202
Other securities	179,522	161,323	173,417
Total investment securities available-for-sale	2,312,789	2,071,276	2,253,089
Investment securities held-to-maturity, at amortized cost (fair value \$440,014, \$507,699 and \$517,427 respectively)	410,521	484,590	493,282
Federal Home Loan Bank stock, at cost	37,927	30,835	34,870
Residential loans held for sale, at fair value	9,911	4,528	4,710
Loans:			
Commercial	1,294,015	1,216,654	1,246,289
Commercial real estate	1,291,054	1,067,370	1,128,374
Residential real estate	1,279,238	995,458	865,951
Consumer credit, net of unearned income	930,070	861,361	899,446
Covered loans, net of discount	448,789	626,360	711,266
Total loans	5,243,166	4,767,203	4,851,326
Allowance for loan losses	(50,428)	(57,117)	(65,219)
Allowance for loan losses covered loans	(4,334)	(943)	(303)
Net loans	5,188,404	4,709,143	4,785,804
FDIC indemnification asset	126,881	167,714	168,483
Premises and equipment, net	83,259	71,870	75,257
Accrued interest receivable	46,430	44,801	43,713
Goodwill	339,883	253,177	265,985
Other intangible assets	31,273	33,624	36,298
Company-owned life insurance	268,919	248,693	247,234
Assets held for sale	15,508	16,861	
Other real estate owned and repossessed personal property	14,282	7,119	9,390
Other real estate owned covered	28,780	30,443	31,908
Other assets	247,701	209,321	210,654
Total assets	\$ 9,383,044	\$ 8,609,683	\$ 8,932,700
<b>Liabilities</b>			
Deposits:			
Noninterest-bearing demand	\$ 1,943,525	\$ 1,728,546	\$ 1,728,548

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Interest-bearing:			
NOW	<b>1,694,792</b>	1,569,084	1,517,117
Savings	<b>1,939,665</b>	1,570,422	1,624,786
Money market	<b>282,308</b>	295,847	306,089
Time	<b>1,361,087</b>	1,447,664	1,690,723
<b>Total deposits</b>	<b>7,221,377</b>	6,611,563	6,867,263
Short-term borrowings	<b>452,060</b>	424,849	341,004
Other borrowings	<b>288,502</b>	290,774	443,884
Accrued expenses and other liabilities	<b>234,341</b>	248,941	252,854
<b>Total liabilities</b>	<b>8,196,280</b>	7,576,127	7,905,005
<b>Shareholders Equity</b>			
Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Common stock, \$1 stated value, 150,000 shares authorized, 101,403, 94,654 and 94,752 shares issued and outstanding, respectively	<b>101,403</b>	94,654	94,752
Capital surplus	<b>918,259</b>	834,033	834,060
Retained earnings	<b>132,822</b>	89,865	74,312
Accumulated other comprehensive income, net of tax	<b>34,280</b>	15,004	24,571
<b>Total shareholders equity</b>	<b>1,186,764</b>	1,033,556	1,027,695
<b>Total liabilities and shareholders equity</b>	<b>\$ 9,383,044</b>	\$ 8,609,683	\$ 8,932,700

