

OLD NATIONAL BANCORP /IN/
Form 10-Q
August 01, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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
**(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 105,851,000 shares outstanding at June 30, 2014.

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OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	June 30, 2014 (unaudited)	December 31, 2013	June 30, 2013 (unaudited)
Assets			
Cash and due from banks	\$ 215,806	\$ 190,606	\$ 155,135
Money market and other interest-earning investments	20,887	16,117	61,690
Total cash and cash equivalents	236,693	206,723	216,825
Trading securities at fair value	3,726	3,566	3,331
Investment securities available-for-sale, at fair value:			
U.S. Treasury	11,186	13,113	14,366
U.S. Government-sponsored entities and agencies	623,672	435,588	374,956
Mortgage-backed securities	1,220,293	1,306,670	1,412,869
States and political subdivisions	309,106	268,795	643,887
Other securities	371,800	348,035	213,006
Total investment securities available-for-sale	2,536,057	2,372,201	2,659,084
Investment securities held-to-maturity, at amortized cost (fair value \$899,007, \$780,758 and \$419,326, respectively)	852,904	762,734	401,066
Federal Home Loan Bank stock, at cost	42,776	40,584	40,584
Residential loans held for sale, at fair value	11,398	7,705	13,572
Finance leases held for sale			11,553
Loans:			
Commercial	1,498,833	1,373,415	1,397,882
Commercial real estate	1,354,700	1,160,890	1,197,997
Residential real estate	1,425,179	1,359,569	1,399,688
Consumer credit, net of unearned income	1,089,008	971,258	892,078
Covered loans, net of discount	171,148	217,832	288,577
Total loans	5,538,868	5,082,964	5,176,222
Allowance for loan losses	(42,494)	(41,741)	(43,890)
Allowance for loan losses covered loans	(3,658)	(5,404)	(5,428)
Net loans	5,492,716	5,035,819	5,126,904
FDIC indemnification asset	51,431	88,513	100,391
Premises and equipment, net	118,014	108,306	91,445
Accrued interest receivable	54,630	50,205	48,516
Goodwill	408,474	352,729	339,382
Other intangible assets	30,799	25,957	24,993
Company-owned life insurance	299,509	275,121	273,887
Assets held for sale	9,043	9,056	9,275

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Other real estate owned and repossessed personal property	6,729	7,562	7,739
Other real estate owned covered	11,155	13,670	23,131
Other assets	221,879	221,293	249,393
Total assets	\$ 10,387,933	\$ 9,581,744	\$ 9,641,071

Liabilities

Deposits:			
Noninterest-bearing demand	\$ 2,129,705	\$ 2,026,490	\$ 1,881,440
Interest-bearing:			
NOW	1,912,183	1,775,938	1,652,816
Savings	2,100,173	1,941,652	1,900,148
Money market	428,013	448,848	283,686
Time	984,929	1,017,975	1,122,003
Total deposits	7,555,003	7,210,903	6,840,093
Short-term borrowings	467,578	462,332	530,381
Other borrowings	902,015	556,388	884,347
Accrued expenses and other liabilities	186,006	189,481	219,272
Total liabilities	9,110,602	8,419,104	8,474,093

Shareholders Equity

Preferred stock, series A, 1,000 shares authorized, no shares issued or outstanding			
Common stock, \$1 stated value, 150,000 shares authorized, 105,851, 99,859 and 100,881 shares issued and outstanding, respectively			
	105,851	99,859	100,881
Capital surplus	975,354	900,254	912,391
Retained earnings	229,467	206,993	178,727
Accumulated other comprehensive income (loss), net of tax	(33,341)	(44,466)	(25,021)
Total shareholders equity	1,277,331	1,162,640	1,166,978
Total liabilities and shareholders equity	\$ 10,387,933	\$ 9,581,744	\$ 9,641,071

