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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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

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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.

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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 (dollars in thousands)	Amount Reclassified from AOCI Three Months Ended March 31, 2016	2015	Affected Line Item in the Statement of Income
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**
	Amortized	**Fair**	**Average**
Maturity	**Cost**	**Value**	**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)**
December 31, 2015						
Available-for-Sale						
U.S. Treasury	$ 6,505	$ (8)	$	$	$ 6,505	$ (8)
U.S. government-sponsored entities and agencies	160,751	(1,492)	122,581	(2,031)	283,332	(3,523)
Mortgage-backed securities - Agency	256,359	(3,444)	239,047	(7,101)	495,406	(10,545)
States and political subdivisions	38,373	(161)	5,137	(174)	43,510	(335)
Pooled trust preferred securities			7,900	(9,420)	7,900	(9,420)
Other securities	156,604	(2,717)	126,661	(5,060)	283,265	(7,777)
Total available-for-sale	$ 618,592	$ (7,822)	$ 501,326	$ (23,786)	$ 1,119,918	$ (31,608)
Held-to-Maturity						
States and political subdivisions	$ 2,026	$ (3)	$	$	$ 2,026	$ (3)
Total held-to-maturity	$ 2,026	$ (3)	$	$	$ 2,026	$ (3)

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

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

When other-than-temporary impairment occurs under either model, the amount of the other-than-temporary impairment recognized in earnings depends on whether an entity intends to sell the security or more likely than not

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

We did not record other-than-temporary-impairments during the three months ended March 31, 2016 or 2015.

As of March 31, 2016, Old National s securities portfolio consisted of 1,719 securities, 132 of which were in an unrealized loss position. The unrealized losses attributable to our U.S. government-sponsored entities and agencies, our agency mortgage-backed securities, and our other securities are the result of fluctuations in interest rates. Our pooled trust preferred securities are discussed below.

Pooled Trust Preferred Securities

At March 31, 2016, our securities portfolio contained three pooled trust preferred securities with a fair value of $8.0 million and unrealized losses of $9.2 million. One of the pooled trust preferred securities in our portfolio falls within the scope of FASB ASC 325-10 (EITF 99-20) and has a fair value of $0.2 million with an unrealized loss of $3.1 million at March 31, 2016. This security was rated A3 at inception, but is rated D at March 31, 2016. The issuers in this security are banks. We use the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress this CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the three months ended March 31, 2016 and 2015, our model indicated no other-than-temporary-impairment losses on this security. At March 31, 2016, we had no intent to sell any securities that were in an unrealized loss position nor is it expected that we would be required to sell any securities.

Two of our pooled trust preferred securities with a fair value of $7.7 million and unrealized losses of $6.1 million at March 31, 2016 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. For the three months ended March 31, 2016 and 2015, our analysis indicated no OTTI on these securities.

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The table below summarizes the relevant characteristics of our pooled trust preferred securities as well as our single issuer trust preferred securities that are included in the other securities category in this footnote. Each of the pooled trust preferred securities support a more senior tranche of security holders. All three pooled trust preferred securities have experienced credit defaults. However, two of these securities have excess subordination and are not other-than-temporarily-impaired as a result of their class hierarchy, which provides more loss protection.

Trust preferred securities March 31, 2016 (dollars in thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2016	# of Issuers Currently Performing/ Remaining	Actual Defaults and Deferrals as a % of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
Pooled trust preferred securities:										
Reg Div Funding 2004	B-2	D	$ 3,305	$ 244	$ (3,061)	$	23/39	33.3%	7.5%	0.0%
Pretsl XXVII LTD	B	B	4,422	2,304	(2,118)		34/45	20.4%	3.5%	51.6%
Trapeza Ser 13A	A2A	BBB	9,465	5,439	(4,026)		50/57	8.9%	5.0%	47.4%
			17,192	7,987	(9,205)					
Single Issuer trust preferred securities:										
Fleet Cap Tr V (BOA)		BB+	3,391	2,713	(678)					
JP Morgan Chase Cap XIII		BBB-	4,759	3,940	(819)					
NB-Global		BB+	772	780	8					
Chase Cap II		BBB-	811	775	(36)					
			9,733	8,208	(1,525)					
Total			$ 26,925	$ 16,195	$ (10,730)	$				

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

The following table details the remaining securities with other-than-temporary-impairment, their credit rating at March 31, 2016, and the related life-to-date credit losses recognized in earnings:

	Lowest Credit	Amortized	Amount of OTTI recognized in earnings Three Months Ended March 31,	Life-to

(dollars in thousands)	Vintage	Rating (1)	Cost	2016	2015	date
Reg Div Funding	2004	D	$ 3,305	$	$	$ 5,685

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

NOTE 7 LOANS HELD FOR SALE

Mortgage loans held for immediate sale in the secondary market were $22.5 million at March 31, 2016, compared to $13.8 million at December 31, 2015. Residential loans that Old National has originated with a commitment to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). Beginning with the inception of an in-house servicing unit in the third quarter of 2014, conventional mortgage production is sold on a servicing retained basis. Certain loans, such as government guaranteed mortgage loans are sold on servicing released basis.

During the fourth quarter of 2014, $197.9 million of loans were reclassified to loans held for sale at the lower of cost or fair value. When the branch divestitures closed during the third quarter of 2015, these loans were valued at $193.6 million, resulting in a gain of $0.1 million. At March 31, 2016, there were no loans held for sale under this arrangement.

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NOTE 8 LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The composition of loans by lending classification was as follows:

(dollars in thousands)	March 31, 2016	December 31, 2015
Commercial (1)	**$ 1,784,970**	$ 1,804,615
Commercial real estate:		
Construction	**202,278**	185,449
Other	**1,705,556**	1,662,372
Residential real estate	**1,634,132**	1,644,614
Consumer credit:		
Heloc	**347,776**	359,954
Auto	**1,109,883**	1,050,336
Other	**127,076**	133,478
Covered loans	**95,403**	107,587
Total loans	**7,007,074**	6,948,405
Allowance for loan losses	**(49,856)**	(51,296)
Allowance for loan losses - covered loans	**(844)**	(937)
Net loans	**$ 6,956,374**	$ 6,896,172

(1) Includes direct finance leases of $13.4 million at March 31, 2016 and $14.4 million at December 31, 2015.

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

Commercial

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

Commercial real estate

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

Included with commercial real estate are construction loans, which are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates, and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of

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substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from Old National until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

Residential

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

Consumer

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

Covered loans

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements whereby Old National is indemnified against 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million. Our losses will not exceed $275.0 million. See Note 9 to the consolidated financial statements for further details on our covered loans.

Allowance for loan losses

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the consolidated loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, assessments of the impact of current and anticipated economic conditions on the portfolio, and historical loss experience. The allowance is increased through a provision charged to operating expense. Loans deemed to be uncollectible are charged to the allowance. Recoveries of loans previously charged-off are added to the allowance.

We utilize a probability of default (PD) and loss given default (LGD) model as a tool to determine the adequacy of the allowance for loan losses for performing commercial and commercial real estate loans. The PD is forecast using a transition matrix to determine the likelihood of a customer s asset quality rating (AQR) migrating from its current AQR to any other status within the time horizon. Transition rates are measured using Old National s own historical experience. The model assumes that recent historical transition rates will continue into the future. The LGD is defined as credit loss incurred when an obligor of the bank defaults. The sum of all net charge-offs for a particular portfolio segment are divided by all loans that have defaulted over a given period of time. The expected loss derived from the

model considers the PD, LGD, and exposure at default. Additionally, qualitative factors, such as changes in lending policies or procedures, and economic business conditions are also considered.

We use historic loss ratios adjusted for economic conditions to determine the appropriate level of allowance for residential real estate and consumer loans.

No allowance was brought forward on any of the acquired loans as any credit deterioration evident in the loans was included in the determination of the fair value of the loans at the acquisition date. Purchased credit impaired

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(PCI) loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. Impairment on PCI loans would be recognized in the current period as provision expense.

Old National s activity in the allowance for loan losses for the three months ended March 31, 2016 and 2015 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Unallocated	Total
Three Months Ended March 31, 2016						
Balance at January 1, 2016	**$ 26,347**	**$ 15,993**	**$ 2,051**	**$ 7,842**	**$**	**$ 52,233**
Charge-offs	**(1,527)**	**(279)**	**(140)**	**(1,996)**		**(3,942)**
Recoveries	**818**	**840**	**26**	**634**		**2,318**
Provision	**(517)**	**(783)**	**(188)**	**1,579**		**91**
Balance at March 31, 2016	**$ 25,121**	**$ 15,771**	**$ 1,749**	**$ 8,059**	**$**	**$ 50,700**
Three Months Ended March 31, 2015						
Balance at January 1, 2015	$ 20,670	$ 17,348	$ 2,962	$ 6,869	$	$ 47,849
Charge-offs	(548)	413	(374)	(1,604)		(2,113)
Recoveries	1,774	464	28	875		3,141
Provision	2,807	(4,418)	303	1,309		1
Balance at March 31, 2015	$ 24,703	$ 13,807	$ 2,919	$ 7,449	$	$ 48,878

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The following table provides Old National s recorded investment in financing receivables by portfolio segment at March 31, 2016 and December 31, 2015 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Unallocated	Total
March 31, 2016						
Allowance for loan losses:						
Individually evaluated for impairment	**$ 7,016**	**$ 3,468**	**$**	**$**	**$**	**$ 10,484**
Collectively evaluated for impairment	**17,523**	**12,110**	**1,729**	**7,846**		**39,208**
Noncovered loans acquired with deteriorated credit quality	**192**	**193**	**13**	**77**		**475**
Covered loans acquired with deteriorated credit quality	**390**		**7**	**136**		**533**
Total allowance for loan losses	**$ 25,121**	**$ 15,771**	**$ 1,749**	**$ 8,059**	**$**	**$ 50,700**
Loans and leases outstanding:						
Individually evaluated for impairment	**$ 53,022**	**$ 41,022**	**$**	**$**	**$**	**$ 94,044**
Collectively evaluated for impairment	**1,737,377**	**1,843,821**	**1,634,184**	**1,629,730**		**6,845,112**
Loans acquired with deteriorated credit quality	**674**	**24,431**	**86**	**3,564**		**28,755**
Covered loans acquired with deteriorated credit quality	**1,915**	**13,480**	**15,726**	**8,042**		**39,163**
Total loans and leases outstanding	**$ 1,792,988**	**$ 1,922,754**	**$ 1,649,996**	**$ 1,641,336**	**$**	**$ 7,007,074**
December 31, 2015						
Allowance for loan losses:						
Individually evaluated for impairment	$ 7,467	$ 4,021	$	$	$	$ 11,488
Collectively evaluated for impairment	18,295	11,439	2,038	7,614		39,386
Noncovered loans acquired with deteriorated credit quality	247	533	13	70		863
Covered loans acquired with deteriorated credit quality	338			158		496
Total allowance for loan losses	$ 26,347	$ 15,993	$ 2,051	$ 7,842	$	$ 52,233
Loans and leases outstanding:						
	$ 60,959	$ 41,987	$	$	$	$ 102,946

Individually evaluated for impairment						
Collectively evaluated for impairment	1,750,397	1,779,062	1,644,631	1,590,288		6,764,378
Loans acquired with deteriorated credit quality	691	28,499	127	3,925		33,242
Covered loans acquired with deteriorated credit quality	2,893	19,424	16,577	8,945		47,839
Total loans and leases outstanding	$ 1,814,940	$ 1,868,972	$ 1,661,335	$ 1,603,158	$	$ 6,948,405

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Credit Quality

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

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

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

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

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

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

As of March 31, 2016 and December 31, 2015, the risk category of commercial and commercial real estate loans, excluding covered loans, by class of loans is as follows:

(dollars in thousands)						
Corporate Credit Exposure	**Commercial**		**Commercial Real Estate - Construction**		**Commercial Real Estate - Other**	
Credit Risk Profile by Internally Assigned Grade	**March 31, 2016**	**December 31, 2015**	**March 31, 2016**	**December 31, 2015**	**March 31, 2016**	**December 31, 2015**
Grade:						
Pass	**$ 1,656,554**	$ 1,668,667	**$ 196,052**	$ 179,543	**$ 1,540,250**	$ 1,491,750
Criticized	**54,746**	54,606	**3,251**	3,300	**72,951**	74,992
Classified - substandard	**24,004**	23,806	**2,293**	1,857	**49,347**	49,029
Classified - nonaccrual	**47,774**	55,067	**682**	749	**34,044**	39,164
Classified - doubtful	**1,892**	2,469			**8,964**	7,437

Total	**$ 1,784,970**	$ 1,804,615	**$ 202,278**	$ 185,449	**$ 1,705,556**	$ 1,662,372

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Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity as of March 31, 2016 and December 31, 2015, excluding covered loans:

(dollars in thousands)	**Residential**	**Consumer**		
		Heloc	**Auto**	**Other**
March 31, 2016				
Performing	**$ 1,619,917**	**$ 345,630**	**$ 1,108,568**	**$ 126,106**
Nonperforming	**14,215**	**2,146**	**1,315**	**970**
Total	**$ 1,634,132**	**$ 347,776**	**$ 1,109,883**	**$ 127,076**
December 31, 2015				
Performing	$ 1,629,661	$ 357,585	$ 1,048,763	$ 132,222
Nonperforming	14,953	2,369	1,573	1,256
Total	$ 1,644,614	$ 359,954	$ 1,050,336	$ 133,478

Impaired Loans

Large commercial credits are subject to individual evaluation for impairment. Retail credits and other small balance credits that are part of a homogeneous group are not tested for individual impairment unless they are modified as a troubled debt restructuring. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National s policy, for all but purchased credit impaired loans, is to recognize interest income on impaired loans unless the loan is placed on nonaccrual status.

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The following table shows Old National s impaired loans, excluding covered loans, as of March 31, 2016 and December 31, 2015, respectively. Of the loans purchased without FDIC loss share coverage, only those that have experienced subsequent impairment since the date acquired are included in the table below.

(dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
March 31, 2016			
With no related allowance recorded:			
Commercial	**$ 28,921**	**$ 30,140**	**$**
Commercial Real Estate - Construction			
Commercial Real Estate - Other	**27,351**	**30,593**	
Residential	**1,342**	**1,363**	
Consumer	**838**	**998**	
With an allowance recorded:			
Commercial	**20,188**	**20,198**	**6,784**
Commercial Real Estate - Construction	**231**	**231**	**1**
Commercial Real Estate - Other	**13,441**	**13,523**	**3,467**
Residential	**1,016**	**1,016**	**51**
Consumer	**2,776**	**2,776**	**139**
Total	**$ 96,104**	**$ 100,838**	**$ 10,442**
December 31, 2015			
With no related allowance recorded:			
Commercial	$ 40,414	$ 41,212	$
Commercial Real Estate - Construction			
Commercial Real Estate - Other	26,998	30,264	
Residential	1,383	1,422	
Consumer	1,201	1,305	
With an allowance recorded:			
Commercial	16,377	16,483	7,111
Commercial Real Estate - Construction	237	237	6
Commercial Real Estate - Other	14,752	14,802	4,015
Residential	985	985	49
Consumer	2,525	2,525	126
Total	$ 104,872	$ 109,235	$ 11,307

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The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans during the three months ended March 31, 2016 and 2015 are included in the table below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
Three Months Ended March 31, 2016		
With no related allowance recorded:		
Commercial	**$ 34,085**	**$ 28**
Commercial Real Estate - Construction		
Commercial Real Estate - Other	**27,149**	**95**
Residential	**1,362**	
Consumer	**1,019**	**2**
With an allowance recorded:		
Commercial	**18,283**	**13**
Commercial Real Estate - Construction	**234**	
Commercial Real Estate - Other	**14,097**	**48**
Residential	**1,001**	**38**
Consumer	**2,651**	**38**
Total	**$ 99,881**	**$ 262**
Three Months Ended March 31, 2015		
With no related allowance recorded:		
Commercial	$ 26,849	$ 42
Commercial Real Estate - Construction	2,250	3
Commercial Real Estate - Other	38,801	85
Residential	747	
Consumer	731	1
With an allowance recorded:		
Commercial	11,516	48
Commercial Real Estate - Construction	166	
Commercial Real Estate - Other	10,728	1
Residential	1,475	61
Consumer	1,492	20
Total	$ 94,755	$ 261

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

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

status. Loans may be returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for six months and future payments are reasonably assured.

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

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Old National s past due financing receivables as of March 31, 2016 and December 31, 2015 are as follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment > 90 Days and Accruing	Nonaccrual	Total Past Due	Current
March 31, 2016						
Commercial	**$ 1,625**	**$ 58**	**$**	**$ 49,666**	**$ 51,349**	**$ 1,733,621**
Commercial Real Estate:						
Construction	**693**			**682**	**1,375**	**200,903**
Other	**4,231**	**27**	**80**	**43,008**	**47,346**	**1,658,210**
Residential	**8,608**	**40**	**150**	**14,215**	**23,013**	**1,611,119**
Consumer:						
Heloc	**1,093**	**75**		**2,146**	**3,314**	**344,462**
Auto	**2,792**	**372**	**100**	**1,315**	**4,579**	**1,105,304**
Other	**495**	**99**	**27**	**970**	**1,591**	**125,485**
Covered loans	**734**			**5,864**	**6,598**	**88,805**
Total loans	**$ 20,271**	**$ 671**	**$ 357**	**$ 117,866**	**$ 139,165**	**$ 6,867,909**
December 31, 2015						
Commercial	$ 802	$ 100	$ 565	$ 57,536	$ 59,003	$ 1,745,612
Commercial Real Estate:						
Construction				749	749	184,700
Other	438	135		46,601	47,174	1,615,198
Residential	9,300	2,246	114	14,953	26,613	1,618,001
Consumer:						
Heloc	283	402		2,369	3,054	356,900
Auto	3,804	730	202	1,573	6,309	1,044,027
Other	830	165	25	1,256	2,276	131,202
Covered loans	809	312	10	7,336	8,467	99,120
Total loans	$ 16,266	$ 4,090	$ 916	$ 132,373	$ 153,645	$ 6,794,760

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At March 31, 2016, these loans totaled $314.5 million, of which $173.8 million had been sold to other financial institutions and $140.7 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder s share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Troubled Debt Restructurings

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

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

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

If we are unable to resolve a nonperforming loan issue, the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based on quantitative benchmarks or subjectively based upon certain events or particular circumstances. Old National charges off small commercial loans scored through our small business credit center with contractual balances under $250,000 that have been placed on nonaccrual status or became 90 days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

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

When a residential or consumer loan is identified as a troubled debt restructuring, the loan is written down to its collateral value less selling costs.