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

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

(dollars and shares in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Interest Income</b>				
Loans including fees:				
Taxable	<b>\$ 60,916</b>	\$ 62,706	<b>\$ 185,957</b>	\$ 165,058
Nontaxable	<b>2,192</b>	2,361	<b>6,639</b>	7,018
Investment securities, available-for-sale:				
Taxable	<b>10,810</b>	13,197	<b>33,470</b>	39,730
Nontaxable	<b>3,997</b>	3,331	<b>11,482</b>	10,172
Investment securities, held-to-maturity, taxable	<b>4,839</b>	5,487	<b>14,708</b>	18,039
Money market and other interest-earning investments	<b>18</b>	87	<b>43</b>	341
<b>Total interest income</b>	<b>82,772</b>	87,169	<b>252,299</b>	240,358
<b>Interest Expense</b>				
Deposits	<b>6,419</b>	9,401	<b>21,145</b>	28,989
Short-term borrowings	<b>124</b>	132	<b>369</b>	390
Other borrowings	<b>2,079</b>	5,044	<b>6,389</b>	14,701
<b>Total interest expense</b>	<b>8,622</b>	14,577	<b>27,903</b>	44,080
<b>Net interest income</b>	<b>74,150</b>	72,592	<b>224,396</b>	196,278
Provision for loan losses	<b>400</b>	(82)	<b>2,849</b>	6,437
<b>Net interest income after provision for loan losses</b>	<b>73,750</b>	72,674	<b>221,547</b>	189,841
<b>Noninterest Income</b>				
Wealth management fees	<b>5,198</b>	5,094	<b>16,138</b>	15,521
Service charges on deposit accounts	<b>12,816</b>	14,048	<b>38,582</b>	38,062
ATM fees	<b>5,692</b>	6,766	<b>17,920</b>	18,736
Mortgage banking revenue	<b>840</b>	699	<b>2,172</b>	2,560
Insurance premiums and commissions	<b>8,670</b>	8,335	<b>27,595</b>	27,916
Investment product fees	<b>3,359</b>	2,977	<b>9,453</b>	8,504
Company-owned life insurance	<b>1,734</b>	1,393	<b>4,741</b>	3,863
Net securities gains	<b>2,877</b>	2,861	<b>10,488</b>	5,026
Total other-than-temporary impairment losses	<b>(202)</b>	(140)	<b>(1,078)</b>	(1,872)
Loss recognized in other comprehensive income		140		1,373
Impairment losses recognized in earnings	<b>(202)</b>		<b>(1,078)</b>	(499)
Gain on derivatives	<b>226</b>	149	<b>657</b>	702
Gain on sale leaseback transactions	<b>1,607</b>	1,636	<b>4,820</b>	4,909
Change in FDIC indemnification asset	<b>(4,877)</b>	535	<b>(4,118)</b>	535
Other income	<b>2,927</b>	2,833	<b>11,172</b>	7,901
<b>Total noninterest income</b>	<b>40,867</b>	47,326	<b>138,542</b>	133,736
<b>Noninterest Expense</b>				
Salaries and employee benefits	<b>49,876</b>	52,325	<b>142,673</b>	139,930
Occupancy	<b>13,454</b>	13,328	<b>39,170</b>	37,826

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Equipment	<b>2,902</b>	2,878	<b>8,725</b>	8,720
Marketing	<b>1,537</b>	1,294	<b>4,474</b>	4,193
Data processing	<b>5,432</b>	5,703	<b>16,835</b>	17,538
Communication	<b>2,627</b>	2,529	<b>8,053</b>	7,507
Professional fees	<b>3,787</b>	5,905	<b>9,141</b>	10,462
Loan expense	<b>1,760</b>	1,139	<b>4,896</b>	3,351
Supplies	<b>739</b>	646	<b>2,106</b>	2,191
FDIC assessment	<b>1,320</b>	1,657	<b>4,094</b>	5,621
Other real estate owned expense	<b>371</b>	580	<b>11,754</b>	1,682
Amortization of intangibles	<b>1,956</b>	2,106	<b>5,888</b>	5,868
Other expense	<b>3,258</b>	5,068	<b>8,524</b>	9,952
Total noninterest expense	<b>89,019</b>	95,158	<b>266,333</b>	254,841
Income before income taxes	<b>25,598</b>	24,842	<b>93,756</b>	68,736
Income tax expense	<b>5,861</b>	8,045	<b>25,090</b>	18,490
Net income	<b>\$ 19,737</b>	\$ 16,797	<b>\$ 68,666</b>	\$ 50,246
Net income per common share basic	<b>\$ 0.20</b>	\$ 0.18	<b>\$ 0.72</b>	\$ 0.53
Net income per common share diluted	<b>0.20</b>	0.18	<b>0.72</b>	0.53
Weighted average number of common shares outstanding-basic	<b>95,690</b>	94,492	<b>94,886</b>	94,468
Weighted average number of common shares outstanding-diluted	<b>96,125</b>	94,785	<b>95,274</b>	94,722
Dividends per common share	<b>\$ 0.09</b>	\$ 0.07	<b>\$ 0.27</b>	\$ 0.21