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 June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Interest Income				
Loans including fees:				
Taxable	\$ 65,892	\$ 63,223	\$ 130,849	\$ 127,441
Nontaxable	2,530	2,380	5,039	4,559
Investment securities:				
Taxable	15,447	15,139	31,216	30,281
Nontaxable	5,649	4,933	10,673	9,483
Money market and other interest-earning investments	10	7	16	20
Total interest income	89,528	85,682	177,793	171,784
Interest Expense				
Deposits	3,342	5,016	6,625	10,284
Short-term borrowings	83	213	150	480
Other borrowings	1,621	1,262	3,058	2,779
Total interest expense	5,046	6,491	9,833	13,543
Net interest income	84,482	79,191	167,960	158,241
Provision for loan losses	(400)	(3,693)	(363)	(2,848)
Net interest income after provision for loan losses	84,882	82,884	168,323	161,089
Noninterest Income				
Wealth management fees	7,504	6,412	13,296	12,068
Service charges on deposit accounts	11,821	11,766	22,955	22,864
Debit card and ATM fees	6,476	5,942	12,212	11,740
Mortgage banking revenue	1,262	1,593	1,892	2,866
Insurance premiums and commissions	9,811	9,318	21,773	20,261
Investment product fees	4,117	4,074	7,985	7,657
Company-owned life insurance	1,643	1,614	3,110	3,258
Net securities gains	1,689	1,789	2,248	2,808
Total other-than-temporary impairment losses			(100)	
Loss recognized in other comprehensive income				
Impairment losses recognized in earnings			(100)	
Gain (loss) on derivatives	71	144	250	132
Recognition of deferred gain on sale leaseback transactions	1,523	1,791	3,047	3,375

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Gain on branch divestitures deposit premium				2,244
Change in FDIC indemnification asset	(10,470)	(1,474)	(17,813)	(3,776)
Other income	4,206	3,275	9,361	7,062
Total noninterest income	39,653	46,244	80,216	92,559
Noninterest Expense				
Salaries and employee benefits	55,050	48,723	106,430	99,683
Occupancy	12,712	12,029	23,654	24,113
Equipment	3,176	2,775	6,190	5,673
Marketing	2,434	1,934	4,619	3,139
Data processing	6,479	5,659	12,063	10,891
Communication	2,343	2,703	4,954	5,269
Professional fees	3,643	2,834	7,325	6,503
Loan expense	1,441	1,969	2,758	3,585
Supplies	824	649	1,477	1,218
FDIC assessment	1,445	118	2,886	1,770
Other real estate owned expense	1,255	1,537	2,013	2,551
Amortization of intangibles	2,003	1,840	3,840	4,365
Other expense	5,299	4,146	8,147	8,339
Total noninterest expense	98,104	86,916	186,356	177,099
Income before income taxes	26,431	42,212	62,183	76,549
Income tax expense	7,658	13,734	16,900	24,126
Net income	\$ 18,773	\$ 28,478	\$ 45,283	\$ 52,423
Net income per common share basic	\$ 0.18	\$ 0.28	\$ 0.44	\$ 0.52
Net income per common share diluted	0.18	0.28	0.44	0.52
Weighted average number of common shares outstanding-basic	103,904	100,981	101,862	101,031
Weighted average number of common shares outstanding-diluted	104,361	101,352	102,363	101,448
Dividends per common share	\$ 0.11	\$ 0.10	\$ 0.22	\$ 0.20

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
(dollars in thousands)				
Net income	\$ 18,773	\$ 28,478	\$ 45,283	\$ 52,423
Other comprehensive income (loss)				
Change in securities available-for-sale:				
Unrealized holding gains (losses) for the period	11,447	(73,602)	23,502	(87,385)
Reclassification adjustment for securities gains realized in income	(1,689)	(1,789)	(2,248)	(2,808)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income			100	
Income tax effect	(3,627)	28,957	(8,090)	34,366
Unrealized gains on available-for-sale securities	6,131	(46,434)	13,264	(55,827)
Change in securities held-to-maturity:				
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	225	(177)	622	(354)
Income tax effect	(58)	70	(185)	141
Changes from securities held-to-maturity	167	(107)	437	(213)
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges	(3,146)	874	(5,083)	874
Income tax effect	1,195	(349)	1,932	(349)
Changes from cash flow hedges	(1,951)	525	(3,151)	525
Defined benefit pension plans:				
Amortization of net loss recognized in income	591	842	943	1,702
Income tax effect	(349)	(665)	(368)	(1,009)
Changes from defined benefit pension plans	242	177	575	693
Other comprehensive income (loss), net of tax	4,589	(45,839)	11,125	(54,822)
Comprehensive income (loss)	\$ 23,362	\$ (17,361)	\$ 56,408	\$ (2,399)