The following table presents activity in TDRs for the three months ended March 31, 2016 and 2015:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
Three Months Ended March 31, 2016					
Balance at January 1, 2016	**$ 23,354**	**$ 14,602**	**$ 2,693**	**$ 3,602**	**$ 44,251**
(Charge-offs)/recoveries	**(826)**	**62**	**32**	**(18)**	**(750)**
Payments	**(3,565)**	**(1,106)**	**(348)**	**(309)**	**(5,328)**
Additions	**1,542**	**9,476**	**133**	**385**	**11,536**
Balance at March 31, 2016	**$ 20,505**	**$ 23,034**	**$ 2,510**	**$ 3,660**	**$ 49,709**
Three Months Ended March 31, 2015					
Balance at January 1, 2015	$ 15,205	$ 15,226	$ 2,063	$ 2,459	$ 34,953
(Charge-offs)/recoveries	586	248	(15)	(11)	808
Payments	(2,198)	(1,608)	(33)	(164)	(4,003)
Additions	1,741	1,573	352	174	3,840
Balance at March 31, 2015	$ 15,334	$ 15,439	$ 2,367	$ 2,458	$ 35,598

Approximately $35.7 million of the TDRs at March 31, 2016 were included with nonaccrual loans, compared to $30.0 million at December 31, 2015. Old National has allocated specific reserves to customers whose loan terms have been

modified in TDRs totaling $4.4 million at March 31, 2016 and $2.3 million at December 31, 2015. As of March 31, 2016, Old National had committed to lend an additional $2.8 million to customers with outstanding loans that are classified as TDRs.

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The pre-modification and post-modification outstanding recorded investments of loans modified as TDRs during the three months ended March 31, 2016 and 2015 are the same except for when the loan modifications involve the forgiveness of principal. The following table presents loans by class modified as TDRs that occurred during the three months ended March 31, 2016:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	**10**	**$ 1,542**	**$ 990**
Commercial Real Estate - Other	**7**	**9,476**	**9,476**
Residential	**1**	**133**	**133**
Consumer	**8**	**385**	**385**
Total	**26**	**$ 11,536**	**$ 10,984**

The TDRs described above increased the allowance for loan losses by $0.2 million and resulted in $0.6 million of charge-offs during the three months ended March 31, 2016.

The following table presents loans by class modified as TDRs that occurred during the three months ended March 31, 2015:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	11	$ 1,741	$ 1,741
Commercial Real Estate - Construction	5	1,187	1,187
Commercial Real Estate - Other	5	385	385
Residential	2	366	366
Consumer	6	161	161
Total	29	$ 3,840	$ 3,840

The TDRs described above resulted in immaterial changes in the allowance for loan losses and charge-offs during the three months ended March 31, 2015.

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

There were four commercial loans and three commercial real estate loans totaling $0.6 million that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the three months ended March 31, 2016.

There were three commercial loans and one commercial real estate loan totaling $0.3 million that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the three months ended March 31, 2015.

The terms of certain other loans were modified during the three months ended March 31, 2016 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

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PCI loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool. As of March 31, 2016, it has not been necessary to remove any loans from PCI accounting.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR, and therefore impaired, until it is paid in full, otherwise settled, sold or charged off. However, recent guidance also permits for loans to be removed from TDR status when subsequently restructured under these circumstances: (1) at the time of the subsequent restructuring, the borrower is not experiencing financial difficulties, and this is documented by a current credit evaluation at the time of the restructuring, (2) under the terms of the subsequent restructuring agreement, the institution has granted no concession to the borrower; and (3) the subsequent restructuring agreement includes market terms that are no less favorable than those that would be offered for a comparable new loan. For loans subsequently restructured that have cumulative principal forgiveness, the loan should continue to be measured in accordance with ASC 310-10, Receivables Overall . However, consistent with ASC 310-40-50-2, Troubled Debt Restructurings by Creditors, Creditor Disclosure of Troubled Debt Restructurings, the loan would not be required to be reported in the years following the restructuring if the subsequent restructuring meets both of these criteria: (1) has an interest rate at the time of the subsequent restructuring that is not less than a market interest rate; and (2) is performing in compliance with its modified terms after the subsequent restructuring.

Purchased Impaired Loans (noncovered loans)

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

Old National has purchased loans for which there was, at acquisition, evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected. For these noncovered loans that meet the criteria of ASC 310-30 treatment, the carrying amount is as follows:

(dollars in thousands)	**March 31, 2016**	**December 31, 2015**
Commercial	**$ 674**	$ 691
Commercial real estate	**24,431**	28,499
Residential	**86**	127
Consumer	**3,564**	3,925

Carrying amount	**28,755**	33,242
Allowance for loan losses	**(475)**	(863)
Carrying amount, net of allowance	**$ 28,280**	$ 32,379

The outstanding balance of noncovered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $105.0 million at March 31, 2016 and $107.1 million at December 31, 2015.

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The accretable difference on purchased loans acquired in a business combination is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. Accretion recorded as loan interest income totaled $2.5 million during the three months ended March 31, 2016 and $2.9 million during the three months ended March 31, 2015. Improvement in cash flow expectations has resulted in a reclassification from nonaccretable difference to accretable yield.

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

(dollars in thousands)	Monroe	Integra Noncovered	IBT	Tower	United	LSB	Founders	Total
Balance at January 1, 2016	$ 2,023	$ 1,708	$ 9,486	$ 3,713	$ 2,812	$ 4,971	$ 2,812	$ 27,525
Accretion of income	(563)	(99)	(737)	(209)	(242)	(229)	(396)	(2,475)
Reclassifications from (to) nonaccretable difference	(511)	47	270	347	196	333	411	1,093
Disposals/other adjustments	627	126	8		10			771
Balance at March 31, 2016	$ 1,576	$ 1,782	$ 9,027	$ 3,851	$ 2,776	$ 5,075	$ 2,827	$ 26,914

Included in Old National s allowance for loan losses is $0.5 million related to the purchased loans disclosed above at March 31, 2016, compared to $0.9 million at December 31, 2015.

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

(dollars in thousands)	Monroe	Integra Bank (1)	IBT	Tower	United	LSB	Founders
Contractually required payments	$ 94,714	$ 921,856	$ 118,535	$ 22,746	$ 15,483	$ 24,493	$ 11,103
Nonaccretable difference	(45,157)	(226,426)	(53,165)	(5,826)	(5,487)	(9,903)	(2,684)
Cash flows expected to be collected at acquisition	49,557	695,430	65,370	16,920	9,996	14,590	8,419
Accretable yield	(6,971)	(98,487)	(11,945)	(4,065)	(1,605)	(2,604)	(1,812)
Fair value of acquired loans at acquisition	$ 42,586	$ 596,943	$ 53,425	$ 12,855	$ 8,391	$ 11,986	$ 6,607

(1) Includes covered and noncovered.

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

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NOTE 9 COVERED LOANS

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. The carrying amount of covered loans was $95.4 million at March 31, 2016, compared to $107.6 million at December 31, 2015. The composition of covered loans by lending classification was as follows:

	At March 31, 2016		
(dollars in thousands)	Loans Accounted for Under ASC 310-30 (Purchased Credit Impaired)	Loans Excluded from ASC 310-30 (1) (Not Purchased Credit Impaired)	Total Covered Purchased Loans
Commercial	$ 1,915	$ 6,103	$ 8,018
Commercial real estate	13,480	1,440	14,920
Residential	15,726	138	15,864
Consumer	8,042	48,559	56,601
Covered loans	39,163	56,240	95,403
Allowance for loan losses	(533)	(311)	(844)
Covered loans, net	$ 38,630	$ 55,929	$ 94,559

(1) Includes loans with revolving privileges which are scoped out of FASB ASC 310-30 and certain loans which Old National elected to treat under the cost recovery method of accounting.

Loans were recorded at fair value in accordance with FASB ASC 805, Business Combinations. No allowance for loan losses related to the acquired loans is recorded on the acquisition date as the fair value of the loans acquired incorporates assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in FASB ASC 820, exclusive of the loss share agreements with the FDIC. The fair value estimates associated with the loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest, and other cash flows.

The outstanding balance of covered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $202.4 million at March 31, 2016 and $214.4 million at December 31, 2015.

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The following table is a roll-forward of acquired impaired loans accounted for under ASC 310-30 for the three months ended March 31, 2016 and 2015:

(dollars in thousands)	Contractual Cash Flows (1)	Nonaccretable Difference	Accretable Yield	Carrying Amount (2)
Three Months Ended March 31, 2016				
Balance at January 1, 2016	**$ 69,857**	**$ (4,729)**	**$ (17,785)**	**$ 47,343**
Principal reductions and interest payments	**(13,403)**	**(270)**		**(13,673)**
Accretion of loan discount			**6,186**	**6,186**
Changes in contractual and expected cash flows due to remeasurement	**1,305**	**334**	**(1,777)**	**(138)**
Removals due to foreclosure or sale	**(1,944)**	**135**	**270**	**(1,539)**
Loans removed from loss share coverage	**323**	**(6)**	**134**	**451**
Balance at March 31, 2016	**$ 56,138**	**$ (4,536)**	**$ (12,972)**	**$ 38,630**
Three Months Ended March 31, 2015				
Balance at January 1, 2015	$ 124,809	$ (12,014)	$ (35,742)	$ 77,053
Principal reductions and interest payments	(9,566)	(702)		(10,268)
Accretion of loan discount			3,344	3,344
Changes in contractual and expected cash flows due to remeasurement	(498)	3,695	(3,132)	65
Removals due to foreclosure or sale	(433)	133	(129)	(429)
Balance at March 31, 2015	$ 114,312	$ (8,888)	$ (35,659)	$ 69,765

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

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

At March 31, 2016, the $7.7 million loss sharing asset is comprised of a $6.2 million FDIC indemnification asset and a $1.5 million FDIC loss share receivable. The loss share receivable represents actual incurred losses where reimbursement has not yet been received from the FDIC. The indemnification asset represents future cash flows we expect to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that are being amortized over the same period for which those improved cash

flows are being accreted into income. At March 31, 2016, $4.3 million of the FDIC indemnification asset is related to expected indemnification payments and $1.9 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income. At March 31, 2015, $8.1 million of the FDIC indemnification asset was related to expected indemnification payments and $8.5 million was expected to be amortized and reported in noninterest income as an offset to future accreted interest income.

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

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

The following table shows a detailed analysis of the FDIC loss sharing asset for the three months ended March 31, 2016 and 2015:

(dollars in thousands)	**2016**	**2015**
Balance at January 1,	**$ 9,030**	$ 20,603
Adjustments not reflected in income:		
Cash received from the FDIC	**(877)**	
Other	**205**	389
Adjustments reflected in income:		
(Amortization) accretion	**(497)**	(1,986)
Higher (lower) loan loss expectations	**(33)**	
Impairment/(recovery) of value and net (gain)/loss on sales of other real estate	**(125)**	1,018
Balance at March 31,	**$ 7,703**	$ 20,024

Old National has applied with the FDIC to terminate its loss sharing agreements. If agreed upon, the termination of the agreements would result in the elimination of the FDIC indemnification asset and all future gains and losses associated with the covered assets would then be recognized entirely by Old National since the FDIC would no longer be sharing in these gains and losses.

NOTE 10 OTHER REAL ESTATE OWNED

The following table presents activity in other real estate owned for the three months ended March 31, 2016 and 2015:

(dollars in thousands)	**Other Real Estate Owned (1)**	**Other Real Estate Owned, Covered**
Three Months Ended March 31, 2016		
Balance at January 1, 2016	**$ 7,594**	**$ 4,904**
Additions	**736**	**1,830**
Sales	**(1,125)**	**(81)**
(Impairment)/recovery of value	**(186)**	**(150)**
Balance at March 31, 2016	**$ 7,019**	**$ 6,503**
Three Months Ended March 31, 2015		
Balance at January 1, 2015	$ 7,241	$ 9,121

Additions		1,906		360
Sales		(428)		(2,556)
(Impairment)/recovery of value		(237)		159
Balance at March 31, 2015	$	8,482	$	7,084

(1) Includes repossessed personal property of $0.3 million at March 31, 2016 and $0.2 million at March 31, 2015. At March 31, 2016, foreclosed residential real estate property included in the table above totaled $0.9 million. At March 31, 2016, consumer mortgage loans collateralized by residential real property that were in the process of foreclosure totaled $5.2 million.

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

NOTE 11 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the three months ended March 31, 2016 and 2015:

(dollars in thousands)	Banking	Insurance	Total
Three Months Ended March 31, 2016			
Balance at January 1, 2016	**$ 543,671**	**$ 40,963**	**$ 584,634**
Goodwill acquired during the period			
Balance at March 31, 2016	**$ 543,671**	**$ 40,963**	**$ 584,634**
Three Months Ended March 31, 2015			
Balance at January 1, 2015	$ 490,972	$ 39,873	$ 530,845
Goodwill acquired during the period	55,969	1,090	57,059
Balance at March 31, 2015	$ 546,941	$ 40,963	$ 587,904

Goodwill is reviewed annually for impairment. Old National completed its most recent annual goodwill impairment test as of August 31, 2015 and concluded that, based on current events and circumstances, it is not more likely than not that the carrying value of goodwill exceeds fair value. Additionally, the Company evaluated the impact of the sale of its southern Illinois franchise in August of 2015 and concluded that no impairment charge was necessary. See Note 3 to the consolidated financial statements for detail regarding goodwill associated with this divestiture.

See Note 3 to the consolidated financial statements for detail regarding goodwill recorded in 2015 associated with acquisitions.

The gross carrying amount and accumulated amortization of other intangible assets at March 31, 2016 and December 31, 2015 were as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
March 31, 2016			
Amortized intangible assets:			
Core deposit	**$ 60,103**	**$ (45,502)**	**$ 14,601**
Customer business relationships	**30,570**	**(23,800)**	**6,770**

Customer trust relationships	**16,547**	**(6,210)**	**10,337**
Customer loan relationships	**4,413**	**(3,678)**	**735**
Total intangible assets	**$ 111,633**	**$ (79,190)**	**$ 32,443**

December 31, 2015			
Amortized intangible assets:			
Core deposit	$ 60,103	$ (43,982)	$ 16,121
Customer business relationships	30,787	(23,341)	7,446
Customer trust relationships	16,547	(5,286)	11,261
Customer loan relationships	4,413	(3,933)	480
Total intangible assets	$ 111,850	$ (76,542)	$ 35,308

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Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 5 to 15 years. During the first quarter of 2016, Old National decreased customer business relationships by $0.2 million. These adjustments related to final contingency payments on acquired insurance books of business that occurred in prior years. The adjustments are included in the Insurance segment. See Note 21 to the consolidated financial statements for a description of the Company s operating segments.

Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. No impairment charges were recorded during the three months ended March 31, 2016 or 2015. Total amortization expense associated with intangible assets was $2.6 million for the three months ended March 31, 2016 and $3.1 million for the three months ended March 31, 2015.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2016 remaining	$ 7,232
2017	7,581
2018	5,799
2019	4,317
2020	3,036
Thereafter	4,478
Total	$ 32,443

NOTE 12 LOAN SERVICING RIGHTS

Loan servicing rights were assumed in Old National s acquisitions of United on July 31, 2014, LSB on November 1, 2014, and Founders on January 1, 2015.

At March 31, 2016, loan servicing rights derived from loans sold with servicing retained totaled $10.5 million and were included in other assets in the consolidated balance sheet, compared to $10.5 million at December 31, 2015. Loans serviced for others are not reported as assets. The principal balance of loans serviced for others was $1.270 billion at March 31, 2016, compared to $1.263 billion at December 31, 2015. Approximately 96% of the loans serviced for others at March 31, 2016 were residential mortgage loans. Custodial escrow balances maintained in connection with serviced loans were $6.4 million at March 31, 2016 and $3.0 million at December 31, 2015.

The following table summarizes the carrying values and activity related to loan servicing rights and the related valuation allowance for the three months ended March 31, 2016 and 2015:

(dollars in thousands)	**2016**	**2015**
Balance at January 1,	**$ 10,502**	$ 9,584
Additions	**481**	956
Amortization	**(447)**	(518)

Balance before valuation allowance at March 31,	**10,536**	10,022
Valuation allowance:		
Balance at January 1,	**(34)**	(50)
(Additions)/recoveries	**32**	(437)
Balance at March 31,	**(2)**	(487)
Loan servicing rights, net	**$ 10,534**	$ 9,535

At March 31, 2016, the fair value of servicing rights was $11.0 million, which was determined using a discount rate of 11% and a weighted average prepayment speed of 175% PSA. At December 31, 2015, the fair value of servicing rights was $11.3 million, which was determined using a discount rate of 11% and a weighted average prepayment speed of 166% PSA.