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

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

(dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 19,737	\$ 16,797	\$ 68,666	\$ 50,246
Other comprehensive income				
Change in securities available-for-sale:				
Unrealized holding gains for the period	23,002	16,032	40,463	47,324
Reclassification adjustment for securities gains realized in income	(2,877)	(2,861)	(10,488)	(5,026)
Other-than-temporary-impairment on available-for-sale securities recorded in other comprehensive income		(140)		(1,373)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income	202		1,078	499
Income tax effect	(7,901)	(5,149)	(12,076)	(16,202)
Unrealized gains on available-for-sale securities	12,426	7,882	18,977	25,222
Change in securities held-to-maturity:				
Adjustment for securities transferred to available-for-sale	(1,588)		(1,588)	
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	(232)	(337)	(693)	(1,304)
Income tax effect	729	134	913	521
Changes from securities held-to-maturity	(1,091)	(203)	(1,368)	(783)
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges		(412)	(240)	(1,021)
Reclassification adjustment on cash flow hedges		72		216
Income tax effect	(1)	137	95	324
Changes from cash flow hedges	(1)	(203)	(145)	(481)
Defined benefit pension plans:				
Amortization of net loss recognized in income	1,007	1,154	3,021	3,137
Income tax effect	(403)	(461)	(1,209)	(1,255)
Changes from defined benefit pension plans	604	693	1,812	1,882
Other comprehensive income, net of tax	11,938	8,169	19,276	25,840
Comprehensive income	\$ 31,675	\$ 24,966	\$ 87,942	\$ 76,086

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



**Table of Contents****OLD NATIONAL BANCORP****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)**

(dollars and shares in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
<b>Balance, December 31, 2010</b>	\$ 87,183	\$ 748,873	\$ 44,018	\$ (1,269)	\$ 878,805
Comprehensive income					
Net income			50,246		50,246
Other comprehensive income					
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				25,222	25,222
Transferred securities, net of tax				(783)	(783)
Reclassification adjustment on cash flows hedges, net of tax				(481)	(481)
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax				1,882	1,882
Acquisition Monroe Bancorp	7,575	82,495			90,070
Dividends common stock			(19,889)		(19,889)
Common stock issued	15	151			166
Common stock repurchased	(33)	(308)			(341)
Stock based compensation expense		2,551			2,551
Stock activity under incentive comp plans	12	298	(63)		247
<b>Balance, September 30, 2011</b>	\$ 94,752	\$ 834,060	\$ 74,312	\$ 24,571	\$ 1,027,695
<b>Balance, December 31, 2011</b>	\$ 94,654	\$ 834,033	\$ 89,865	\$ 15,004	\$ 1,033,556
Comprehensive income					
Net income			68,666		68,666
Other comprehensive income					
Change in unrealized gain (loss) on securities available for sale, net of reclassification and tax				18,977	18,977
Transferred securities, net of tax				(1,368)	(1,368)
Reclassification adjustment on cash flows hedges, net of tax				(145)	(145)
Net loss, settlement cost and amortization of net (gain) loss on defined benefit pension plans, net of tax				1,812	1,812
Acquisition Indiana Community Bancorp	6,626	81,871			88,497
Dividends common stock			(25,551)		(25,551)
Common stock issued	16	171			187
Common stock repurchased	(66)	(765)			(831)
Stock based compensation expense		2,203			2,203
Stock activity under incentive comp plans	173	746	(158)		761
<b>Balance, September 30, 2012</b>	\$ 101,403	\$ 918,259	\$ 132,822	\$ 34,280	\$ 1,186,764