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			52,423		52,423
Other comprehensive income (loss)				(54,822)	(54,822)
Dividends common stock			(20,211)		(20,211)
Common stock issued	11	128			139
Common stock repurchased	(589)	(7,097)			(7,686)
Stock based compensation expense		2,136			2,136
Stock activity under incentive comp plans	280	306	(152)		434
Balance, June 30, 2013	\$ 100,881	\$ 912,391	\$ 178,727	\$ (25,021)	\$ 1,166,978
Balance, December 31, 2013	\$ 99,859	\$ 900,254	\$ 206,993	\$ (44,466)	\$ 1,162,640
Net income			45,283		45,283
Other comprehensive income (loss)				11,125	11,125
Acquisition Tower Financial	5,626	73,101			78,727
Dividends common stock			(22,631)		(22,631)
Common stock issued	11	146			157
Common stock repurchased	(117)	(1,480)			(1,597)
Stock based compensation expense		2,506			2,506
Stock activity under incentive comp plans	472	827	(178)		1,121
Balance, June 30, 2014	\$ 105,851	\$ 975,354	\$ 229,467	\$ (33,341)	\$ 1,277,331

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

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(dollars in thousands)	Six Months Ended June 30,	
	2014	2013
Cash Flows From Operating Activities		
Net income	\$ 45,283	\$ 52,423
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	5,897	5,092
Amortization and impairment of other intangible assets	3,840	4,365
Net premium amortization on investment securities	6,525	9,007
Amortization of FDIC indemnification asset	17,813	3,776
Stock compensation expense	2,506	2,136
Provision for loan losses	(363)	(2,848)
Net securities gains	(2,248)	(2,808)
Impairment on available-for-sale securities	100	
Gain on branch divestitures		(2,244)
Recognition of deferred gain on sale leaseback transactions	(3,047)	(3,375)
Gain on derivatives	(250)	(132)
Net gains on sales of other assets	(1,204)	(1,618)
Loss on retirement of debt		993
Increase in cash surrender value of company owned life insurance	(3,107)	(3,258)
Proceeds from sale of residential real estate loans	48,540	83,909
Residential real estate loans originated for sale	(50,557)	(82,586)
Increase in interest receivable	(2,054)	(1,537)
Decrease in other real estate owned	3,821	6,446
Decrease in other assets	4,210	16,543
Decrease in accrued expenses and other liabilities	(4,166)	(19,322)
Total adjustments	26,256	12,539
Net cash flows provided by operating activities	71,539	64,962
Cash Flows From Investing Activities		
Net cash and cash equivalents of acquired banks and branches	24,701	
Purchases of investment securities available-for-sale	(257,481)	(770,879)
Purchases of investment securities held-to-maturity	(103,299)	(15,624)
Proceeds from maturities, prepayments and calls of investment securities available-for-sale	178,156	358,817
Proceeds from sales of investment securities available-for-sale	76,295	159,073
Proceeds from maturities, prepayments and calls of investment securities held-to-maturity	10,438	15,318
Proceeds on branch divestitures		(144,236)
Proceeds from sale of loans		4,787
Purchases of Federal Home Loan Bank stock		(2,657)

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Reimbursements under FDIC loss share agreements	20,306	13,098
Net principal collected from (loans made to) loan customers	(85,480)	1,435
Proceeds from sale of premises and equipment and other assets	43	3,036
Purchases of premises and equipment and other assets	(7,442)	(7,321)
Net cash flows used in investing activities	(143,763)	(385,153)
Cash Flows From Financing Activities		
Net decrease in deposits and short-term borrowings:		
Deposits	(184,422)	(288,725)
Short-term borrowings	(13,652)	(59,434)
Payments for maturities on other borrowings	(181,019)	(469)
Payments related to retirement of debt		(50,993)
Proceeds from issuance of other borrowings	505,000	700,000
Cash dividends paid on common stock	(22,631)	(20,211)
Common stock repurchased	(1,597)	(7,686)
Proceeds from exercise of stock options, including tax benefit	358	335
Common stock issued	157	139
Net cash flows provided by financing activities	102,194	272,956
Net increase (decrease) in cash and cash equivalents	29,970	(47,235)
Cash and cash equivalents at beginning of period	206,723	264,060
Cash and cash equivalents at end of period	\$ 236,693	\$ 216,825
Supplemental cash flow information:		
Total interest paid	\$ 10,044	\$ 13,951
Total taxes paid (net of refunds)	\$ 9,501	\$ 11,282
The accompanying notes to consolidated financial statements are an integral part of these statements.		

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, 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 June 30, 2014 and 2013, and December 31, 2013, and the results of its operations for the three and six months ended June 30, 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 Financial Statements, and FASB ASC 360, Property, Plant, and Equipment. The amendments in this update change the requirements for reporting discontinued operations. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. An entity will have to present, for each comparative period, the assets and liabilities of a disposal group that includes discontinued operations separately in the asset and liability sections of the statement of financial position. The amendments in this update 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.

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