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NOTE 13 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of March 31, 2016:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements / Sweeps	American Financial Exchange Borrowings (1)	Total
2016				
Outstanding at March 31, 2016	**$ 155,320**	**$ 329,060**	**$ 10,000**	**$ 494,380**
Average amount outstanding	**104,774**	**336,044**	**5,604**	**446,422**
Maximum amount outstanding at any month-end	**155,320**	**346,695**	**20,000**	
Weighted average interest rate:				
During the three months ended March 31, 2016	**0.43%**	**0.07%**	**0.81%**	**0.16%**
At March 31, 2016	**0.49**	**0.07**	**0.57**	**0.21**

(1) In 2015, the Company joined the American Financial Exchange, which is an overnight source of borrowings. No collateral was pledged on these funds.

The following table presents the contractual maturity of our secured borrowings and class of collateral pledged:

	At March 31, 2016 Remaining Contractual Maturity of the Agreements				
(dollars in thousands)	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 days	Total
Repurchase Agreements:					
U.S. Treasury and agency securities	**$ 329,060**	**$**	**$**	**$**	**$ 329,060**
Total	**$ 329,060**	**$**	**$**	**$**	**$ 329,060**

The fair value of securities pledged to secure repurchase agreements may decline. The Company has pledged securities valued at 108% of the gross outstanding balance of repurchase agreements at March 31, 2016 to manage this risk.

REVOLVING LOAN

Subsequent to quarter end, the Company entered into a $75.0 million revolving line of credit agreement. The 364 day revolving loan has a variable rate of interest priced at the one-month LIBOR plus 200 basis points. Currently, $50.0 million is outstanding on the loan.

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NOTE 14 FINANCING ACTIVITIES

The following table summarizes Old National s and its subsidiaries other borrowings at March 31, 2016 and December 31, 2015:

(dollars in thousands)	March 31, 2016	December 31, 2015
Old National Bancorp:		
Senior unsecured bank notes (fixed rate 4.125%) maturing August 2024	**$ 175,000**	$ 175,000
Unamortized debt issuance costs related to Senior unsecured bank notes	**(1,299)**	(1,338)
Junior subordinated debentures (variable rates of 1.97% to 2.39%) maturing March 2035 to June 2037	**45,000**	45,000
ASC 815 fair value hedge and other basis adjustments	**(4,327)**	(4,442)
Old National Bank:		
Securities sold under agreements to repurchase (fixed rates 2.47% to 2.50%) maturing January 2017 to January 2018	**50,000**	50,000
Federal Home Loan Bank advances (fixed rates 0.56% to 6.76% and variable rates 0.70% to 0.78%) maturing April 2016 to January 2025	**897,645**	1,022,766
Capital lease obligation	**4,019**	4,036
ASC 815 fair value hedge and other basis adjustments	**1,773**	725
Total other borrowings	**$ 1,167,811**	$ 1,291,747

Contractual maturities of other borrowings at March 31, 2016 were as follows:

(dollars in thousands)	
Due in 2016	$ 417,338
Due in 2017	95,744
Due in 2018	195,308
Due in 2019	2,867
Due in 2020	50,091
Thereafter	410,316
ASC 815 fair value hedge, unamortized debt issuance costs, and other basis adjustments	(3,853)
Total	$ 1,167,811

SENIOR NOTES

In August 2014, Old National issued $175.0 million of senior unsecured notes with a 4.125% interest rate. These notes pay interest on February 15 and August 15. The notes mature on August 15, 2024.

FEDERAL HOME LOAN BANK

Federal Home Loan Bank (FHLB) advances had weighted-average rates of 0.96% at March 31, 2016 and 0.72% at December 31, 2015. These borrowings are collateralized by investment securities and residential real estate loans up to 140% of outstanding debt.

JUNIOR SUBORDINATED DEBENTURES

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

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In 2007, Old National acquired St. Joseph Capital Trust II in conjunction with its acquisition of St. Joseph Capital Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by St. Joseph Capital Trust II. St. Joseph Capital Trust II issued $5.0 million in preferred securities in March 2005. The preferred securities have a variable rate of interest priced at the three-month London Interbank Offered Rate (LIBOR) plus 175 basis points, payable quarterly and maturing on March 17, 2035. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by St. Joseph Capital Trust II.

In 2011, Old National acquired Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II in conjunction with its acquisition of Monroe Bancorp. Old National guarantees the payment of distributions on the trust preferred securities issued by Monroe Bancorp Capital Trust I and Monroe Bancorp Statutory Trust II. Monroe Bancorp Capital Trust I issued $3.0 million in preferred securities in July 2006. The preferred securities have a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Capital Trust I. Monroe Bancorp Statutory Trust II issued $5.0 million in preferred securities in March 2007. The preferred securities have a variable rate of interest priced at the three-month LIBOR plus 160 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Monroe Bancorp Statutory Trust II.

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

On April 25, 2014, Old National acquired Tower Capital Trust 2 and Tower Capital Trust 3 in conjunction with its acquisition of Tower Financial Corporation. Old National guarantees the payment of distributions on the trust preferred securities issued by Tower Capital Trust 2 and Tower Capital Trust 3. Tower Capital Trust 2 issued $8.0 million in preferred securities in December 2005. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 134 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Tower Capital Trust 2. Tower Capital Trust 3 issued $9.0 million in preferred securities in December 2006. The preferred securities carry a variable rate of interest priced at the three-month LIBOR plus 169 basis points. Proceeds from the issuance of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by Tower Capital Trust 3.

Old National, at any time, may redeem the junior subordinated debentures at par and thereby cause a redemption of the trust preferred securities in whole or in part.

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are secured borrowings. The Company pledges investment securities to secure these borrowings. The fair value of securities pledged to secure repurchase agreements may decline. The Company has pledged securities valued at 118% of the gross outstanding balance of repurchase agreements at March 31, 2016 to manage this risk.

CAPITAL LEASE OBLIGATION

On January 1, 2004, Old National entered into a long-term capital lease obligation for a branch office building in Owensboro, Kentucky, which extends for 25 years with one renewal option for 10 years. The economic substance of this lease is that Old National is financing the acquisition of the building through the lease and accordingly, the building is recorded as an asset and the lease is recorded as a liability. The fair value of the capital lease obligation was estimated using a discounted cash flow analysis based on Old National s current incremental borrowing rate for similar types of borrowing arrangements.

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At March 31, 2016, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2016 remaining	$ 307
2017	410
2018	410
2019	430
2020	430
Thereafter	8,406
Total minimum lease payments	10,393
Less amounts representing interest	6,374
Present value of net minimum lease payments	$ 4,019

NOTE 15 EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

Old National maintains a funded noncontributory defined benefit plan (the Retirement Plan) that was frozen as of December 31, 2005. Retirement benefits are based on years of service and compensation during the highest paid five years of employment. The freezing of the plan provides that future salary increases will not be considered. Old National s policy is to contribute at least the minimum funding requirement determined by the plan s actuary. Old National does not expect to contribute cash payments to the Retirement Plan in 2016.

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

Old National contributed $10 thousand to cover benefit payments from the Restoration Plan during the three months ended March 31, 2016. Old National expects to contribute an additional $29 thousand to cover benefit payments from the Restoration Plan during the remainder of 2016.

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

	Three Months Ended March 31,	
(dollars in thousands)	**2016**	**2015**
Interest cost	**$ 440**	$ 415
Expected return on plan assets	**(442)**	(512)
Recognized actuarial loss	**494**	531
Settlement loss	**206**	206

Net periodic benefit cost	**$ 698**	$ 640

In March 2016, we sent to participants and beneficiaries a Notice of Intent to Terminate the Employee Retirement Plan effective May 15, 2016. The complete distribution of the trust fund during the fourth quarter of 2016 is expected to result in a pre-tax charge of $11 million to $14 million and relieve Old National of all future obligations and expense.

NOTE 16 STOCK-BASED COMPENSATION

At March 31, 2016, Old National had 5.0 million shares remaining available for issuance under the Company s Amended and Restated 2008 Incentive Compensation Plan. The granting of awards to key employees is typically in the form of restricted stock awards or units.

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Restricted Stock Awards

The Company granted 67 thousand time-based restricted stock awards to certain key officers during the three months ended March 31, 2016, with shares vesting over a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of March 31, 2016, unrecognized compensation expense was estimated to be $3.4 million for unvested restricted stock awards.

Old National recorded expense of $0.3 million, net of tax, during the three months ended March 31, 2016, compared to $0.2 million, net of tax, during the three months ended March 31, 2015 related to the vesting of restricted stock awards.

Restricted Stock Units

The Company granted 270 thousand shares of performance based restricted stock units to certain key officers during the three months ended March 31, 2016, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. For certain awards, the level of performance could increase or decrease the percentage of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of March 31, 2016, unrecognized compensation expense was estimated to be $5.3 million.

Old National recorded stock based compensation expense, net of tax, related to restricted stock units of $0.5 million during the three months ended March 31, 2016 and 2015.

Stock Options

Old National has not granted stock options since 2009. However, Old National did acquire stock options through prior year acquisitions. Old National did not record any stock based compensation expense related to these stock options during the three months ended March 31, 2016 or 2015.

Stock Appreciation Rights

Old National has never granted stock appreciation rights. However, Old National did acquire stock appreciation rights through a prior year acquisition. Old National did not record any incremental expense associated with the conversion of these stock appreciation rights. At March 31, 2016, 81 thousand stock appreciation rights remained outstanding.

NOTE 17 INCOME TAXES

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

	Three Months Ended March 31,	
(dollars in thousands)	**2016**	**2015**
Provision at statutory rate of 35%	**$ 12,827**	$ 10,546

Tax-exempt income	**(4,168)**	(3,852)
State income taxes	**583**	1,277
Interim period effective rate adjustment	**(148)**	1,506
Other, net	**577**	(252)
Income tax expense	**$ 9,671**	$ 9,225
Effective tax rate	**26.4%**	30.6%

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In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at March 31, 2016 and 2015 based on the current estimate of the effective annual rate.

The lower effective tax rate during the three months ended March 31, 2016 when compared to the three months ended March 31, 2015 is the result of a decrease in the forecasted effective tax rate for 2016 as compared to 2015. In addition, in the first quarter of 2015, the valuation of the state deferred tax asset was reduced due to a change in state apportionment estimates related to the acquisition of Founders, resulting in a higher state income tax expense in 2015.

No valuation allowance was recorded at March 31, 2016 or 2015 because, based on current expectations, Old National believes it will generate sufficient income in future years to realize deferred tax assets.

Unrecognized Tax Benefits

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

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

(dollars in thousands)	**2016**	**2015**
Balance at January 1,	**$ 124**	$ 77
Additions based on tax positions related to the current year	**14**	11
Balance at March 31,	**$ 138**	$ 88

If recognized, approximately $0.1 million of unrecognized tax benefits, net of interest, would favorably affect the effective income tax rate in future periods.

NOTE 18 DERIVATIVE FINANCIAL INSTRUMENTS

As part of our overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was $761.5 million at March 31, 2016 and December 31, 2015. The March 31, 2016 balances consist of $36.5 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances and $725.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances. During the first quarter of 2016, $50.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain commercial loans was terminated resulting in an immaterial gain. The December 31, 2015 balances consist of consist of $36.5 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, $675.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances and $50.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its commercial loans. These hedges were entered into to manage interest rate risk. Derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At March 31, 2016, the notional amount of the interest rate lock commitments was $49.1 million and forward commitments were $59.5 million. At December 31, 2015, the notional amount of the interest rate lock commitments was $30.4 million and

forward commitments were $33.3 million. It is our practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitment to fund the loans.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $437.4 million and $437.4 million, respectively, at March 31, 2016. At December 31, 2015, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $428.4 million and $428.4 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include

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interest rate swaps, caps and collars. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

Amounts reported in AOCI related to cash flow hedges will be reclassified to interest income or interest expense as interest payments are received or paid on the Company s derivative instruments. During the next 12 months, the Company estimates that $0.3 million will be reclassified to interest income and $7.6 million will be reclassified to interest expense.

On the balance sheet, asset derivatives are included in other assets, and liability derivatives are included in other liabilities. The following table summarizes the fair value of derivative financial instruments utilized by Old National:

	March 31, 2016		**December 31, 2015**	
(dollars in thousands)	**Asset Derivatives**	**Liability Derivatives**	**Asset Derivatives**	**Liability Derivatives**
Derivatives designated as hedging instruments				
Interest rate contracts	**$ 4,858**	**$ 25,720**	$ 3,794	$ 15,554
Total derivatives designated as hedging instruments	**$ 4,858**	**$ 25,720**	$ 3,794	$ 15,554
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 16,817**	**$ 16,938**	$ 11,296	$ 11,414
Mortgage contracts	**1,390**	**94**	835	
Total derivatives not designated as hedging instruments	**$ 18,207**	**$ 17,032**	$ 12,131	$ 11,414
Total	**$ 23,065**	**$ 42,752**	$ 15,925	$ 26,968

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The effect of derivative instruments on the consolidated statements of income for the three months ended March 31, 2016 and 2015 are as follows:

(dollars in thousands)		Three Months Ended March 31, 2016	2015
Derivatives in Fair Value Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ (1,043)**	$ 23
Interest rate contracts (2)	Other income / (expense)	**50**	59
Total		**$ (993)**	$ 82

Derivatives in Cash Flow Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ 86**	$ 166
Total		**$ 86**	$ 166

Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (3)	Other income / (expense)	**$ (3)**	$
Mortgage contracts	Mortgage banking revenue	**461**	788
Total		**$ 458**	$ 788

(1) Amounts represent the net interest payments as stated in the contractual agreements.
(2) Amounts represent ineffectiveness on derivatives designated as fair value hedges.
(3) Includes the valuation differences between the customer and offsetting counterparty swaps.

NOTE 19 COMMITMENTS AND CONTINGENCIES

LITIGATION

In the normal course of business, Old National Bancorp and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages.

Old National contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, Old National cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, or other relief, if any, might be. Subject to the foregoing, Old National believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of Old National, although the outcome of such matters could be material to Old National s operating results and cash flows for a particular future period, depending on, among other things, the level of Old National s revenues or income for such period. Old National will accrue for a loss contingency if (1) it is probable that a future event will occur and confirm the loss and (2) the amount of the loss can be reasonably estimated.

In November 2010, Old National was named in a class action lawsuit in Vanderburgh Circuit Court challenging our checking account practices associated with the assessment of overdraft fees. The theory set forth by plaintiffs in this case is similar to other class action complaints filed against other financial institutions in recent years and settled for substantial amounts. On May 1, 2012, the plaintiff was granted permission to file a First Amended Complaint which named additional plaintiffs and amended certain claims. The plaintiffs seek damages, and other relief, including treble damages, attorneys fees and costs pursuant to the Indiana Crime Victim s Relief Act. On June 13, 2012, Old National filed a motion to dismiss the First Amended Complaint, which was subsequently denied by the Court. On September 7, 2012, the plaintiffs filed a motion for class certification, which was granted on March 20, 2013, and

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provides for a class of All Old National Bank customers in the State of Indiana who had one or more consumer accounts and who, within the applicable statutes of limitation through August 15, 2010, incurred an overdraft fee as a result of Old National Bank s practice of sequencing debit card and ATM transactions from highest to lowest.

Old National sought an interlocutory appeal on the issue of class certification on April 2, 2013, which was subsequently denied. On June 11, 2013, Old National moved for summary judgment asserting the law as applied to the material facts not in dispute should result in judgment in favor of Old National. On September 16, 2013, a hearing was held on the summary judgment motion and the Motion was denied by the Circuit Court on April 14, 2014. Subsequently, Old National sought and was granted leave to appeal the denial of its Motion for Summary Judgment. On July 11, 2014, the Indiana Court of Appeals accepted the appeal and the parties fully briefed the matter as of February 23, 2015. On April 23, 2015, the Court of Appeals affirmed in part and reversed in part the Circuit Court s denial of Old National s Motion for Summary Judgment and remanded the case to the Circuit Court for further proceedings. Specifically, the Court of Appeals rejected Old National s contention that all of plaintiffs claims were preempted by federal law but did agree that plaintiffs state law claims of conversion, unconscionability and unjust enrichment were unsupported under Indiana law. The dismissal of these claims removes any claims which would entitle plaintiffs to treble damages. The Court of Appeals determined Old National had not negated plaintiffs state law claim for breach of a duty of good faith and fair dealing as to the deposit account agreement and remanded that claim back to the Circuit Court. On May 22, 2015, Old National filed a Petition to Transfer the Case to the Indiana Supreme Court in which it asked the Court to accept an appeal of the remaining count.

On July 23, 2015, the Indiana Supreme Court declined to accept transfer of the case. Thereafter, the case returned to the trial court for further proceedings on the sole remaining count.

The trial court set the case for trial on May 9, 2016 along with various other case management deadlines. On January 11, 2016, Old National filed its second Motion for Summary Judgment addressing the issues discussed in the Court of Appeals opinion. Simultaneously, other deadlines relating to, among other things, witness and exhibit disclosures and expert disclosures were approaching which presented the parties an opportunity to evaluate the pending case. On April 5, 2016, Old National entered into a settlement agreement with plaintiffs providing for a cash payment from Old National in the amount of $4,750,000 in exchange for a full release and dismissal of plaintiffs complaint. By entering into the settlement agreement, Old National has not admitted any liability with respect to the lawsuit. The settlement amount had previously been accrued for in the December 31, 2015 financial statements.

On April 14, 2016, the Circuit Court preliminarily approved the settlement agreement, entered an order authorizing notice of the settlement to the class participants, and vacated the May 9, 2016 trial date. Following notice of the settlement to the class participants, the settlement agreement will be subject to final Circuit Court approval which is scheduled for June 13, 2016. Although Old National cannot guarantee that the Circuit Court will approve the settlement agreement, Old National believes it is reasonably likely that the settlement agreement will be approved. In the event that the settlement agreement is not approved by the Circuit Court or is otherwise rejected, the Circuit Court will reissue a new trial date in 2017.