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

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

(dollars in thousands)	Nine Months Ended September 30,	
	2012	2011
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 68,666	\$ 50,246
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	8,618	7,269
Amortization and impairment of other intangible assets	5,888	5,868
Net premium amortization on investment securities	9,546	8,060
(Accretion) amortization of FDIC indemnification asset	4,118	(535)
Stock compensation expense	2,203	2,551
Provision for loan losses	2,849	6,437
Net securities gains	(10,488)	(5,026)
Impairment on available-for-sale securities	1,078	499
Gain on sale leasebacks	(4,820)	(4,909)
Gain on derivatives	(657)	(702)
Net (gains) losses on sales and write-downs of loans and other assets	303	(1,459)
Increase in cash surrender value of company owned life insurance	(4,393)	(3,836)
Residential real estate loans originated for sale	(51,833)	(70,232)
Proceeds from sale of residential real estate loans	49,465	79,089
Decrease in interest receivable	536	5,812
Decrease in other real estate owned	670	7,420
Decrease in other assets	1,732	9,800
Increase (decrease) in accrued expenses and other liabilities	(25,493)	15,838
Total adjustments	(10,678)	61,944
Net cash flows provided by operating activities	57,988	112,190
<b>Cash Flows From Investing Activities</b>		
Cash and cash equivalents of acquired banks	78,538	398,558
Net cash paid in FDIC-assisted transaction		(151,264)
Purchases of investment securities available-for-sale	(687,698)	(490,086)
Purchase of trust assets		(1,301)
Proceeds from the call/repurchase of FHLB stock		14,587
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	478,218	379,727
Proceeds from sales of investment securities available-for-sale	192,020	454,110
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	24,851	147,050
Proceeds from sale of loans	2,292	4,743
Reimbursements under FDIC loss share agreements	36,338	
Net principal collected from loan customers	9,123	105,354
Proceeds from sale of premises and equipment and other assets	3,434	413
Purchases of premises and equipment and other assets	(9,368)	(4,184)
Net cash flows provided by investing activities	127,748	857,707
<b>Cash Flows From Financing Activities</b>		
Net increase (decrease) in deposits and short-term borrowings:		
Deposits	(175,239)	(692,932)

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Short-term borrowings	27,210	(27,411)
Payments for maturities on other borrowings	(1,416)	(725)
Payments related to retirement of debt	(16,000)	(211,228)
Cash dividends paid on common stock	(25,551)	(19,889)
Common stock repurchased	(831)	(341)
Proceeds from exercise of stock options, including tax benefit	565	140
Common stock issued	187	166
<b>Net cash flows used in financing activities</b>	<b>(191,075)</b>	<b>(952,220)</b>
Net increase in cash and cash equivalents	(5,339)	17,677
Cash and cash equivalents at beginning of period	222,872	251,552
<b>Cash and cash equivalents at end of period</b>	<b>\$ 217,533</b>	<b>\$ 269,229</b>
<b>Supplemental cash flow information:</b>		
Total interest paid	\$ 30,264	\$ 44,814
Total taxes paid (net of refunds)	\$ 20,969	\$ 4,605
Securities transferred from held-to-maturity to available-for-sale	\$ 46,053	\$

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

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

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National ) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The allowance for loan losses, valuation of purchased loans, valuation and impairment of securities, goodwill and intangibles, derivative financial instruments, and income taxes are particularly subject to change. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of September 30, 2012 and 2011, and December 31, 2011, and the results of its operations for the three and nine months ended September 30, 2012 and 2011. 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, 2011.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform with the 2012 presentation. Such reclassifications had no effect on net income or shareholders' equity.

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

**FASB ASC 820** In May 2011, the FASB issued an update (ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs) impacting FASB ASC 820, Fair Value Measurement. The amendments in this update will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRSs). Among the many areas affected by this update are the concept of highest and best use, the fair value of an instrument included in shareholders' equity and disclosures about fair value measurement, especially disclosures about fair value measurements categorized within Level 3 of the fair value hierarchy. This update became effective for the Company for interim and annual reporting periods beginning after December 15, 2011 and did not have a material impact on the consolidated financial statements.

