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 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.

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.

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

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

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NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at March 31, 2016 and December 31, 2015 and the corresponding amounts of unrealized gains and losses therein:

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

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

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

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

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

Trading securities, which consist of mutual funds held in a trust associated with deferred compensation plans for former Monroe Bancorp directors and executives, are recorded at fair value and totaled $3.7 million at March 31, 2016 and $3.9 million at December 31, 2015.

All of the mortgage-backed securities in the investment portfolio are residential mortgage-backed securities. The amortized cost and fair value of the investment securities portfolio are shown by expected maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Weighted average yield is based on amortized cost.

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

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

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The following table summarizes the investment securities with unrealized losses at March 31, 2016 and December 31, 2015 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2016						
Available-for-Sale						
U.S. government-sponsored entities and agencies	**$ 38,400**	**$ (59)**	**$**	**$**	**$ 38,400**	**$ (59)**
Mortgage-backed securities - Agency	**151,882**	**(357)**	**162,982**	**(2,845)**	**314,864**	**(3,202)**
States and political subdivisions	**44,889**	**(458)**	**5,151**	**(153)**	**50,040**	**(611)**
Pooled trust preferred securities			**7,987**	**(9,205)**	**7,987**	**(9,205)**
Other securities	**96,543**	**(1,865)**	**111,346**	**(6,228)**	**207,889**	**(8,093)**
Total available-for-sale	**$ 331,714**	**$ (2,739)**	**$ 287,466**	**$ (18,431)**	**$ 619,180**	**$ (21,170)**
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 Deferrals and Defaults 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 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.

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.

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.

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 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 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.

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:

<u>Banking</u>

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.

<u>Insurance</u>

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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