LEASES

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

Old National had deferred gains remaining associated with prior sale leaseback transactions totaling $39.6 million as of March 31, 2016 and $40.7 million as of December 31, 2015. The gains are being recognized over the remaining term of the leases. The leases had original terms ranging from five to twenty-four years. New accounting guidance has been issued for leases, and it is possible that this accounting treatment could change in the future.

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CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, Old National s banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.770 billion and standby letters of credit of $59.2 million at March 31, 2016. At March 31, 2016, approximately $1.686 billion of the loan commitments had fixed rates and $84.0 million had floating rates, with the floating interest rates ranging from 0% to 25%. At December 31, 2015, loan commitments totaled $1.746 billion and standby letters of credit totaled $62.6 million. These commitments are not reflected in the consolidated financial statements. The allowance for unfunded loan commitments totaled $4.0 million at March 31, 2016 and $3.6 million at December 31, 2015.

Old National had credit extensions with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients totaling $14.5 million at March 31, 2016 and December 31, 2015. Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $13.6 million at March 31, 2016 and December 31, 2015. Old National did not provide collateral for the remaining credit extensions.

NOTE 20 FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At March 31, 2016, the notional amount of standby letters of credit was $59.2 million, which represented the maximum amount of future funding requirements, and the carrying value was $0.4 million. At December 31, 2015, the notional amount of standby letters of credit was $62.6 million, which represented the maximum amount of future funding requirements, and the carrying value was $0.4 million.

Old National entered into a risk participation in an interest rate swap during the second quarter of 2007, which had a notional amount of $7.2 million at March 31, 2016. Old National entered into an additional risk participation in an interest rate swap during the third quarter of 2014, which had a notional amount of $11.4 million at March 31, 2016.

NOTE 21 SEGMENT INFORMATION

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

Banking

The banking segment provides a wide range of financial products and services to consumers and businesses. Loan products include commercial, commercial real estate, mortgage, and other consumer loans. Deposit products include checking, savings, and time deposit accounts. This segment also provides cash management, private banking, brokerage, trust and investment advisory services. Products and services are delivered to customers in the states of Indiana, Kentucky, and Michigan through our branch locations, ATMs, on-line banking services, 24-hour telephone banking, client care call center, and a mobile banking service.

Insurance

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

Other

Other Corporate Administrative units such as Human Resources or Finance, provide a wide-range of support to our other income earning segments. Expenses incurred by these support units are charged to the business segments

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through an internal cost allocation process, which may not be comparable to that of other companies. The other segment includes the unallocated portion of other corporate support functions, the elimination of intercompany transactions and our Corporate Treasury unit. Corporate Treasury activities consist of corporate asset and liability management. This unit s assets and liabilities (and related interest income and expense) consist of investment securities, corporate-owned life insurance, and certain borrowings.

Selected business segment financial information is shown in the following table for the three months ended March 31:

(dollars in thousands)	Banking	Insurance	Other	Total
Three months ended March 31, 2016				
Net interest income	**$ 87,795**	**$ 1**	**$ (2,153)**	**$ 85,643**
Noninterest income	**36,158**	**13,108**	**185**	**49,451**
Noncash items:				
Depreciation and software amortization	**4,137**	**44**	**161**	**4,342**
Provision for loan losses	**91**			**91**
Amortization of intangibles	**2,188**	**459**		**2,647**
Income tax expense (benefit)	**10,830**	**1,204**	**(2,363)**	**9,671**
Segment profit (loss)	**27,222**	**1,925**	**(2,170)**	**26,977**
Segment assets	**11,790,789**	**61,416**	**80,121**	**11,932,326**
Three months ended March 31, 2015				
Net interest income	$ 93,078	$ 2	$ (2,087)	$ 90,993
Noninterest income	42,839	11,987	469	55,295
Noncash items:				
Depreciation and software amortization	4,656	34	158	4,848
Provision for loan losses	1			1
Amortization of intangibles	2,605	476		3,081
Income tax expense (benefit)	9,297	615	(687)	9,225
Segment profit (loss)	24,783	964	(4,841)	20,906
Segment assets	11,804,609	60,700	84,541	11,949,850

Noninterest income in the banking segment decreased for the three months ended March 31, 2016 when compared to the same period in 2015 primarily due to lower debit card and ATM fees, service charges on deposit accounts, and net securities gains. Debit card and ATM fees decreased for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015 as the Durbin Amendment, which limits interchange fees on debit card transactions for banks with $10 billion or more in assets became effective for us on July 1, 2015.

NOTE 22 FAIR VALUE

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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Old National used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Investment securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using swap and LIBOR curves plus spreads that adjust for loss severities, volatility, credit risk, and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations.

Residential loans held for sale: The fair value of loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Derivative financial instruments: The fair values of derivative financial instruments are based on derivative valuation models using market data inputs as of the valuation date (Level 2).

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which we have elected the fair value option, are summarized below:

		Fair Value Measurements at March 31, 2016 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Trading securities	**$ 3,699**	**$ 3,699**	**$**	**$**
Investment securities available-for-sale:				
U.S. Treasury	**12,243**	**12,243**		
U.S. government-sponsored entities and agencies	**603,457**		**603,457**	
Mortgage-backed securities - Agency	**990,984**		**990,984**	
States and political subdivisions	**400,236**		**400,236**	
Pooled trust preferred securities	**7,987**			**7,987**
Other securities	**333,536**	**31,941**	**301,595**	
Residential loans held for sale	**22,546**		**22,546**	
Derivative assets	**23,065**		**23,065**	
Financial Liabilities				
Derivative liabilities	**42,752**		**42,752**	

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(dollars in thousands)	Carrying Value	Fair Value Measurements at December 31, 2015 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Trading securities	$ 3,941	$ 3,941	$	$
Investment securities available-for-sale:				
U.S. Treasury	12,150	12,150		
U.S. government-sponsored entities and agencies	613,550		613,550	
Mortgage-backed securities - Agency	1,066,361		1,066,361	
States and political subdivisions	387,296		387,296	
Pooled trust preferred securities	7,900			7,900
Other securities	330,964	31,443	299,521	
Residential loans held for sale	13,810		13,810	
Derivative assets	15,925		15,925	
Financial Liabilities				
Derivative liabilities	26,968		26,968	

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2016:

(dollars in thousands)	Pooled Trust Preferred Securities Available-for-Sale
Balance at January 1, 2016	**$ 7,900**
Accretion of discount	**5**
Sales/payments received	**(133)**
Increase in fair value of securities	**215**
Balance at March 31, 2016	**$ 7,987**

The accretion of discounts on securities totaling $5 thousand for the three months ended March 31, 2016 is included in interest income. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for-sale, an increase in accumulated other comprehensive income (included in shareholders equity), and a decrease in other assets related to the tax impact.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2015:

(dollars in thousands)	Pooled Trust Preferred Securities Available-for-Sale	State and Political Subdivisions

Balance at January 1, 2015	$	6,607	$	325
Accretion of discount		5		
Sales/payments received		(264)		
Matured securities				(325)
Increase in fair value of securities		205		
Balance at March 31, 2015	$	6,553	$	

The accretion of discounts on securities totaling $5 thousand for the three months ended March 31, 2015 is included in interest income. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for-sale, an increase in accumulated other comprehensive income (included in shareholders equity), and a decrease in other assets related to the tax impact.

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The tables below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy as of March 31, 2016 and December 31, 2015:

(dollars in thousands)	Fair Value at Mar. 31, 2016	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Pooled trust preferred securities	$ 7,987	Discounted cash flow	Constant prepayment rate (a)	0.00%
			Additional asset defaults (b)	2.8% - 4.5% (4.0%)
			Expected asset recoveries (c)	0.0% - 16.0% (4.3%)

(a) Assuming no prepayments.
(b) Each currently performing pool asset is assigned a default probability based on the banking environment, which is adjusted for specific issuer evaluation, of 0%, 50%, or 100%.
(c) Each currently defaulted pool asset is assigned a recovery probability based on specific issuer evaluation of 0%, 25%, or 100%.

(dollars in thousands)	Fair Value at Dec. 31, 2015	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Pooled trust preferred securities	$ 7,900	Discounted cash flow	Constant prepayment rate (a)	0.00%
			Additional asset defaults (b)	4.1% - 11.5% (8.1%)
			Expected asset recoveries (c)	0.0% -11.5% (3.1%)

(a) Assuming no prepayments.
(b) Each currently performing pool asset is assigned a default probability based on the banking environment, which is adjusted for specific issuer evaluation, of 0%, 50%, or 100%.
(c) Each currently defaulted pool asset is assigned a recovery probability based on specific issuer evaluation of 0%, 25%, or 100%.

Significant changes in any of the unobservable inputs used in the fair value measurement in isolation would result in a significant change to the fair value measurement. The pooled trust preferred securities Old National owns are subordinate note classes that rely on an ongoing cash flow stream to support their values. The senior note classes receive the benefit of prepayments to the detriment of subordinate note classes since the ongoing interest cash flow stream is reduced by the early redemption. Generally, a change in prepayment rates or additional pool asset defaults has an impact that is directionally opposite from a change in the expected recovery of a defaulted pool asset.

Assets measured at fair value on a non-recurring basis at March 31, 2016 are summarized below:

(dollars in thousands)	Carrying Value	Fair Value Measurements at March 31, 2016 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans				
Commercial loans	**$ 17,301**	**$**	**$**	**$ 17,301**
Commercial real estate loans	**11,002**			**11,002**
Foreclosed Assets				
Commercial real estate	**2,616**			**2,616**
Residential	**235**			**235**

Impaired commercial and commercial real estate loans that are deemed collateral dependent are valued based on the fair value of the underlying collateral. These estimates are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property, and other related factors to estimate the current value of the collateral. These impaired commercial and commercial real estate loans had a principal amount of $38.8 million, with a valuation allowance of $10.5 million at March 31, 2016. Old National recorded provision expense associated with these loans totaling $2.2 million for the three months ended March 31, 2016. Old National recorded provision expense associated with impaired commercial and commercial real estate loans that were deemed collateral dependent totaling $4.8 million for the three months ended March 31, 2015.

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Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of $2.9 million at March 31, 2016. The estimates of fair value are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property, and other related factors to estimate the current value of the collateral. There were write-downs of other real estate owned of $0.4 million for the three months ended March 31, 2016 and $1.1 million for the three months ended March 31, 2015.

Assets measured at fair value on a non-recurring basis at December 31, 2015 are summarized below:

		Fair Value Measurements at December 31, 2015 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans				
Commercial loans	$ 13,332	$	$	$ 13,332
Commercial real estate loans	11,857			11,857
Foreclosed Assets				
Commercial real estate	2,526			2,526
Residential	203			203

As of December 31, 2015, impaired commercial and commercial real estate loans had a principal amount of $36.8 million, with a valuation allowance of $11.5 million.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of $2.7 million at December 31, 2015.

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

(dollars in thousands)	Fair Value at Mar. 31, 2016	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Collateral Dependent Impaired Loans				
Commercial loans	$ 17,301	Fair value of collateral	Discount for type of property, age of appraisal, and current status	0% - 98% (51%)
Commercial real estate loans	11,002	Fair value of collateral	Discount for type of property, age of appraisal and current status	20% - 61% (34%)
Foreclosed Assets				

Commercial real estate	2,616	Fair value of collateral	Discount for type of property, age of appraisal, and current status	0% - 80% (27%)
Residential	235	Fair value of collateral	Discount for type of property, age of appraisal, and current status	7% - 41% (24%)

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(dollars in thousands)	Fair Value at Dec. 31, 2015	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Collateral Dependent Impaired Loans				
Commercial loans	$ 13,332	Fair value of collateral	Discount for type of property, age of appraisal, and current status	0% - 86% (28%)
Commercial real estate loans	11,857	Fair value of collateral	Discount for type of property, age of appraisal, and current status	0% - 61% (33%)
Foreclosed Assets				
Commercial real estate	2,526	Fair value of collateral	Discount for type of property, age of appraisal, and current status	3% - 80% (26%)
Residential	203	Fair value of collateral	Discount for type of property, age of appraisal, and current status	7% - 53% (29%)

Financial instruments recorded using fair value option

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

We have elected the fair value option for residential loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement is interest income for loans held for sale totaling $22 thousand for the three months ended March 31, 2016 and $39 thousand for the three months ended March 31, 2015.

Residential loans held for sale

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

The difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected as of March 31, 2016 and December 31, 2015 is as follows:

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
March 31, 2016			
Residential loans held for sale	**$ 22,546**	**$ 606**	**$ 21,940**
December 31, 2015			
Residential loans held for sale	$ 13,810	$ 236	$ 13,574

Accrued interest at period end is included in the fair value of the instruments.

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

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Three months ended March 31, 2016				
Residential loans held for sale	**$ 371**	**$ 1**	**$**	**$ 372**
Three months ended March 31, 2015				
Residential loans held for sale	$ 217	$	$	$ 217

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The carrying amounts and estimated fair values of financial instruments, not previously presented in this note, at March 31, 2016 and December 31, 2015 are as follows:

		Fair Value Measurements at March 31, 2016 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash, due from banks, federal funds sold, and money market investments	$ 175,558	$ 175,558	$	$
Investment securities held-to-maturity:				
U.S. government-sponsored entities and agencies	142,045		144,500	
Mortgage-backed securities - Agency	14,604		15,182	
State and political subdivisions	712,363		772,908	
Federal Home Loan Bank/Federal Reserve Bank stock	86,146	N/A	N/A	N/A
Loans, net (including covered loans):				
Commercial	1,767,867			1,826,069
Commercial real estate	1,906,983			2,019,514
Residential real estate	1,648,247			1,744,732
Consumer credit	1,633,277			1,623,643
FDIC indemnification asset	7,703			5,097
Accrued interest receivable	68,641	75	21,443	47,123
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,491,767	$ 2,491,767	$	$
NOW, savings, and money market deposits	5,011,281	5,011,281		
Time deposits	1,085,847		1,088,976	
Short-term borrowings:				
Federal funds purchased	155,320	155,320		
Repurchase agreements	329,060	329,060		
Other short-term borrowings	10,000	10,000		
Other borrowings:				
Senior unsecured bank notes	173,701		164,216	
Junior subordinated debentures	40,673		33,467	
Repurchase agreements	50,000		51,701	
Federal Home Loan Bank advances	899,418			902,920
Capital lease obligation	4,019		5,453	
Accrued interest payable	3,281		3,281	
Standby letters of credit	402			402
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$	$	$	$ 3,012

N/A = not applicable

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(dollars in thousands)	Carrying Value	Fair Value Measurements at December 31, 2015 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash, due from banks, federal funds sold, and money market investments	$ 219,818	$ 219,818	$	$
Investment securities held-to-maturity:				
U.S. government-sponsored entities and agencies	142,864		145,763	
Mortgage-backed securities - Agency	16,042		16,604	
State and political subdivisions	713,205		767,050	
Federal Home Loan Bank/Federal Reserve Bank stock	86,146	N/A	N/A	N/A
Loans, net (including covered loans):				
Commercial	1,788,593			1,829,824
Commercial real estate	1,852,979			1,946,163
Residential real estate	1,659,284			1,745,248
Consumer credit	1,595,316			1,587,879
FDIC indemnification asset	9,030			5,700
Accrued interest receivable	69,098	29	22,821	46,248
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,488,855	$ 2,488,855	$	$
NOW, savings, and money market deposits	4,911,938	4,911,938		
Time deposits	1,000,067		998,878	
Short-term borrowings:				
Federal funds purchased	241,090	241,090		
Repurchase agreements	337,409	337,409		
Other short-term borrowings	50,000	50,000		
Other borrowings:				
Senior unsecured bank notes	173,662		162,445	
Junior subordinated debentures	40,558		33,318	
Repurchase agreements	50,000		51,370	
Federal Home Loan Bank advances	1,023,491			1,029,779
Capital lease obligation	4,036		5,375	
Accrued interest payable	4,859		4,859	
Standby letters of credit	429			429
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$	$	$	$ 2,364

N/A = not applicable

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

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

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

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Federal Home Loan Bank and Federal Reserve Bank stock: Old National Bank is a member of the FHLB and the Federal Reserve System. The carrying value is our basis because it is not practical to determine the fair value due to restrictions placed on transferability.

Loans held for sale: The fair value of loans held for sale is estimated based on binding contracts from third party investors (Level 2).

Loans: The fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities (Level 3). The method utilized to estimate the fair value of loans does not necessarily represent an exit price.

Covered loans: Fair values for loans were based on a discounted cash flow methodology that considered factors including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting current market rates for new originations of comparable loans adjusted for the risk inherent in the cash flow estimates. Loans were grouped together according to similar characteristics and were treated in the aggregate when applying various valuation techniques (Level 3).

FDIC indemnification asset: The loss sharing asset was measured separately from the related covered assets as it is not contractually embedded in the assets and is not transferable with the assets should we choose to dispose of the assets. Fair value was originally estimated using projected cash flows related to the loss sharing agreement based on the expected reimbursements for losses and the applicable loss sharing percentage and these projected cash flows are updated with the cash flow estimates on covered assets. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC (Level 3).

Accrued interest receivable and payable: The carrying amount approximates fair value and is aligned with the underlying assets or liabilities (Level 1, Level 2 or Level 3).

Deposits: The fair value of noninterest-bearing demand deposits and savings, NOW, and money market deposits is the amount payable as of the reporting date (Level 1). The fair value of fixed-maturity certificates of deposit is estimated using rates currently offered for deposits with similar remaining maturities (Level 2).

Short-term borrowings: Federal funds purchased and other short-term borrowings generally have an original term to maturity of 30 days or less and, therefore, their carrying amount is a reasonable estimate of fair value (Level 1). The fair value of securities sold under agreements to repurchase is determined using end of day market prices (Level 1).

Other borrowings: The fair value of medium-term notes, subordinated debt, and senior bank notes is determined using market quotes (Level 2). The fair value of FHLB advances is determined using calculated prices for new FHLB advances with similar risk characteristics (Level 3). The fair value of other debt is determined using comparable security market prices or dealer quotes (Level 2).