**FASB ASC 220** In June 2011, the FASB issued an update (ASU No. 2011-05, Presentation of Comprehensive Income) impacting FASB ASC 220, Comprehensive Income. The amendments in this update eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. An entity will have the option to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity will be required to present on the face of financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income. This update and ASC No. 2011-12, which defers a portion of this guidance, became effective for the Company for interim and annual reporting periods beginning after December 15, 2011 and did not have a material impact on the consolidated financial statements.

**FASB ASC 350** In September 2011, the FASB issued an update (ASU No. 2011-08, Testing Goodwill for Impairment) impacting FASB ASC 350-20, Intangibles—Goodwill and Other. The amendments in this update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The more likely than not threshold is defined as having a likelihood of more than 50 percent. If after assessing the totality of events or circumstances, it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If an entity concludes that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, the entity is required to perform the first step of the two-step impairment. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss. This update became effective for the Company for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company has performed an analysis under this approach and it did not have a material impact on the consolidated financial statements.

## **Table of Contents**

**FASB ASC 360** In December 2011, the FASB issued an update (ASU No. 2011-10, Derecognition of in Substance Real Estate – a Scope Clarification) impacting FASB ASC 360-20, Property, Plant, and Equipment – Real Estate Sales. Under the amendments in this update, when a parent (reporting entity) ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary’s nonrecourse debt, the reporting entity should apply the guidance in Subtopic 360-20 to determine whether it should derecognize the in substance real estate. Generally, a reporting entity would not satisfy the requirements to derecognize the in substance real estate before the legal transfer of the real estate to the lender and the extinguishment of the related nonrecourse debt. This update became effective for the Company for interim and annual reporting periods beginning on or after June 15, 2012. The Company does not expect this guidance to have a material impact on the consolidated financial statements.

**FASB ASC 220** In December 2011, the FASB issued an update (ASU No. 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05) impacting FASB ASC 220, Comprehensive Income. This update defers the requirement to present items that are reclassified from accumulated other comprehensive income to net income in both the statement where net income is presented and the statement where other comprehensive income is presented. An entity should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU No. 2011-05. This update became effective for the Company for interim and annual reporting periods beginning after December 15, 2011 and did not have a material impact on the consolidated financial statements.

**FASB ASC 805** In October 2012, the FASB issued an update (ASU No. 2012-06, Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution) impacting FASB ASC 805, Business Combinations. This update specifies that when an entity recognizes an indemnification asset as a result of a government-assisted acquisition of a financial institution and subsequently a change in the cash flows expected to be collected on the indemnification asset occurs, the entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (the lesser of the term of the indemnification agreement and the remaining life of the indemnified assets). This update becomes effective for interim and annual periods beginning on or after December 15, 2012, and is consistent with the Company’s current accounting treatment of changes in expected cash flows and the indemnification asset and will not have a material impact on the consolidated financial statements.

## **NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY**

### **Indiana Community Bancorp**

On September 15, 2012, Old National acquired 100 % of Indiana Community Bancorp ( IBT ) in an all stock transaction. IBT was headquartered in Columbus, Indiana and had 17 full-service banking centers serving the South Central Indiana area. The acquisition increases Old National’s position as the third largest branch network in Indiana. Pursuant to the merger agreement, the shareholders of IBT received approximately 6.6 million shares of Old National Bancorp stock valued at approximately \$88.5 million.

**Table of Contents**

Under the acquisition method of accounting, the total estimated purchase price is allocated to IBT's 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 IBT acquisition is allocated as follows (in thousands):

Cash and cash equivalents	\$ 78,538
Investment securities	154,802
Loans	496,167
Premises and equipment	13,465
Accrued interest receivable	2,165
Other real estate owned	6,170
Company-owned life insurance	15,833
Other assets	49,974
Deposits	(784,589)
Other borrowings	(15,464)
Accrued expenses and other liabilities	(18,296)
Net tangible assets acquired	(1,235)
Definite-lived intangible assets acquired	3,024
Goodwill	