

FEDERAL RESERVE SYSTEM

Old National Bancorp  
Evansville, Indiana

Order Approving the Acquisition of a Bank Holding Company

Old National Bancorp (“ONB”), Evansville, Indiana, has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)<sup>1</sup> to acquire Indiana Community Bancorp (“ICB”) and thereby indirectly acquire its subsidiary bank, Indiana Bank and Trust Company (“IBTC”), both of Columbus, Indiana. Immediately following the proposed acquisition, IBTC would be merged into ONB’s subsidiary bank, Old National Bank (“ONBK”), Evansville.<sup>2</sup>

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (77 Federal Register 33460 (2012)). The time for filing comments has expired, and the Board has considered the application and all comments received in light of the factors set forth in section 3 of the BHC Act.

ONB, with total consolidated assets of approximately \$8.6 billion, is the 113<sup>th</sup> largest insured depository organization in the United States, controlling approximately \$6.7 billion in deposits.<sup>3</sup> ONBK, ONB’s only insured subsidiary depository institution, operates in Illinois, Indiana, Kentucky, and Ohio.<sup>4</sup> ONBK is the fourth largest depository institution in Indiana, controlling deposits of approximately

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<sup>1</sup> 12 U.S.C. § 1842.

<sup>2</sup> The merger of IBTC into ONBK is subject to approval by the Office of the Comptroller of the Currency under the Bank Merger Act.

<sup>3</sup> National deposit, asset, and ranking data are as of March 31, 2012, and are updated to reflect mergers through that date. In this context, insured depository institutions include commercial banks, savings associations, and savings banks.

<sup>4</sup> ONB owns all of the capital stock of ONBK.

\$4.6 billion, which represent approximately 4.7 percent of the total amount of deposits of insured depository institutions in that state.<sup>5</sup>

ICB, with total consolidated assets of approximately \$968 million, controls IBTC, which operates only in Indiana. IBTC is the 25th largest insured depository institution in Indiana, controlling approximately \$860 million in deposits. On consummation of this proposal, ONB would remain the fourth largest insured depository organization in Indiana, controlling deposits of approximately \$5.6 billion, which represent approximately 5.6 percent of the total amount of deposits of insured depository institutions in the state.

### Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of any attempt to monopolize the business of banking in any relevant banking market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.<sup>6</sup>

ONB and ICB have subsidiary depository institutions that compete directly in the Louisville, Kentucky banking market and in the Indiana banking markets of Indianapolis and Seymour.<sup>7</sup> The Board has reviewed the competitive effects of the proposal in these banking markets in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking markets, the relative shares of total deposits in depository institutions in the markets (“market deposits”)

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<sup>5</sup> State deposit, asset, and ranking data are as of June 30, 2011.

<sup>6</sup> 12 U.S.C. § 1842(c)(1).

<sup>7</sup> The Louisville banking market encompasses Salem, Indiana, where ITBC has a branch. ITBC has operations only in Indiana.

controlled by ONB and ICB,<sup>8</sup> the concentration levels of market deposits and the increase in those levels as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Merger Guidelines (“DOJ Guidelines”),<sup>9</sup> and other characteristics of the markets.

A. Banking Markets within Established Guidelines

Consummation of the proposal would be consistent with Board precedent and within the DOJ Guidelines in the Indianapolis<sup>10</sup> and Louisville<sup>11</sup> banking markets. On

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<sup>8</sup> Deposit and market share data are as of June 30, 2011, updated to reflect mergers through June 4, 2012, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of commercial banks. See, e.g., Midwest Financial Group, 75 Federal Reserve Bulletin 386 (1989); National City Corporation, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. See, e.g., First Hawaiian, Inc., 77 Federal Reserve Bulletin 52 (1991).

<sup>9</sup> Under the DOJ Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its guidelines for bank mergers or acquisitions, which were issued in 1995, were not changed. Press Release, Department of Justice (August 19, 2010), available at [www.justice.gov/opa/pr/2010/August/10-at-938.html](http://www.justice.gov/opa/pr/2010/August/10-at-938.html).

<sup>10</sup> The Indianapolis banking market is defined as Boone, Hamilton, Hancock, Hendricks, Johnson, Marion, Morgan, and Shelby Counties, Indiana; and Green Township in Madison County, Indiana.

<sup>11</sup> The Louisville banking market is defined as Bullitt, Henry, Jefferson, Meade, Nelson, Oldham, Shelby, and Spencer Counties, Kentucky; the Bedford census county division in Trimble County, Kentucky; the Fort Knox and West Point census county divisions and the cities of Vine Grove and Radcliff in Hardin County, Kentucky; the city of Irvington in Breckinridge County, Kentucky; Clark, Floyd, Harrison, and Washington Counties, Indiana; and Crawford County, Indiana (excluding Patoka Township). Although the Louisville market is located primarily in Kentucky, it also includes Salem, Indiana, where IBTC operates a branch and competes directly with ONBK.

consummation of the proposal, both markets would remain moderately concentrated, as measured by the HHI, and a number of competitors would remain in each banking market.<sup>12</sup>

B. Banking Market Exceeding Established Guidelines

ONB and ICB compete directly in the Seymour banking market.<sup>13</sup> This market warrants a detailed review of the competitive effects of the proposal because the concentration level on consummation would exceed the threshold levels in the DOJ Guidelines.