Standby letters of credit: Fair values for standby letters of credit are based on fees currently charged to enter into similar agreements. The fair value for standby letters of credit was recorded in Accrued expenses and other liabilities on the consolidated balance sheet in accordance with FASB ASC 460-10 (FIN 45) (Level 3).

Off-balance sheet financial instruments: Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements (Level 3). For further information regarding the amounts of these financial instruments, see Notes 19 and 20.

NOTE 23 SUBSEQUENT EVENT

On April 30, 2016 the Company entered into an agreement with Prime Risk Partners Inc. to sell its insurance operations, ONB Insurance Group, Inc. (ONI). The sale is expected to close during the second quarter of 2016 and we expect to receive approximately $93.0 million in cash resulting in an after-tax gain of approximately $16 million to $18 million. Based on March 31, 2016, reported results, goodwill and intangible assets of approximately

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$47.7 million will be eliminated as part of this transaction, which is subject to customary closing conditions. ONI is an ancillary business and does not meet the criteria to be treated as a discontinued operation as defined in Accounting Standards Update 2014-08 *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* .

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is an analysis of our results of operations for the three months ended March 31, 2016 and 2015, and financial condition as of March 31, 2016, compared to March 31, 2015 and December 31, 2015. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from our current expectations and the related forward-looking statements.

EXECUTIVE SUMMARY

During the first quarter of 2016, net income was $27.0 million, or $0.24 per diluted share. This compares to $20.9 million, or $0.18 per diluted share reported in the first quarter of 2015.

Management continues to focus on basic banking loan growth, fee income and expense management:

Loan Growth: Customers remain optimistic about the economy and we are encouraged by loan demand in the first quarter of 2016. Loans, excluding loans held for sale, totaled $7.007 billion as of March 31, 2016, increasing $58.7 million, or 1%, compared to December 31, 2015. Our sales teams are energized and committed to building new relationships throughout the entire footprint, including our new, higher growth markets.

Fee Income: We remain keenly focused on fee revenue. Service charge fees on deposit accounts remain challenged and declined year over year, due in part to our divestiture of the southern Illinois region during the third quarter of 2015. Likewise, debit card fee income declined year over year, driven by the Durbin Amendment, which limits interchange fees on debit card transactions for banks with $10 billion or more in assets and became effective for us on July 1, 2015. Despite these headwinds, we believe we are positioned well and are optimistic that wealth management fee revenue will improve to the extent that our fixed income and equity markets improve.

Expenses: Consistent with our expense management strategy, Old National notified participants and beneficiaries of our intent to terminate the Employee Retirement Plan, which has been frozen since 2005. The complete distribution of the trust fund during the fourth quarter of 2016 is expected to result in a pre-tax charge of $11 million to $14 million and relieve Old National of all future obligations and expense. In addition, the first quarter of 2016 benefitted from the early retirement program and branch rationalization projects completed during 2015. We will continue to monitor our service and delivery network.

On April 30, 2016, we announced our intent to sell ONB Insurance Group, Inc., d/b/a Old National Insurance (ONI) to Prime Risk Partners in an all cash transaction during the second quarter. The sale of ONI provides us the opportunity to focus on our core community banking business, improve operating leverage, and enhance our overall capital position. We expect to receive approximately $93.0 million in cash and recognize an after-tax gain of approximately $16 million to $18 million. Based on March 31, 2016, reported results, goodwill and intangible assets of approximately $47.7 million will be eliminated as part of this transaction, which is subject to customary closing conditions.

On May 1, 2016, we closed on our previously announced merger of Anchor BanCorp Wisconsin Inc. This transaction represents our entry into the demographically attractive Wisconsin markets of Madison, Fox Valley, and Milwaukee. As of March 31, 2016 Anchor reported 46 branches, $2.231 billion of total assets, $1.692 billion of loans, and $1.816 billion of deposits.

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RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three months ended March 31, 2016 and 2015:

(dollars in thousands)	Three Months Ended March 31, 2016	2015	% Change
Income Statement Summary:			
Net interest income	**$ 85,643**	$ 90,993	(5.9)%
Provision for loan losses	**91**	1	N/M
Noninterest income	**49,451**	55,295	(10.6)
Noninterest expense	**98,355**	116,156	(15.3)
Other Data:			
Return on average common equity	**7.18%**	5.56%	
Efficiency ratio (1)	**68.76**	76.27	
Tier 1 leverage ratio	**8.63**	8.29	
Net charge-offs/(recoveries) to average loans	**0.09**	(0.06)	

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

NM = Not meaningful

Net Interest Income

Net interest income is the most significant component of our earnings, comprising 63% of revenues for the three months ended March 31, 2016. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources, and interest rate fluctuations. Other factors include the level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets, and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally costs less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy, and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

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

interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.

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(dollars in thousands)	Three Months Ended March 31, 2016	2015
Net interest income	**$ 85,643**	$ 90,993
Conversion to fully taxable equivalent	**5,200**	4,658
Net interest income - taxable equivalent basis	**$ 90,843**	$ 95,651
Average earning assets	**$ 10,331,029**	$ 10,346,167
Net interest margin	**3.32%**	3.52%
Net interest margin - taxable equivalent basis	**3.52%**	3.70%

Net interest income for the three months ended March 31, 2016 and 2015 includes accretion income (interest income in excess of contractual interest income) associated with acquired loans. Excluding this accretion income, net interest income on a fully taxable equivalent basis would have been $79.6 million for the three months ended March 31, 2016, compared to $81.1 million for the three months ended March 31, 2015; and the net interest margin on a fully taxable equivalent basis would have been 3.08% for the three months ended March 31, 2016, compared to 3.14% for the three months ended March 31, 2015.

The decrease in net interest income for the three months ended March 31, 2016 when compared to three months ended March 31, 2015 was primarily due to a decrease in accretion income of $3.3 million reflecting higher payoffs of purchased credit impaired loans in 2015 when compared to the three months ended March 31, 2016. We expect accretion income on these purchased credit impaired loans to decrease over time, but this may be offset by future acquisitions. It should be noted that the accretion income associated with our Integra acquisition is partially offset by the amortization of our indemnification asset. See the discussion in the section Noninterest Income Related to Covered Assets for additional details.

The decrease in the net interest margin was primarily due to lower yields associated with decreased accretion income on acquired loans, lower interest rates on interest earning assets, and a change in the mix of average interest earning assets and interest bearing liabilities. The yield on interest earning assets decreased 12 basis points and the cost of interest-bearing liabilities increased 10 basis points in the quarterly year-over-year comparison. The yield on interest earning assets is calculated by dividing annualized taxable equivalent net interest income by average interest earning assets while the cost of interest-bearing liabilities is calculated by dividing annualized interest expense by average interest-bearing liabilities.

Average earning assets were $10.331 billion for the three months ended March 31, 2016, compared to $10.346 billion for the three months ended March 31, 2015, a decrease of $15.1 million. The decrease in average earning assets for the three months ended March 31, 2016 compared to the three months ended March 31, 2015 was due to a $162.1 million decrease in average investment securities, an $18.8 million decrease in average interest earning cash accounts, partially offset by a $128.2 million increase in average loans, including loans held for sale. The loan portfolio including loans held for sale, which generally has an average yield higher than the investment portfolio, was approximately 68% of average interest earning assets for the three months ended March 31, 2016, compared to 66% for the three months ended March 31, 2015.

Average loans including loans held for sale increased $128.2 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015 primarily due to organic loan growth. This increase in organic loan growth was partially offset by a decrease in average covered loans of $38.2 million and the sale of $193.6 million of loans associated with our branch divestitures during the third quarter of 2015.

Average investments decreased $162.1 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015.

Average non-interest bearing deposits decreased $30.0 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015, while average interest bearing deposits decreased $423.8 million. The decrease in total deposits from March 31, 2015 to March 31, 2016 reflected a $555.8 million reduction associated with our branch divestitures during the third quarter of 2015. Average borrowed funds increased $449.1 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015.

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Provision for Loan Losses

The provision for loan losses was $91 thousand for the three months ended March 31, 2016, compared to $1 thousand for the three months ended March 31, 2015. Net charge-offs totaled $1.6 million during the three months ended March 31, 2016, compared to net recoveries of $1.0 million during the three months ended March 31, 2015. Continued loan growth in future periods, increases in net charge-offs, or credit quality deterioration would result in additional provision expense.

Noninterest Income

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products, and insurance. Noninterest income for the three months ended March 31, 2016 was $49.5 million, a decrease of $5.8 million, or 11%, compared to $55.3 million for the three months ended March 31, 2015. The decrease was primarily due to lower debit card and ATM fees, net securities gains, and service charges on deposit accounts.

Wealth management fees decreased $0.4 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015 reflecting lower personal trust fees. Wealth management fees fluctuate in tandem with the fixed income and equities markets.

Service charges and overdraft fees were $9.6 million for the three months ended March 31, 2016, a $1.4 million decrease from $11.0 million for the three months ended March 31, 2015. This decrease is due, in part, to our divestiture of the southern Illinois region during the third quarter of 2015.

Debit card and ATM fees decreased $2.9 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015 as the Durbin Amendment, which limits interchange fees on debit card transactions for banks with $10 billion or more in assets, became effective for us on July 1, 2015. The Durbin Amendment negatively impacted debit card and ATM fees by approximately $2.7 million, pre-tax, in the three months ended March 31, 2016.

Insurance premiums and commissions increased $1.0 million to $13.1 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015 primarily due to higher commissions on property and casualty insurance and higher contingency income.

Net securities gains were $1.1 million for the three months ended March 31, 2016, compared to $2.7 million for the three months ended March 31, 2015.

Noninterest Income Related to Covered Assets

The FDIC has agreed to reimburse Old National for losses incurred on certain acquired loans, and we recorded an indemnification asset at fair value on the date that we acquired these loans. The indemnification asset, on the acquisition date, reflected the reimbursements expected to be received from the FDIC. Deterioration in the expected credit quality of both OREO and loans would increase the basis of the indemnification asset. The offset for both OREO and loans is recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the indemnification asset, with the decrease being amortized into income over the same period or the life of the loss share agreements, whichever is shorter.

Changes in the FDIC indemnification asset resulted in a negative adjustment to noninterest income of $0.7 million for the three months ended March 31, 2016, compared to a negative adjustment to noninterest income of $1.0 million for the three months ended March 31, 2015. Several large loans paid off during the last twelve months resulting in a large decrease in the indemnification asset, and higher amortization expense during the three months ended March 31, 2015. At March 31, 2016, $1.9 million of the remaining indemnification asset is expected to be amortized and reported as a reduction of noninterest income over the next six months.

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Old National has applied with the FDIC to terminate its loss sharing agreements. If agreed upon, the termination of the agreements would result in the elimination of the FDIC indemnification asset and all future gains and losses associated with the covered assets would then be recognized entirely by Old National since the FDIC would no longer be sharing in these gains and losses.

Noninterest Expense

Noninterest expense for the three months ended March 31, 2016 totaled $98.4 million, a decrease of $17.8 million, or 15%, from $116.2 million for the three months ended March 31, 2015. The decrease was primarily due to lower salaries and benefits, occupancy expenses, and equipment expenses. In addition, the three months ended March 31, 2015 included $2.6 million of costs associated with branch divestitures, closures and consolidations. Acquisition and integration costs totaling $1.5 million were included in the three months ended March 31, 2016, compared to $4.0 million in the three months ended March 31, 2015.

Salaries and benefits is the largest component of noninterest expense. For the three months ended March 31, 2016, salaries and benefits decreased $12.7 million to $57.0 million when compared to $69.7 million for the three months ended March 31, 2015. The decrease in salaries and benefits for the three months ended March 31, 2016 reflected fewer employees in 2016 and lower hospitalization expense of $1.4 million. Severance expense related to early retirement offers and other workforce reductions totaling $4.4 million were included in the three months ended March 31, 2015. In March 2016, we sent to participants and beneficiaries a Notice of Intent to Terminate the Employee Retirement Plan, which has been frozen since December 31, 2005. We expect to record an estimated settlement loss of approximately $11 million to $14 million in the fourth quarter of 2016.

Occupancy expenses decreased $1.4 million to $12.8 million for the three months ended March 31, 2016 when compared to the three ended March 31, 2015 primarily due to fewer branch offices in 2016.

Equipment expense decreased $1.0 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015 primarily due to lower depreciation expenses.

Data processing expense increased $0.5 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015 primarily due to higher expenses related to upgrades in software and equipment.

Other expense was $3.9 million for the three months ended March 31, 2016, compared to $5.4 million for the three months ended March 31, 2015. The three months ended March 31, 2015 included $1.9 million of costs associated with branch divestitures, closures, and consolidations primarily due to asset impairments and lease termination settlements. In addition, charitable contributions decreased $0.8 million for the three months ended March 31, 2016 when compared to the three months ended March 31, 2015.

Provision for Income Taxes

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 26.4% for the three months ended March 31, 2016, compared to 30.6% for the three months ended March 31, 2015. In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at March 31, 2016 based on the current estimate of the effective annual rate. The lower effective tax rate during the three months ended March 31, 2016 when compared to the three months

ended March 31, 2015 is the result of a decrease in the forecasted effective tax rate for 2016 as compared to 2015. In addition, in the first quarter of 2015, the valuation of the state deferred tax asset was reduced due to a change in state apportionment estimates related to the acquisition of Founders, resulting in a higher state income tax expense in 2015. See Note 17 to the consolidated financial statements for additional information.

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FINANCIAL CONDITION

Overview

At March 31, 2016, our assets were $11.932 billion, a $19.0 million decrease compared to assets of $11.950 billion at March 31, 2015, and a $59.2 million decrease compared to assets of $11.992 billion at December 31, 2015. The decrease from December 31, 2015 to March 31, 2016 was primarily due to decreases in investment securities and cash and cash equivalents, partially offset by loan growth.

Earning Assets

Our earning assets are comprised of investment securities, portfolio loans, loans held for sale, money market investments, interest earning accounts with the Federal Reserve, and trading securities. Earning assets were $10.359 billion at March 31, 2016, a $16.3 million increase compared to earning assets of $10.343 billion at March 31, 2015, and a $111.9 million decrease compared to earning assets of $10.471 billion at December 31, 2015.

Investment Securities

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we also have $14.6 million of 15- and 20-year fixed-rate mortgage-backed securities, $142.0 million of U.S. government-sponsored entity and agency securities, and $712.4 million of state and political subdivision securities in our held-to-maturity investment portfolio at March 31, 2016.

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 compared to $4.0 million at March 31, 2015.

At March 31, 2016, the investment securities portfolio was $3.307 billion compared to $3.461 billion at March 31, 2015, a decrease of $153.2 million, or 4%. Investment securities decreased $73.1 million, or 2%, compared to December 31, 2015. Investment securities represented 32% of earning assets at March 31, 2016, compared to 33% at March 31, 2015, and 32% at December 31, 2015. Investment securities also decreased as a percentage of total earning assets due to a proportionately larger increase in loan balances. Stronger commercial loan demand in the future and management s decision to deleverage the balance sheet could result in a reduction in the securities portfolio. As of March 31, 2016, Old National does not intend to sell any securities in an unrealized loss position and does not believe it will be required to sell such securities.

The investment securities available-for-sale portfolio had net unrealized gains of $10.9 million at March 31, 2016, compared to net unrealized gains of $14.3 million at March 31, 2015, and net unrealized losses of $5.8 million at December 31, 2015. Net unrealized gains (losses) improved from December 31, 2015 to March 31, 2016 due to a decline in interest rates and a change in the mix of investment securities.

The investment portfolio had an effective duration of 3.80 at March 31, 2016, compared to 3.74 at March 31, 2015, and 3.99 at December 31, 2015. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. Generally, there is more uncertainty in interest rates over a longer average maturity, resulting in a higher duration percentage. The annualized average yields on investment securities, on a taxable equivalent basis, were 2.95% for the three months ended March 31, 2016, compared to 2.74% for the three months ended March 31, 2015, and 2.87% for the three months ended December 31, 2015.

Loans Held for Sale

Loans held for sale were $22.5 million at March 31, 2016, compared to $210.5 million at March 31, 2015 and $13.8 million at December 31, 2015. Included in loans held for sale at March 31, 2016 were $22.5 million of mortgage loans held for immediate sale in the secondary market. Included in loans held for sale at March 31, 2015 were $186.2 million of loans identified to be sold in connection with the southern Illinois and eastern Indiana branch divestitures, and $24.3 million of mortgage loans held for immediate sale in the secondary market. The mortgage loans are sold at or prior to origination at a contracted price to an outside investor on a best efforts basis and remain

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on the Company s balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse and Old National has experienced no material losses. Mortgage originations are subject to volatility due to interest rates and home sales.

We have elected the fair value option under FASB ASC 825-10 (SFAS No. 159) for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balance by $0.6 million as of March 31, 2016 and March 31, 2015. The aggregate fair value exceeded the unpaid principal balance by $0.2 million as of December 31, 2015.

During the fourth quarter of 2014, $197.9 million of loans were reclassified to loans held for sale at the lower of cost or fair value. When the branch divestitures closed during the third quarter of 2015, these loans were valued at $193.6 million, resulting in a gain of $0.1 million. At March 31, 2016, there were no loans held for sale under this arrangement. See Note 3 to the consolidated financial statements for additional information.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans, including covered loans, are the largest classification within earning assets, representing 36% of earning assets at March 31, 2016, compared to 34% at March 31, 2015, and 35% at December 31, 2015. At March 31, 2016, commercial and commercial real estate loans, including covered loans, were $3.716 billion, an increase of $183.6 million, or 5%, compared to March 31, 2015, and an increase of $31.8 million, or 1%, compared to December 31, 2015.

Residential Real Estate Loans

At March 31, 2016, residential real estate loans, including covered loans, held in our loan portfolio were $1.650 billion, an increase of $4.4 million compared to March 31, 2015, and a decrease of $11.3 million compared to December 31, 2015.

Consumer Loans

At March 31, 2016, consumer loans, including automobile loans, personal and home equity loans and lines of credit, and covered loans, increased $166.6 million, or 11%, compared to March 31, 2015, and increased $38.2 million, or 2%, from December 31, 2015.

Covered Assets

On July 29, 2011, Old National acquired the banking operations of Integra in an FDIC assisted transaction. We entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and OREO. Loans comprise the majority of the assets acquired and are subject to loss share agreements with the FDIC whereby Old National is indemnified against 80% of losses up to $275.0 million, losses in excess of $275.0 million up to $467.2 million at 0% reimbursement, and 80% of losses in excess of $467.2 million with respect to covered assets. Our losses will not exceed $275.0 million.

Covered assets continue to decline as we work through these purchased credit impaired loans. Covered loans only represented 1% of total net loans at March 31, 2016. A summary of covered assets is presented below:

(dollars in thousands)	March 31, 2016	December 31, 2015
Loans, net of discount and allowance	**$ 94,559**	$ 106,650
Other real estate owned	**6,503**	4,904
Total covered assets	**$ 101,062**	$ 111,554

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FDIC Indemnification Asset

Because the FDIC will reimburse Old National for losses incurred on certain acquired loans, an indemnification asset was recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The indemnification asset, on the acquisition date, reflected the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. Reimbursement claims are submitted to the FDIC and the receivable is reduced when the FDIC pays the claim. At March 31, 2016, the $7.7 million loss sharing asset is comprised of a $6.2 million FDIC indemnification asset and a $1.5 million FDIC loss share receivable. The loss share receivable represents actual incurred losses where reimbursement has not yet been received from the FDIC. The indemnification asset represents future cash flows we expect to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that are being amortized over the same period for which those improved cash flows are being accreted into income. At March 31, 2016, $4.3 million of the FDIC indemnification asset is related to expected indemnification payments and $1.9 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income. We currently expect the majority of the $1.9 million to be amortized over the next six months.

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

(dollars in thousands)	**2016**	**2015**
Balance at January 1,	**$ 9,030**	$ 20,603
Adjustments not reflected in income:		
Cash received from the FDIC	**(877)**	
Other	**205**	389
Adjustments reflected in income:		
(Amortization) accretion	**(497)**	(1,986)
Higher (lower) loan loss expectations	**(33)**	
Impairment/(recovery) of value and net (gain)/loss on sales of other real estate	**(125)**	1,018
Balance at March 31,	**$ 7,703**	$ 20,024

Old National has applied with the FDIC to terminate its loss sharing agreements. If agreed upon, the termination of the agreements would result in the elimination of the FDIC indemnification asset and all future gains and losses associated with the covered assets would then be recognized entirely by Old National since the FDIC would no longer be sharing in these gains and losses.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at March 31, 2016 totaled $617.1 million, a decrease of $14.5 million compared to $631.6 million at March 31, 2015, and a decrease of $2.9 million compared to $619.9 million at December 31, 2015. The decrease in goodwill and other intangible assets from March 31, 2015 to March 31, 2016 was primarily due to amortization expense of other intangible assets during the twelve month period.

Other Assets

Other assets decreased $27.6 million, or 11%, since March 31, 2015 primarily due to a decrease in deferred federal income taxes, partially offset by higher investments in community development projects.

Funding

Total funding, comprised of deposits and wholesale borrowings, was $10.251 billion at March 31, 2016, a decrease of $10.0 million from $10.261 billion at March 31, 2015, and a decrease of $70.0 million from $10.321 billion at December 31, 2015. Included in total funding were deposits of $8.589 billion at March 31, 2016, a decrease of $338.6 million, or 4%, compared to March 31, 2015, and an increase of $188.0 million, or 2%, compared to December 31, 2015. The decrease in total deposits from March 31, 2015 to March 31, 2016 reflected a $555.8

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million reduction associated with our branch divestitures during the third quarter of 2015. Noninterest-bearing deposits decreased $62.0 million from March 31, 2015 to March 31, 2016. NOW deposits decreased $39.6 million from March 31, 2015 to March 31, 2016, while savings deposits decreased $113.2 million. Money market deposits decreased $75.7 million from March 31, 2015 to March 31, 2016, while time deposits decreased $48.2 million.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At March 31, 2016, wholesale borrowings, including short-term borrowings and other borrowings, totaled $1.662 billion, an increase of $328.6 million, or 25%, from March 31, 2015, and a decrease of $258.1 million, or 13%, from December 31, 2015. Wholesale funding as a percentage of total funding was 16% at March 31, 2016, 13% at March 31, 2015, and 19% at December 31, 2015. The increase in wholesale funding from March 31, 2015 to March 31, 2016 was primarily due to an increase in Federal Home Loan Bank advances, which is reported in other borrowings.

Subsequent to quarter end, the Company entered into a $75.0 million revolving line of credit agreement. The 364 day revolving loan has a variable rate of interest priced at the one-month LIBOR plus 200 basis points. Currently, $50.0 million is outstanding on the loan.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities decreased $34.3 million, or 17%, from March 31, 2015 primarily due to a reduction in deferred gains on sale leaseback transactions due to the termination of certain leases during the fourth quarter of 2015, and the timing of investment securities purchases.

Capital

Shareholders equity totaled $1.509 billion at March 31, 2016, compared to $1.483 billion at March 31, 2015 and $1.491 billion at December 31, 2015. We paid cash dividends of $0.13 per share for the three months ended March 31, 2016, which reduced equity by $14.9 million. The change in unrealized gains (losses) on investment securities increased equity by $10.6 million during the three months ended March 31, 2016. The change in unrealized gains (losses) on cash flow hedges decreased equity by $6.1 million during the three months ended March 31, 2016.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. Beginning in 2015, we are reflecting the new Basel III requirements in the tables below. At March 31, 2016, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition.

As of March 31, 2016, Old National s consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

	Fully Phased-In Regulatory Guidelines Minimum	March 31, 2016	March 31, 2015	December 31, 2015
Risk-based capital:				

Tier 1 capital to total average assets (leverage ratio)	4.00%	**8.63%**	8.29%	8.54%
Common equity Tier 1 capital to risk-adjusted total assets	7.00	**12.04**	11.54	12.11
Tier 1 capital to risk-adjusted total assets	8.50	**12.52**	11.95	12.55
Total capital to risk-adjusted total assets	10.50	**13.22**	12.61	13.28
Shareholders equity to assets	N/A	**12.64**	12.41	12.44

N/A = not applicable

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As of March 31, 2016, Old National Bank, Old National s bank subsidiary, maintained a strong capital position as evidenced by the following comparisons of key industry ratios.

	Fully Phased-In Regulatory Guidelines Minimum	Well Capitalized Guidelines	March 31, 2016	March 31, 2015	December 31, 2015
Risk-based capital:					
Tier 1 capital to total average assets (leverage ratio)	4.00%	5.00%	**9.34%**	8.53%	9.11%
Common equity Tier 1 capital to risk-adjusted total assets	7.00	6.50	**13.54**	12.25	13.38
Tier 1 capital to risk-adjusted total assets	8.50	8.00	**13.54**	12.25	13.38
Total capital to risk-adjusted total assets	10.50	10.00	**14.25**	12.88	14.11

RISK MANAGEMENT

Overview

Old National has adopted a Risk Appetite Statement to enable the Board of Directors, Executive Leadership Group, and Senior Management to better assess, understand, and mitigate the risks of the Company. The Risk Appetite Statement addresses the following major risks: strategic, market, liquidity, credit, operational/technology, regulatory/compliance/legal, reputational, and human resources. Our Chief Risk Officer is independent of management and reports directly to the Chair of the Board s Enterprise Risk Management Committee. The following discussion addresses three of these major risks: credit, market, and liquidity.

Credit Risk

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

Investment Activities

We carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At March 31, 2016, we had pooled trust preferred securities with a fair value of $8.0 million, or less than 1% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and at March 31, 2016, the unrealized loss on our pooled trust preferred securities was approximately $9.2 million. The fair value of these securities continues to improve as we get closer to maturity. There was no other-than-temporary-impairment recorded during the three months ended March 31, 2016 or 2015.

All of our mortgage-backed securities are backed by U.S. government-sponsored or federal agencies. Municipal bonds, corporate bonds, and other debt securities are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. See Note 6 to the consolidated financial statements for additional details about our investment security portfolio.

Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National manages exposure to counterparty risk in connection with its derivatives transactions by generally engaging in transactions with counterparties having ratings of at least A by Standard & Poor s Rating Service or A2 by Moody s Investors Service. Total credit exposure is monitored by counterparty, and managed within limits that management believes to be prudent. Old National s net counterparty exposure was an asset of $410.6 million at March 31, 2016.

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Lending Activities

Commercial

Commercial and industrial loans are made primarily for the purpose of financing equipment acquisition, expansion, working capital, and other general business purposes. Lease financing consists of direct financing leases and are used by commercial customers to finance capital purchases ranging from computer equipment to transportation equipment. The credit decisions for these transactions are based upon an assessment of the overall financial capacity of the applicant. A determination is made as to the applicant s ability to repay in accordance with the proposed terms as well as an overall assessment of the risks involved. In addition to an evaluation of the applicant s financial condition, a determination is made of the probable adequacy of the primary and secondary sources of repayment, such as additional collateral or personal guarantees, to be relied upon in the transaction. Credit agency reports of the applicant s credit history supplement the analysis of the applicant s creditworthiness.

Commercial mortgages and construction loans are offered to real estate investors, developers, and builders primarily domiciled in the geographic market areas we serve: Indiana, Kentucky, and Michigan. These loans are secured by first mortgages on real estate at loan-to-value (LTV) margins deemed appropriate for the property type, quality, location, and sponsorship. Generally, these LTV ratios do not exceed 80%. The commercial properties are predominantly non-residential properties such as retail centers, apartments, industrial properties and, to a lesser extent, more specialized properties. Substantially all of our commercial real estate loans are secured by properties located in our primary market area.

In the underwriting of our commercial real estate loans, we obtain appraisals for the underlying properties. Decisions to lend are based on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we primarily emphasize the ratio of the property s projected net cash flows to the loan s debt service requirement. The debt service coverage ratio normally is not less than 120% and it is computed after deduction for a vacancy factor and property expenses as appropriate. In addition, a personal guarantee of the loan or a portion thereof is often required from the principal(s) of the borrower. We require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required.

Construction loans are underwritten against projected cash flows derived from rental income, business income from an owner-occupant, or the sale of the property to an end-user. We may mitigate the risks associated with these types of loans by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements.

Consumer

We offer a variety of first mortgage and junior lien loans to consumers within our markets, with residential home mortgages comprising our largest consumer loan category. These loans are secured by a primary residence and are underwritten using traditional underwriting systems to assess the credit risks of the consumer. Decisions are primarily based on LTV ratios, debt-to-income (DTI) ratios, liquidity, and credit scores. A maximum LTV ratio of 80% is generally required, although higher levels are permitted with mortgage insurance or other mitigating factors. We offer fixed rate mortgages and variable rate mortgages with interest rates that are subject to change every year after the first, third, fifth, or seventh year, depending on the product and are based on fully-indexed rates such as the Prime Rate. We do not offer interest-only loans, payment-option facilities, sub-prime loans, or any product with negative amortization.

Home equity loans are secured primarily by second mortgages on residential property of the borrower. The underwriting terms for the home equity product generally permits borrowing availability, in the aggregate, up to 90% of the appraised value of the collateral property at the time of origination. We offer fixed and variable rate home equity loans, with variable rate loans underwritten at fully-indexed rates. Decisions are primarily based on LTV ratios, DTI ratios, liquidity, and credit scores. We do not offer home equity loan products with reduced documentation.

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Automobile loans include loans and leases secured by new or used automobiles. We originate automobile loans and leases primarily on an indirect basis through selected dealerships. We require borrowers to maintain collision insurance on automobiles securing consumer loans, with us listed as loss payee. Our procedures for underwriting automobile loans include an assessment of an applicant s overall financial capacity, including credit history and the ability to meet existing obligations and payments on the proposed loan. Although an applicant s creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount.

Asset Quality

Community-based lending personnel, along with region-based independent underwriting and analytic support staff, extend credit under guidelines established and administered by our Enterprise Risk Committee. This committee, which meets quarterly, is made up of outside directors. The committee monitors credit quality through its review of information such as delinquencies, credit exposures, peer comparisons, problem loans, and charge-offs. In addition, the committee reviews and approves recommended loan policy changes to assure it remains appropriate for the current lending environment.

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling, and retailing. At March 31, 2016, we had no concentration of loans in any single industry exceeding 10% of our portfolio and had no exposure to foreign borrowers or sovereign debt. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Kentucky, and Michigan. We are experiencing a slow and gradual improvement in the economy of our principal markets. Management expects that trends in under-performing, criticized, and classified loans will be influenced by the degree to which the economy strengthens or weakens.

During the third quarter of 2011, Old National acquired the banking operations of Integra Bank in an FDIC assisted transaction. As of March 31, 2016, acquired loans totaled $112.1 million and there was $6.5 million of other real estate owned. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. At March 31, 2016, approximately $95.4 million of loans and $6.5 million of other real estate owned are covered by the loss sharing agreements. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to $275.0 million. Our losses will not exceed $275.0 million. These covered assets are included in our summary of under-performing, criticized, and classified assets found below.

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Summary of under-performing, criticized, and classified assets:

(dollars in thousands)	March 31, 2016	March 31, 2015	December 31, 2015
Nonaccrual loans:			
Commercial	**$ 49,666**	$ 51,683	$ 57,536
Commercial real estate	**43,690**	71,398	47,350
Residential real estate	**14,215**	14,422	14,953
Consumer	**4,431**	5,846	5,198
Covered loans (1)	**5,864**	12,543	7,336
Total nonaccrual loans (2)	**117,866**	155,892	132,373
Renegotiated loans not on nonaccrual:			
Noncovered loans	**14,022**	12,376	14,147
Covered loans (1)	**133**	144	138
Past due loans (90 days or more and still accruing):			
Commercial			565
Commercial real estate	**80**		
Residential real estate	**150**		114
Consumer	**127**	127	227
Covered loans (1)		15	10
Total past due loans	**357**	142	916
Other real estate owned	**7,019**	8,482	7,594
Other real estate owned, covered (1)	**6,503**	7,084	4,904
Total under-performing assets	**$ 145,900**	$ 184,120	$ 160,072
Classified loans (includes nonaccrual, renegotiated, past due 90 days, and other problem loans)	**$ 193,261**	$ 239,026	$ 204,710
Classified loans, covered (1)	**7,036**	14,211	8,584
Other classified assets (3)	**6,566**	14,816	6,857
Criticized loans	**130,948**	183,930	132,898
Criticized loans, covered (1)	**1,527**	6,059	1,449
Total criticized and classified assets	**$ 339,338**	$ 458,042	$ 354,498
Asset Quality Ratios including covered assets:			
Non-performing loans/total loans (4) (5)	**1.88%**	2.53%	2.11%
Under-performing assets/total loans and other real estate owned (4)	**2.08**	2.76	2.30
Under-performing assets/total assets	**1.22**	1.54	1.33
Allowance for loan losses/under-performing assets (6)	**34.75**	26.55	32.63
Allowance for loan losses/nonaccrual loans (2)	**43.01**	31.35	39.46

(1) The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans and other real estate owned. At March 31, 2016, we expect 80% of any losses incurred on these covered assets to be reimbursed to Old National by the FDIC.
(2) Includes purchased credit impaired loans of approximately $11.8 million at March 31, 2016, $38.2 million at March 31, 2015, and $15.9 million at December 31, 2015 that are categorized as nonaccrual because the collection of principal or interest is doubtful. These loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.
(3) Includes 2 pooled trust preferred securities, 2 corporate securities, and 1 insurance policy at March 31, 2016.
(4) Loans exclude loans held for sale.
(5) Non-performing loans include nonaccrual and renegotiated loans.
(6) Because the acquired loans were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date.

Under-performing assets totaled $145.9 million at March 31, 2016, compared to $184.1 million at March 31, 2015 and $160.1 million at December 31, 2015. Under-performing assets as a percentage of total loans and other real estate owned at March 31, 2016 were 2.08%, a decrease of 68 basis points from 2.76% at March 31, 2015 and a decrease of 22 basis points from 2.30% at December 31, 2015. At March 31, 2016, under-performing assets related to covered assets acquired in the Integra Bank acquisition were approximately $12.5 million, which included $5.9 million of nonaccrual loans, $0.1 million of renegotiated loans, and $6.5 million of other real estate owned. The nonaccrual covered loans are categorized in this manner because the collection of principal or interest is doubtful. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

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Nonaccrual loans were $117.9 million at March 31, 2016, compared to $155.9 million at March 31, 2015 and $132.4 million at December 31, 2015. Nonaccrual loans decreased from March 31, 2015 primarily due to decreases in nonaccrual commercial real estate loans and acquired covered nonaccrual loans. As a percentage of nonaccrual loans, the allowance for loan losses was 43.01% at March 31, 2016, compared to 31.35% at March 31, 2015 and 39.46% at December 31, 2015. Purchased credit impaired loans that were included in the nonaccrual category because the collection of principal or interest is doubtful totaled $11.8 million at March 31, 2016, compared to $38.2 million at March 31, 2015 and $15.9 million at December 31, 2015. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets. We would expect our nonaccrual loans to remain at elevated levels until management can work through and resolve these purchased credit impaired loans.

Total criticized and classified assets were $339.3 million at March 31, 2016, a decrease of $118.7 million from March 31, 2015, and a decrease of $15.2 million from December 31, 2015. Other classified assets include investment securities that fell below investment grade rating totaling $6.6 million at March 31, 2016, compared to $14.8 million at March 31, 2015 and $6.9 million at December 31, 2015.