ONBK is the seventh largest of ten insured depository institutions in the Seymour banking market, controlling deposits of approximately \$29.8 million, which represent approximately 4 percent of market deposits. IBTC is the second largest insured depository institution in the market, controlling deposits of approximately \$190.6 million, which represent approximately 25.5 percent of market deposits. On consummation, ONB would become the largest insured depository organization in the market. The HHI would increase by 203 points to 2107, and the pro forma market share of the combined entity would be approximately 29.5 percent.

After consummation of the proposal, eight other commercial bank competitors would remain, some with a significant presence in the market. The second largest bank competitor in the market would control 27.6 percent of market deposits, and four other bank competitors in the market each would control between 5 percent and 17 percent of market deposits.

In addition, one active community credit union in the Seymour banking market, Centra Credit Union, offers a wide range of consumer products, operates street-

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<sup>12</sup> In the Indianapolis banking market, ONBK would remain the tenth largest depository institution, controlling deposits of \$738.3 million, representing approximately 2.4 percent of market deposits. The HHI would increase by 1 point to 1409, and 42 other competitors would remain in the market. In the Louisville banking market, ONBK would become the 24<sup>th</sup> largest depository institution, controlling deposits of approximately \$136.8 million, representing less than 1 percent of market deposits. The HHI would remain unchanged at 972, and 44 other competitors would remain in the market.

<sup>13</sup> The Seymour banking market is defined as Jackson County, Indiana.

level branches, and has broad membership criteria that include most of the market's residents.<sup>14</sup> Accordingly, the Board has concluded that the activities of this credit union exert a competitive influence that mitigates, in part, the potential effects of the proposal.

Centra Credit Union controls approximately \$18.3 million in deposits in the market that, on a 50 percent weighted basis, represents approximately 2.4 percent of market deposits. After inclusion of these deposits, ONB would control approximately 28.8 percent of market deposits, and the HHI would increase by 193 points to 2013, an increase that is within DOJ Guidelines.

### C. View of Other Agencies and Conclusion on Competitive Considerations

The DOJ also has conducted a detailed review of the potential competitive effects of the proposal and has advised the Board that consummation would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate federal banking agency has been afforded an opportunity to comment and has not objected to the proposal.

Based on all the facts of record, the Board has concluded that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in any relevant banking market. Accordingly, based on all the facts of record, the Board has determined that competitive considerations are consistent with approval.

### Other Section 3(c) Considerations

Section 3(c) of the BHC Act requires the Board to take into consideration a number of other factors in acting on bank acquisition applications. Those factors include the financial and managerial resources (including consideration of the competence, experience, and integrity of the officers, directors, and principal shareholders) and future prospects of the company and banks concerned; the effectiveness of the company in

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<sup>14</sup> The Board previously has considered competition from certain active credit unions as a mitigating factor. See, e.g., The PNC Financial Services Group, Inc., 93 Federal Reserve Bulletin C65 (2007); Regions Financial Corporation, 93 Federal Reserve Bulletin C16 (2007); Wachovia Corporation, 92 Federal Reserve Bulletin C183 (2006); and F.N.B. Corporation, 90 Federal Reserve Bulletin 481 (2004).

combatting money laundering; the convenience and needs of the community to be served; and the extent to which the proposal would result in greater or more concentrated risks to the stability of the United States banking or financial system. The Board has considered all these factors and, as described below, has determined that they are consistent with approval of the application. The review was conducted in light of all the facts of record, including supervisory and examination information from various U.S. banking supervisors of the institutions involved, publicly reported and other financial information, and information provided by ONB.

A. Financial, Managerial, and Other Supervisory Considerations

In evaluating financial factors in expansionary proposals by banking organizations, the Board reviews the financial condition of the organizations involved on both a parent-only and consolidated basis, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, and earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and the proposed integration of the operations of the institutions. In assessing financial factors, the Board consistently has considered capital adequacy to be especially important.

The Board has considered the financial factors of the proposal. ONB and ONBK are well capitalized and would remain so on consummation of the proposed acquisition. The proposed transaction is a bank holding company merger, structured as a share exchange. Asset quality and earnings prospects are consistent with approval, and ONB appears to have adequate resources to absorb the costs of the proposal and the proposed integration of the institutions' operations. Based on its review of the record, the Board finds that ONB has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the

examination records of ONB, ONBK, ICB, and IBTC, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered its supervisory experiences and those of other relevant bank supervisory agencies with the organizations and their records of compliance with applicable banking and anti-money-laundering laws. The Board also has considered ONB's plans for implementing the proposal, including the proposed management after consummation of the proposal. In addition, the Board has considered the future prospects of the organizations involved in the proposal in light of the financial and managerial resources and the proposed business plan.

ONB and ONBK each are considered to be well managed. ONB would implement its risk-management policies, procedures, and controls at the combined organization. In addition, ONB's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner. Furthermore, ONB has demonstrated a record of successfully integrating other banking organizations into its operations and risk-management systems after acquisitions.