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

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

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

If we are unable to resolve a nonperforming loan issue, the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based on quantitative benchmarks or subjectively based upon certain events or particular circumstances. Old National charges off small commercial loans scored through our small business credit center with contractual balances under $250,000 that have been placed on nonaccrual status or became 90 days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

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

When a residential or consumer loan is identified as a troubled debt restructuring, the loan is written down to its collateral value less selling costs.

At March 31, 2016, our TDRs consisted of $20.5 million of commercial loans, $23.0 million of commercial real estate loans, $2.5 million of residential loans, and $3.7 million of consumer loans totaling $49.7 million. Approximately $35.7 million of the TDRs at March 31, 2016 were included with nonaccrual loans. At December 31, 2015, our TDRs consisted of $23.4 million of commercial loans, $14.6 million of commercial real estate loans, $2.7 million of residential loans, and $3.6 million of consumer loans totaling $44.3 million. Approximately $30.0 million of the TDRs at December 31, 2015 were included with nonaccrual loans.

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Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling $4.4 million as of March 31, 2016 and $2.3 million of December 31, 2015. As of March 31, 2016, Old National had committed to lend an additional $2.8 million to customers with outstanding loans that are classified as TDRs.

The terms of certain other loans were modified during 2015 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral, or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

Purchased credit impaired (PCI) loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool. As of March 31, 2016, it has not been necessary to remove any loans from PCI accounting.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR, and therefore impaired, until it is paid in full, otherwise settled, sold, or charged off. However, recent guidance also permits for loans to be removed from TDR status when subsequently restructured under these circumstances: (1) at the time of the subsequent restructuring, the borrower is not experiencing financial difficulties, and this is documented by a current credit evaluation at the time of the restructuring, (2) under the terms of the subsequent restructuring agreement, the institution has granted no concession to the borrower; and (3) the subsequent restructuring agreement includes market terms that are no less favorable than those that would be offered for a comparable new loan. For loans subsequently restructured that have cumulative principal forgiveness, the loan should continue to be measured in accordance with ASC 310-10, Receivables Overall . However, consistent with ASC 310-40-50-2, Troubled Debt Restructurings by Creditors, Creditor Disclosure of Troubled Debt Restructurings, the loan would not be required to be reported in the years following the restructuring if the subsequent restructuring meets both of these criteria: (1) has an interest rate at the time of the subsequent restructuring that is not less than a market interest rate; and (2) is performing in compliance with its modified terms after the subsequent restructuring.

Allowance for Loan Losses and Reserve for Unfunded Commitments

Loan charge-offs, net of recoveries, totaled $1.6 million for the three months ended March 31, 2016, compared to $(1.0) million for the three months ended March 31, 2015. Annualized, net charge-offs (recoveries) to average loans were 0.09% for the three months ended March 31, 2016 compared to (0.06)% for the three months ended March 31, 2015. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses incurred in the consolidated loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, assessments of the impact of current and anticipated

economic conditions on the portfolio, and historical loss experience.

At March 31, 2016, the allowance for loan losses was $50.7 million, an increase of $1.8 million compared to $48.9 million at March 31, 2015, and a decrease of $1.5 million compared to $52.2 million at December 31, 2015. The decrease in the allowance for loan losses from December 31, 2015 to March 31, 2016 was primarily due to an improvement in commercial loan loss rates, partially offset by higher commercial loan volume. Over the last twelve

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months, charge-offs have remained low. Continued loan growth in future periods could result in an increase in provision expense. As a percentage of total loans excluding loans held for sale, the allowance was 0.72% at March 31, 2016, compared to 0.73% at March 31, 2015, and 0.75% at December 31, 2015.

Because the acquired loans were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. We would expect that as the fair value mark is accreted into income over future periods, a reserve will be established to absorb credit deterioration or adverse changes in expected cash flows. At March 31, 2016, $1.5 million had been reserved for these purchased credits.

The following table provides additional details of the following components of the allowance for loan losses at March 31, 2016, including FAS 5/ASC 450 (Accounting for Contingencies), FAS 114/ASC 310-40 (Accounting by Creditors for Impairment of a Loan) and SOP 03-3/ASC 310-30 (Accounting for Certain Loans or Debt Securities Acquired in a Transfer):

			Purchased Loans					
	Legacy		Covered			Non-covered		
(dollars in thousands)	FAS 5	FAS 114	FAS 5	FAS 114	SOP 03-3	FAS 5	FAS 114	SOP 03-3
Loan balance	$ 5,801,245	$ 60,753	$ 52,313	$ 3,927	$ 39,163	$ 991,554	$ 29,364	$ 28,755
Remaining purchase discount			1,957		12,038	48,515	8,501	23,908
Allowance, January 1, 2016	$ 39,300	$ 10,961	$ 86	$ 355	$ 496	$	$ 172	$ 863
Charge-offs	(1,198)	(1,480)	(70)		(253)	(834)	(8)	(99)
Recoveries	205	1,332	19	25	126	201	159	251
Provision expense	822	(733)	44	(148)	164	633	(151)	(540)
Allowance, March 31, 2016	$ 39,129	$ 10,080	$ 79	$ 232	$ 533	$	$ 172	$ 475

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. The reserve for unfunded loan commitments is classified as a liability account on the balance sheet and totaled $4.0 million at March 31, 2016, compared to $3.6 million at December 31, 2015.

Market Risk

Market risk is the risk that the estimated fair value of our assets, liabilities, and derivative financial instruments will decline as a result of changes in interest rates or financial market volatility, or that our net income will be significantly reduced by interest rate changes.

The objective of our interest rate management process is to maximize net interest income while operating within acceptable limits established for interest rate risk and maintaining adequate levels of funding and liquidity.

Potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Our earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Federal Reserve Board.

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In managing interest rate risk, we, through the Funds Management Committee, a committee of the Board of Directors, establish guidelines, for asset and liability management, including measurement of short and long-term sensitivities to changes in interest rates. Based on the results of our analysis, we may use different techniques to manage changing trends in interest rates including:

- adjusting balance sheet mix or altering interest rate characteristics of assets and liabilities;
- changing product pricing strategies;
- modifying characteristics of the investment securities portfolio; or
- using derivative financial instruments, to a limited degree.

A key element in our ongoing process is to measure and monitor interest rate risk using a model to quantify the impact of changing interest rates on the Company. The model quantifies the effects of various possible interest rate scenarios on projected net interest income. The model measures the impact on net interest income relative to a base case scenario. The base case scenario assumes that the balance sheet and interest rates are held at current levels. The model shows our projected net interest income sensitivity based on interest rate changes only and does not consider other forecast assumptions.

The following table illustrates our projected net interest income sensitivity over a two year cumulative horizon based on the asset/liability model as of March 31, 2016 and 2015:

	Immediate Rate Decrease		Immediate Rate Increase		
(dollars in thousands)	-50 Basis Points	Base	+100 Basis Points	+200 Basis Points	+300 Basis Points
March 31, 2016					
Projected interest income:					
Money market, other interest earning investments, and investment securities	**$ 196,212**	**$ 208,192**	**$ 222,453**	**$ 235,244**	**$ 246,844**
Loans	**476,697**	**509,871**	**577,215**	**642,914**	**707,455**
Total interest income	**672,909**	**718,063**	**799,668**	**878,158**	**954,299**
Projected interest expense:					
Deposits	**15,642**	**26,937**	**73,952**	**120,967**	**167,983**
Borrowings	**48,115**	**55,219**	**72,957**	**90,696**	**108,434**
Total interest expense	**63,757**	**82,156**	**146,909**	**211,663**	**276,417**

Net interest income	**$ 609,152**	**$ 635,907**	**$ 652,759**	**$ 666,495**	**$ 677,882**
Change from base	**$ (26,755)**		**$ 16,852**	**$ 30,588**	**$ 41,975**
% change from base	**-4.21%**		**2.65%**	**4.81%**	**6.60%**
March 31, 2015					
Projected interest income:					
Money market, other interest earning investments, and investment securities	$ 193,543	$ 205,178	$ 222,373	$ 236,233	$ 248,342
Loans	483,103	502,821	566,544	629,952	692,094
Total interest income	676,646	707,999	788,917	866,185	940,436
Projected interest expense:					
Deposits	19,739	30,510	80,913	131,317	181,720
Borrowings	41,948	44,220	55,943	67,667	79,390
Total interest expense	61,687	74,730	136,856	198,984	261,110
Net interest income	$ 614,959	$ 633,269	$ 652,061	$ 667,201	$ 679,326
Change from base	$ (18,310)		$ 18,792	$ 33,932	$ 46,057
% change from base	-2.89%		2.97%	5.36%	7.27%

Our asset sensitivity decreased marginally year over year primarily due to changes in our balance sheet mix resulting from the Founders acquisition in January 2015, as well as branch divestitures in August 2015. Our asset sensitivity also decreased year over year due to a greater reliance on wholesale funding to fund the branch divestitures and a generally lower level of other core deposits. We use derivative instruments to mitigate interest rate risk, including certain cash flow hedges on variable-rate debt with a notional amount of $725 million at March 31, 2016.

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A key element in the measurement and modeling of interest rate risk is the re-pricing assumptions of our transaction deposit accounts, which have no contractual maturity dates. We assume this deposit base is comprised of both core and more volatile balances and consists of both non-interest bearing and interest bearing accounts. Core deposit balances are assumed to be less interest rate sensitive and provide longer term funding. Volatile balances are assumed to be more interest rate sensitive and shorter in term. As part of our semi-static balance sheet modeling, we assume interest rates paid on the volatile deposits move in conjunction with changes in interest rates, in order to retain these deposits. This may include current non-interest bearing accounts.

Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect our net interest income, we recognize that model outputs are not guarantees of actual results. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand our overall sensitivity to market interest rate changes, including shocks, yield curve flattening, yield curve steepening, as well as forecasts of likely interest rate scenarios. As of March 31, 2016, our projected net interest income sensitivity based on the asset/liability models we utilize was within the limits of the Company s interest rate risk policy for the scenarios tested.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. We also provide derivatives to our commercial customers in connection with managing interest rate risk. Our derivatives had an estimated fair value loss of $19.7 million at March 31, 2016, compared to an estimated fair value loss of $11.0 million at December 31, 2015. See Note 18 to the consolidated financial statements for further discussion of derivative financial instruments.

Liquidity Risk

Liquidity risk arises from the possibility that we may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. The Funds Management Committee of the Board of Directors establishes liquidity risk guidelines and, along with the Balance Sheet Management Committee, monitors liquidity risk. The objective of liquidity management is to ensure we have the ability to fund balance sheet growth and meet deposit and debt obligations in a timely and cost-effective manner. Management monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts. We maintain strategic and contingency liquidity plans to ensure sufficient available funding to satisfy requirements for balance sheet growth, properly manage capital markets funding sources and to address unexpected liquidity requirements.

Loan repayments and maturing investment securities are a relatively predictable source of funds. However, deposit flows, calls of investment securities and prepayments of loans and mortgage-related securities are strongly influenced by interest rates, the housing market, general and local economic conditions, and competition in the marketplace. We continually monitor marketplace trends to identify patterns that might improve the predictability of the timing of deposit flows or asset prepayments.

A time deposit maturity schedule for Old National Bank is shown in the following table for March 31, 2016.

(dollars in thousands)

Maturity Bucket	Amount	Rate
2016	$ 488,840	1.08%
2017	298,524	0.65
2018	125,699	1.08

2019	66,225	1.44
2020	73,242	1.80
2021 and beyond	33,317	1.31
Total	$ 1,085,847	1.04%

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Our ability to acquire funding at competitive prices is influenced by rating agencies views of our credit quality, liquidity, capital, and earnings. All of the rating agencies place us in an investment grade that indicates a low risk of default. For both Old National and Old National Bank:

Moody s Investor Service confirmed the Long-Term Rating of A3 of Old National Bancorp s senior unsecured/issuer rating on May 2, 2016.

Moody s Investor Service confirmed Old National Bank s long-term deposit rating of Aa3 on May 2, 2016. The bank s short-term deposit rating was affirmed at P-1 and the bank s issuer rating was confirmed at A3.

The rating outlook from Moody s Investor Service is now stable. The rating actions on May 2, 2016 conclude the rating review initiated by Moody s Investor Service on January 14, 2016.

The credit ratings of Old National and Old National Bank at March 31, 2016, are shown in the following table.

	Moody s Investor Service	
	Long-term	**Short-term**
Old National Bancorp	A3	N/A
Old National Bank	Aa3	P-1

N/A = not applicable

Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposit and short-term and medium-term bank notes as well. As of March 31, 2016, Old National Bancorp and its subsidiaries had the following availability of liquid funds and borrowings:

(dollars in thousands)	Parent Company	Subsidiaries
Available liquid funds:		
Cash and due from banks	$ 25,444	$ 150,114
Unencumbered government-issued debt securities		1,000,971
Unencumbered investment grade municipal securities		465,972
Unencumbered corporate securities		87,082
Availability of borrowings:		
Amount available from Federal Reserve discount window*		455,304
Amount available from Federal Home Loan Bank Indianapolis*		547,779
Total available funds	$ 25,444	$ 2,707,222

* Based on collateral pledged

The Parent Company (Old National Bancorp) has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows, and funds used for acquisitions. The Parent Company can obtain funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit, and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt and equity markets. At March 31, 2016, the Parent Company s other borrowings outstanding were $214.4 million.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. Prior regulatory approval to pay dividends was not required in 2015 or 2016 and is not currently required.

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OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.770 billion and standby letters of credit of $59.2 million at March 31, 2016. At March 31, 2016, approximately $1.686 billion of the loan commitments had fixed rates and $84.0 million had floating rates, with the floating rates ranging from 0% to 25%. At December 31, 2015, loan commitments were $1.746 billion and standby letters of credit were $62.6 million. The term of these off-balance sheet arrangements is typically one year or less.

Old National entered into a risk participation in an interest rate swap during the second quarter of 2007, which had a notional amount of $7.2 million at March 31, 2016. Old National entered into an additional risk participation in an interest rate swap during the third quarter of 2014, which had a notional amount of $11.4 million at March 31, 2016.

CONTRACTUAL OBLIGATIONS

The following table presents our significant fixed and determinable contractual obligations at March 31, 2016:

	Payments Due In				
(dollars in thousands)	One Year or Less (1)	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without stated maturity	$ 7,503,048	$	$	$	$ 7,503,048
IRAs, consumer, and brokered certificates of deposit	488,840	424,223	139,468	33,316	1,085,847
Short-term borrowings	494,380				494,380
Other borrowings	417,338	291,052	52,958	406,463	1,167,811
Fixed interest payments (2)	12,150	27,477	23,700	54,201	117,528
Operating leases	21,334	55,242	51,511	209,897	337,984
Other long-term liabilities (3)	29				29

(1) For the remaining nine months of fiscal 2016.
(2) Our senior notes, subordinated notes, certain trust preferred securities, and certain Federal Home Loan Bank advances have fixed-rates ranging from 0.56% to 6.76%. All of our other long-term debt is at LIBOR based variable-rates at March 31, 2016. The projected variable interest assumes no increase in LIBOR rates from March 31, 2016.
(3) Amount expected to be contributed to the pension plans in 2016. Amounts for 2017 and beyond are unknown at this time.

We rent certain premises and equipment under operating leases. See Note 19 to the consolidated financial statements for additional information on long-term lease arrangements.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the

table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 18 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 19 to the consolidated financial statements.

In addition, liabilities recorded under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities recorded under FASB ASC 740-10 is included in Note 14 to the consolidated financial statements of our Annual Report on Form 10-K for the year ended December 31, 2015.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our accounting policies are described in Note 1 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015. Certain accounting policies require management to use significant judgment and estimates, which can have a material impact on the carrying value of certain assets and liabilities. We consider these policies to be critical accounting policies. The judgment and assumptions made are based upon historical experience or other factors that management believes to be reasonable under the circumstances. Because of the nature of the judgment and assumptions, actual results could differ from estimates, which could have a material effect on our financial condition and results of operations.

The following accounting policies materially affect our reported earnings and financial condition and require significant judgments and estimates. Management has reviewed these critical accounting estimates and related disclosures with our Audit Committee.

Goodwill and Intangibles

Description. For acquisitions, we are required to record the assets acquired, including identified intangible assets, and the liabilities assumed at their fair value. These often involve estimates based on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analyses or other valuation techniques that may include estimates of attrition, inflation, asset growth rates, or other relevant factors. In addition, the determination of the useful lives over which an intangible asset will be amortized is subjective. Under FASB ASC 350 (SFAS No. 142 *Goodwill and Other Intangible Assets*), goodwill and indefinite-lived assets recorded must be reviewed for impairment on an annual basis, as well as on an interim basis if events or changes indicate that the asset might be impaired. An impairment loss must be recognized for any excess of carrying value over fair value of the goodwill or the indefinite-lived intangible asset.

Judgments and Uncertainties. The determination of fair values is based on valuations using management s assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors.

Effect if Actual Results Differ From Assumptions. Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying values of goodwill or intangible assets and could result in impairment losses affecting our financials as a whole and the individual lines of business in which the goodwill or intangibles reside.

Acquired Impaired Loans

Description. Loans acquired with evidence of credit deterioration since inception and for which it is probable that all contractual payments will not be received are accounted for under ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (ASC 310-30). These loans are recorded at fair value at the time of acquisition, with no carryover of the related allowance for loan losses. Fair value of acquired loans is determined using a discounted cash flow methodology based on assumptions about the amount and timing of principal and interest payments, principal prepayments and principal defaults

and losses, and current market rates. In recording the acquisition date fair values of acquired impaired loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans).

Over the life of the acquired loans, we continue to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. We evaluate at each balance sheet date whether the present value of our pools of loans determined using the effective interest rates has decreased significantly and if so, recognize a provision for loan loss in our consolidated statement of income. For any significant increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the pool s remaining life.

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Judgments and Uncertainties. These cash flow evaluations are inherently subjective as they require management to make estimates about expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change.

Effect if Actual Results Differ From Assumptions. Changes in these factors, as well as changing economic conditions will likely impact the carrying value of these acquired loans as well as the carrying value of any associated indemnification assets, as the FDIC will reimburse us for losses incurred on certain acquired loans, but the shared-loss agreements will not fully offset the financial effects of such a situation.

Allowance for Loan Losses

Description. The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses in the consolidated loan portfolio. Management s evaluation of the adequacy of the allowance is an estimate based on reviews of individual loans, pools of homogeneous loans, assessments of the impact of current and anticipated economic conditions on the portfolio, and historical loss experience. The allowance represents management s best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

The allowance is increased through a provision charged to operating expense. Uncollectible loans are charged-off through the allowance. Recoveries of loans previously charged-off are added to the allowance. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. Our policy for recognizing income on impaired loans is to accrue interest unless a loan is placed on nonaccrual status. A loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. We monitor the quality of our loan portfolio on an on-going basis and use a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining the allowance for loan losses. We record provisions for loan losses based on current loans outstanding, grade changes, mix of loans, and expected losses. A detailed loan loss evaluation on an individual loan basis for our highest risk loans is performed quarterly. Management follows the progress of the economy and how it might affect our borrowers in both the near and the intermediate term. We have a formalized and disciplined independent loan review program to evaluate loan administration, credit quality, and compliance with corporate loan standards. This program includes periodic reviews and regular reviews of problem loan reports, delinquencies and charge-offs.

Judgments and Uncertainties. We utilize a probability of default (PD)/loss given default (LGD) model as a tool to determine the adequacy of the allowance for loan losses for performing commercial and commercial real estate loans. The PD is forecast using a transition matrix to determine the likelihood of a customer s asset quality rating (AQR) migrating from its current AQR to any other status within the time horizon. Transition rates are measured using Old National s own historical experience. The model assumes that recent historical transition rates will continue into the future. The LGD is defined as credit loss incurred when an obligor of the bank defaults. The sum of all net charge-offs for a particular portfolio segment are divided by all loans that have defaulted over a given period of time. The expected loss derived from the model considers the PD,

LGD, and exposure at default. Additionally, qualitative factors, such as changes in lending policies or procedures, and economic business conditions are also considered.

We use historic loss ratios adjusted for economic conditions to determine the appropriate level of allowance for residential real estate and consumer loans.

Effect if Actual Results Differ From Assumptions. The allowance represents management s best estimate, but significant downturns in circumstances relating to loan quality and economic conditions could result in a requirement for additional allowance. Likewise, an upturn in loan quality and improved economic conditions may allow a reduction in the required allowance. In either instance, unanticipated changes could have a significant impact on results of operations.

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Management s analysis of probable losses in the portfolio at March 31, 2016, resulted in a range for allowance for loan losses of $13.7 million. The range pertains to general (FASB ASC 310, Receivables/SFAS 5) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, Receivables/SFAS 114) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy and our projection of FAS 5 loss rates inherent in the portfolio, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of $1.8 million and an increase of $7.2 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and are not intended to represent actual results.

Derivative Financial Instruments

Description. As part of our overall interest rate risk management, we use derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by FASB ASC 815 (SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*) (ASC Topic 815), changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. Management believes hedge effectiveness is evaluated properly in preparation of the financial statements. All of the derivative financial instruments we use have an active market and indications of fair value can be readily obtained. We are not using the short-cut method of accounting for any fair value derivatives.

Judgments and Uncertainties. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items.

Effect if Actual Results Differ From Assumptions. To the extent hedging relationships are found to be effective, as determined by ASC Topic 815, changes in fair value of the derivatives are offset by changes in the fair value of the related hedged item or recorded to other comprehensive income. However, if in the future the derivative financial instruments used by us no longer qualify for hedge accounting treatment, all changes in fair value of the derivative would flow through the consolidated statements of income in other noninterest income, resulting in greater volatility in our earnings.

Income Taxes

Description. We are subject to the income tax laws of the U.S., its states, and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. FASB ASC 740-10 (FIN 48) prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 14 to the consolidated financial statements of our Annual

Report on Form 10-K for the year ended December 31, 2015 for a further description of our provision and related income tax assets and liabilities.

Judgments and Uncertainties. In establishing a provision for income tax expense, we must make judgments and interpretations about the application of these inherently complex tax laws. We must also make estimates about when in the future certain items will affect taxable income in the various tax jurisdictions. Disputes over interpretations of the tax laws may be subject to review/adjudication by the court systems of the various tax jurisdictions or may be settled with the taxing authority upon examination or audit.

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Effect if Actual Results Differ From Assumptions. Although management believes that the judgments and estimates used are reasonable, actual results could differ and we may be exposed to losses or gains that could be material. To the extent we prevail in matters for which reserves have been established, or are required to pay amounts in excess of our reserves, our effective income tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement would result in an increase in our effective income tax rate in the period of resolution. A favorable tax settlement would result in a reduction in our effective income tax rate in the period of resolution.

Valuation of Securities

Description. The fair value of our securities is determined with reference to price estimates. In the absence of observable market inputs related to items such as cash flow assumptions or adjustments to market rates, management judgment is used. Different judgments and assumptions used in pricing could result in different estimates of value.

When the fair value of a security is less than its amortized cost for an extended period, we consider whether there is an other-than-temporary impairment in the value of the security. If, in management s judgment, an other-than-temporary impairment exists, the portion of the loss in value attributable to credit quality is transferred from accumulated other comprehensive loss as an immediate reduction of current earnings and the cost basis of the security is written down by this amount.

We consider the following factors when determining an other-than-temporary impairment for a security or investment:

The length of time and the extent to which the fair value has been less than amortized cost;

The financial condition and near-term prospects of the issuer;

The underlying fundamentals of the relevant market and the outlook for such market for the near future;

Our intent to sell the debt security or whether it is more likely than not that we will be required to sell the debt security before its anticipated recovery; and

When applicable for purchased beneficial interests, the estimated cash flows of the securities are assessed for adverse changes.

Quarterly, securities are evaluated for other-than-temporary impairment in accordance with FASB ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), and FASB ASC 325-10 (Emerging Issues Task Force No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets*) and FASB ASC 320-10 (FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). An impairment that is an other-than-temporary impairment is a decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment. Other-than-temporary impairments result in

reducing the security s carrying value by the amount of credit loss. The credit component of the other-than-temporary impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income.

Judgments and Uncertainties. The determination of other-than-temporary impairment is a subjective process, and different judgments and assumptions could affect the timing and amount of loss realization. In addition, significant judgments are required in determining valuation and impairment, which include making assumptions regarding the estimated prepayments, loss assumptions and interest cash flows.

Effect if Actual Results Differ From Assumptions. Actual credit deterioration could be more or less severe than estimated. Upon subsequent review, if cash flows have significantly improved, the discount would be amortized into earnings over the remaining life of the debt security in a prospective manner based on the amount and timing of future cash flows. Additional credit deterioration resulting in an adverse change in cash flows would result in additional other-than-temporary impairment loss recorded in the income statement.

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FORWARD-LOOKING STATEMENTS

In this report, we have made various statements regarding current expectations or forecasts of future events, which speak only as of the date the statements are made. These statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are also made from time-to-time in press releases and in oral statements made by the officers of Old National Bancorp (Old National, or the Company). Forward-looking statements are identified by the words expect, may, could, intend, project, believe , anticipate and similar expressions. Forward-looking statements also include, but are not limited to, statements regarding estimated cost savings, plans and objectives for future operations, the Company s business and growth strategies, including future acquisitions of banks, regulatory developments, and expectations about performance as well as economic and market conditions and trends.

Such forward-looking statements are based on assumptions and estimates, which although believed to be reasonable, may turn out to be incorrect. Therefore, undue reliance should not be placed upon these estimates and statements. We cannot assure that any of these statements, estimates, or beliefs will be realized and actual results may differ from those contemplated in these forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events, or otherwise. You are advised to consult further disclosures we may make on related subjects in our filings with the SEC. In addition to other factors discussed in this report, some of the important factors that could cause actual results to differ materially from those discussed in the forward-looking statements include the following:

- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry;
- expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;
- unexpected difficulties and losses related to FDIC-assisted acquisitions, including those resulting from our loss-sharing arrangements with the FDIC;
- failure to properly understand risk characteristics of newly entered markets;
- increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration;
- our ability to achieve loan and deposit growth;

volatility and direction of market interest rates;

governmental legislation and regulation, including changes in accounting regulation or standards;

our ability to execute our business plan;

a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;

changes in the securities markets; and

changes in fiscal, monetary, and tax policies.

Investors should consider these risks, uncertainties and other factors in addition to risk factors included in our other filings with the SEC.

ITEM 3. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Management s Discussion and Analysis of Financial Condition and Results of Operations - Market Risk and Liquidity Risk.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures. Old National s principal executive officer and principal financial officer have concluded that Old National s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by Old National in the reports

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it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to Old National s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Limitations on the Effectiveness of Controls. Management, including the principal executive officer and principal financial officer, does not expect that Old National s disclosure controls and internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be only reasonable assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Changes in Internal Control over Financial Reporting. There were no changes in Old National s internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, Old National s internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the Risk Factors section of the Company s Annual Report on Form 10-K for the year ended December 31, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) **ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
01/01/16 - 01/31/16	5,739	$ 12.46		
02/01/16 - 02/29/16	26,556	11.67		
03/01/16 - 03/31/16				
Quarter-to-date 03/31/16	32,295	$ 11.81		

The Board of Directors did not authorize a new stock repurchase plan for 2016. During the three months ended March 31, 2016, Old National repurchased a limited number of shares associated with employee share-based incentive programs.

ITEM 5. OTHER INFORMATION

(a) None

(b) There have been no material changes in the procedure by which security holders recommend nominees to the Company s board of directors.

ITEM 6. EXHIBITS

Exhibit No.	Description
2.1	Purchase and Assumption Agreement Whole Bank All Deposits, among Federal Deposit Insurance Corporation, receiver of Integra Bank National Association, Evansville, Indiana, the Federal Deposit Insurance Corporation and Old National Bank, dated July 29, 2011 (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 4, 2011).
2.2	Agreement and Plan of Merger dated as of July 25, 2014 by and between Old National Bancorp and Founders Financial Corporation (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2014).
2.3	Agreement and Plan of Merger dated as of January 11, 2016 by and between Old National Bancorp and Anchor BanCorp Wisconsin Inc. (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 12, 2016).
3.1	Third Amended and Restated Articles of Incorporation of Old National, amended October 25, 2013 (incorporated by reference to Exhibit 3.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 28, 2013).

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Exhibit No.	Description
3.2	Amended and Restated By-Laws of Old National Bancorp, amended July 24, 2014 (incorporated by reference to Exhibit 3.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 25, 2014).
4.1	Senior Indenture between Old National and The Bank of New York Trust Company (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One, NA)), as trustee, dated as of July 23, 1997 (incorporated by reference to Exhibit 4.3 to Old National s Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004).
4.2	Form of Indenture between Old National and J.P. Morgan Trust Company, National Association (as successor to Bank One, NA), as trustee (incorporated by reference to Exhibit 4.1 to Old National s Registration Statement on Form S-3, Registration No. 333-87573, filed with the Securities and Exchange Commission on September 22, 1999).
4.3	Second Indenture Supplement, dated as of August 15, 2014, between Old National and The Bank of New York Mellon Trust Company, N.A., as trustee, providing for the issuance of its 4.125% Senior Notes due 2024 (incorporated by reference to Exhibit 4.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 15, 2014).
4.4	Form of 4.125% Senior Notes due 2024 (incorporated by reference to Exhibit 4.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 15, 2014).
10.1	Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(a) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.2	Second Amendment to the Deferred Compensation Plan for Directors of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(b) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.3	2005 Directors Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(c) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.4	Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(d) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.5	Second Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(e) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*
10.6	Third Amendment to the Supplemental Deferred Compensation Plan for Select Executive Employees of Old National Bancorp and Subsidiaries (As Amended and Restated Effective as of January 1, 2003) (incorporated by reference to Exhibit 10(f) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*

10.7	2005 Executive Deferred Compensation Plan (Effective as of January 1, 2005) (incorporated by reference to Exhibit 10(g) of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 15, 2004).*

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Exhibit No.	Description
10.8	Summary of Old National Bancorp s Outside Director Compensation Program (incorporated by reference to Old National s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).*
10.9	Form of Executive Stock Option Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(h) of Old National s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004).*
10.10	Form of 2006 Non-qualified Stock Option Agreement (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2006).*
10.11	Form of 2007 Non-qualified Stock Option Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(y) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).*
10.12	Lease Agreement, dated December 20, 2006 between ONB One Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(aa) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.13	Lease Agreement, dated December 20, 2006 between ONB 123 Main Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ab) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.14	Lease Agreement, dated December 20, 2006 between ONB 4th Street Landlord, LLC and Old National Bank (incorporated by reference to Exhibit 10(ac) of Old National s Annual Report on Form 10-K for the year ended December 31, 2006).
10.15	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord#1, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.16	Lease Supplement No. 1 dated September 19, 2007, by and between ONB CTL Portfolio Landlord#1, LLC, Old National Bank and ONB Insurance Group, Inc. (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.17	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord#3, LLC, and Old National Bank (incorporated by reference to Exhibit 99.5 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.18	Master Lease Agreement dated September 19, 2007, by and between ONB CTL Portfolio Landlord#5, LLC, and Old National Bank (incorporated by reference to Exhibit 99.7 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on September 25, 2007).
10.19	Form of Lease Agreement dated October 19, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 25, 2007).
10.20	

	Form of Lease Agreement dated December 27, 2007 entered into by affiliates of Old National Bancorp and affiliates of SunTrust Equity Funding, LLC (as incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on December 31, 2007).
10.21	Form of 2008 Non-qualified Stock Option Award Agreement (incorporated by reference to Exhibit 99.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 30, 2008).*

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Exhibit No.	Description
10.22	Old National Bancorp Code of Conduct (incorporated by reference to Exhibit 14.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 29, 2008).
10.23	Form of 2009 Executive Stock Option Agreement between Old National and certain key associates (incorporated by reference to Old National s Current Report on Form 8-K/A filed with the Securities and Exchange Commission on February 13, 2009).*
10.24	Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National s Registration Statement on Form S-3, Registration No. 333-161394 filed with the Securities and Exchange Commission on August 17, 2009).
10.25	Form of Employment Agreement for Robert G. Jones (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).*
10.26	Form of Employment Agreement for Christopher A. Wolking and Daryl D. Moore (incorporated by reference to Exhibit 10.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).*
10.27	Employment Agreement for James A. Sandgren (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 18, 2014).*
10.28	Form of Amended Severance/Change of Control Agreement for Jeffrey L. Knight (incorporated by reference to Exhibit 10(bb) of Old National s Annual Report on Form 10-K for the year ended December 31, 2011).*
10.29	Old National Bancorp Amended and Restated 2008 Incentive Compensation Plan (incorporated by reference to Appendix I of Old National s Definitive Proxy Statement filed with the Securities and Exchange Commission on March 14, 2012).*
10.30	Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National s Registration Statement on Form S-3, Registration No. 333-183344 filed with the Securities and Exchange Commission on August 16, 2012).
10.31	Form of 2014 Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(ap) of Old National s Annual Report on Form 10-K for the year ended December 31, 2013).*
10.32	Form of 2014 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(aq) of Old National s Annual Report on Form 10-K for the year ended December 31, 2013).*
10.33	Voting Agreement by and among directors of Founders Financial Corporation (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on July 28, 2014).
10.34	Form of 2015 Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(au) of Old National s Annual Report on Form 10-K for the year ended December 31, 2014).*
10.35	

Form of 2015 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(av) of Old National s Annual Report on Form 10-K for the year ended December 31, 2014).*

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Exhibit No.	Description
10.36	Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National s Registration Statement on Form S-3, Registration No. 333-206352 filed with the Securities and Exchange Commission on August 13, 2015).
10.37	Purchase and Sale Agreement dated October 2, 2015, by and between ONB CTL Portfolio Landlord#2, LLC, and Old National Bank (incorporated by reference to Exhibit 99.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2015).
10.38	Purchase and Sale Agreement dated October 2, 2015, by and between ONB CTL Portfolio Landlord#4, LLC, and Old National Bank (incorporated by reference to Exhibit 99.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2015).
10.39	Purchase and Sale Agreement dated October 6, 2015, by and between Bubeck LLC, and Old National Bank (incorporated by reference to Exhibit 99.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2015).
10.40	Purchase and Sale Agreement dated October 6, 2015, by and between North Main Bank LLC, and Old National Bank (incorporated by reference to Exhibit 99.4 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2015).
10.41	Purchase and Sale Agreement dated October 6, 2015, by and between Bubeck LLC, and Old National Bank (incorporated by reference to Exhibit 99.5 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on October 8, 2015).
10.42	Voting Agreement by and among directors of Anchor BanCorp Wisconsin Inc. (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 12, 2016).
10.43	Form of 2016 Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(av) of Old National s Annual Report on Form 10-K for the year ended December 31, 2015).*
10.44	Form of 2016 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(aw) of Old National s Annual Report on Form 10-K for the year ended December 31, 2015).*
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Old National Bancorp s Form 10-Q Report for the quarterly period ended March 31, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income,

(iv) the Consolidated Statements of Changes in Shareholders Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

* Management contract or compensatory plan or arrangement

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OLD NATIONAL BANCORP
(Registrant)

By: /s/ Christopher A. Wolking
Christopher A. Wolking

Senior Executive Vice President and Chief Financial Officer

Duly Authorized Officer and Principal Financial Officer

Date: May 6, 2016