On June 4, 2012, ONBK entered into a Stipulation and Consent to the Issuance of a Consent Order (the "Consent Order") with the Office of the Comptroller of the Currency ("OCC") relating to deficiencies in ONBK's overall program for Bank Secrecy Act/anti-money-laundering ("BSA/AML") compliance. The Consent Order requires ONBK to, among other things, take the following actions: develop and implement a comprehensive BSA action plan, including an effective institutionwide BSA risk-assessment program that accurately identifies BSA/AML risks; ensure that ONBK management reviews, updates, and implements its risk-based processes to obtain and analyze appropriate customer due diligence information to monitor for and investigate suspicious activity; ensure adherence to a written program of internal controls for appropriate identification, analysis, and monitoring of transactions with greater than normal risk; maintain an effective BSA independent testing function; ensure and maintain sufficient personnel with requisite expertise and skills; and ensure adherence to a comprehensive BSA/AML training program.

ONBK's BSA/AML program deficiencies were identified by the OCC in early 2011. Since that time, ONBK has devoted significant time and resources toward improving its BSA/AML program and has made substantial progress towards fully addressing program weaknesses. Major advancements to correct the deficiencies include the following steps: the purchase and installation of a new transaction-monitoring system; an enhanced BSA Risk Assessment for all ONBK activities and products; strengthening of ONBK's core BSA/AML management teams by hiring employees experienced in those areas; enhancements to customer due diligence processes; and enhancement and supplementation of the BSA/AML expertise, staffing, and methodologies within ONBK's Internal Audit function. ONBK expects to complete its corrective actions in the third quarter of 2012.

The Board has consulted with the OCC, the responsible federal banking agency for ONBK, concerning this proposal. The OCC has confirmed that ONBK has taken corrective actions to address the matters described in the Consent Order. The OCC also has confirmed that the weaknesses identified related to policies and procedures and that there was no evidence of money laundering or other unlawful activities at ONBK. The OCC supports the proposal and does not believe that the acquisition will detract the bank from fully addressing its remaining BSA weaknesses in a timely manner. Furthermore, ONB has committed to the Board that it will fully address and resolve all BSA/AML weaknesses and violations identified in the Consent Order and that until such time as they have been fully addressed, ONB will provide quarterly progress reports to the Federal Reserve Bank of St. Louis.

Based on all the facts of record, the Board has concluded that considerations relating to the financial and managerial resources and future prospects of the organizations involved are consistent with approval.

#### B. Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board must consider the effects of the proposal on the convenience and needs of the community to be served and take into account the records of the relevant depository institutions under the

Community Reinvestment Act (“CRA”).<sup>15</sup> The CRA requires federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,<sup>16</sup> and requires the appropriate federal financial supervisory agency to take into account a relevant depository institution’s record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in evaluating bank expansionary proposals.<sup>17</sup>

The Board has considered the convenience and needs factor and the CRA performance records of ONBK and IBTC in light of all the facts of record. As provided in the CRA, the Board evaluates the record of performance of an institution in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions.<sup>18</sup> ONBK received a “satisfactory” rating at its most recent CRA performance evaluation by the OCC, as of June 30, 2008, and IBTC received a “satisfactory” rating at its most recent CRA performance evaluation by the Federal Reserve Bank of St. Louis, as of August 4, 2008.

Based on a review of the entire record, the Board has concluded that considerations relating to convenience and needs considerations and the CRA performance records of the relevant insured depository institutions are consistent with approval.

### C. Financial Stability

The Board has also considered information relevant to the risks to the stability of the United States banking or financial system. The proposed investment represents a *de minimis* transaction for financial stability purposes, and the proposed

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<sup>15</sup> 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.

<sup>16</sup> 12 U.S.C. § 2901(b).

<sup>17</sup> 12 U.S.C. § 2903.

<sup>18</sup> The Interagency Questions and Answers Regarding Community Reinvestment provide that an institution’s most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation of the institution’s overall record of performance under the CRA by its appropriate federal supervisor. 75 Federal Register 11642 at 11665 (2010).

transaction would not materially increase the interconnectedness or complexity of ONB. The Board, therefore, concludes that financial stability considerations in this proposal are consistent with approval.

Based on all the facts of record, including those described above, the Board has determined that all the factors it must consider under section 3(c) of the BHC Act are consistent with approval.

Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved. In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by ONB with all the conditions imposed in this order and the commitments made to the Board in connection with the application, including receipt of all required regulatory approvals. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

The proposal may not be consummated before the fifteenth calendar day after the effective date of this Order, or later than three months thereafter, unless such period is extended for good cause by the Board or the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority.

By order of the Board of Governors,<sup>19</sup> effective August 30, 2012.

*(signed)*

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Margaret McCloskey Shanks  
Associate Secretary of the Board

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<sup>19</sup> Voting for this action: Chairman Bernanke, Vice Chair Yellen, and Governors Duke, Tarullo, Raskin, and Stein. Absent and not voting: Governor Powell.