OLD NATIONAL BANCORP /IN/
Form 10-K
February 26, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)

Of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2015

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of the 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)

Securities registered pursuant to Section 12(b) of the Act

Title of Each Class	Name of each exchange on which registered
Common Stock, No Par Value	The NASDAQ Stock Market LLC
Preferred Stock Purchase Rights	

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 such filing requirements for 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 such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (s229.405 of this chapter) is not contained herein, and will not be contained, to the best of the Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one)

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

The aggregate market value of the Registrant s voting common stock held by non-affiliates on June 30, 2015, was $1,619,816,453 (based on the closing price on that date of $14.46). In calculating the market value of securities held by non-affiliates of the Registrant, the Registrant has treated as securities held by affiliates as of June 30, 2015, voting stock owned of record by its directors and principal executive officers, and voting stock held by the Registrant s trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares outstanding of the Registrant s common stock, as of January 31, 2016, was 114,313,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2016, are incorporated by reference into Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

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

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

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

- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- governmental legislation and regulation, including changes in accounting regulation or standards;
- our ability to execute our business plan;
- a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;
- changes in the securities markets; and
- changes in fiscal, monetary, and tax policies.

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

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PART I

ITEM 1. BUSINESS
GENERAL

Old National is a financial holding company incorporated in the state of Indiana and maintains its principal executive office in Evansville, Indiana. We, through our wholly owned banking subsidiary, provide a wide range of services, including commercial and consumer loan and depository services, private banking, brokerage, trust, investment advisory, and other traditional banking services. Through our non-bank affiliates, we provide full service insurance brokerage services and other financial services. As of December 31, 2015, we employed 2,652 full-time equivalent associates.

COMPANY PROFILE

Old National Bank, our wholly owned banking subsidiary (Old National Bank), was founded in 1834 and is the oldest company in Evansville, Indiana. In 1982, Old National Bancorp was formed; in 2001 we became a financial holding company and we are currently the largest financial holding company headquartered in the state of Indiana. Also in 2001, we completed the consolidation of 21 bank charters enabling us to operate under a common name with consistent product offerings throughout the financial center locations, consolidating back-office operations and allowing us to provide more convenient service to clients. We provide financial services primarily in Indiana, Kentucky, and Michigan.

OPERATING SEGMENTS

We operate in two segments: banking and insurance. Substantially all of our revenues are, and during the last three fiscal years have been, derived from customers located in, and substantially all of our assets are located in, the United States. A description of each segment follows.

Banking Segment

The banking segment operates through Old National Bank, and has traditionally been the most significant contributor to our revenue and earnings. The primary goal of the banking segment is to provide products and services that address clients needs and help clients reach their financial goals by offering a broad array of quality services. Our financial centers focus on convenience factors such as location, space for private consultations, and quick client access to routine transactions.

As of December 31, 2015, Old National Bank operated 160 banking financial centers located primarily in Indiana, Kentucky, and Michigan. The banking segment primarily consists of lending and depository activities along with cash management, private banking, brokerage, trust and investment advisory services. In addition, the banking segment includes Indiana Old National Insurance Company (IONIC), which reinsures credit life insurance. IONIC also provides property and casualty insurance for Old National and reinsures most of the coverage with non-affiliated carriers.

Lending Activities

We earn interest income on loans as well as fee income from the origination of loans. Lending activities include loans to individuals, which primarily consist of home equity lines of credit, residential real estate loans and consumer loans, and loans to commercial clients, which include commercial loans, commercial real estate loans, letters of credit, and lease financing. Residential real estate loans are either kept in our loan portfolio or sold to secondary investors, with gains or losses from the sales being recognized.

Depository Activities

We strive to serve individuals and commercial clients by providing depository services that fit their needs at competitive rates. We pay interest on the interest-bearing deposits and receive service fee revenue on various accounts. Deposit accounts include products such as noninterest-bearing demand, negotiable order of withdrawal (NOW), savings and money market, and time deposits. Debit and ATM cards provide clients with access to their accounts 24 hours a day at any ATM location. We also provide 24-hour telephone access and online banking as well as other electronic and mobile banking services.

Insurance

The insurance segment offers full-service insurance brokerage services including commercial property and casualty, surety, loss control services, employee benefits consulting and administration, and personal insurance. Our agency offers 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 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.

Additional information about our business segments is included in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, and Note 25 to the consolidated financial statements.

MARKET AREA

We own the largest Indiana-based bank and one of the largest independent insurance agencies headquartered in Indiana. Operating from a home base in Evansville, Indiana, we have continued to grow our footprint in Indiana, Kentucky, and Michigan. We have expanded into the attractive Louisville, Indianapolis, Lafayette, Ann Arbor, and Grand Rapids markets. In February 2007, we expanded into northern Indiana by acquiring St. Joseph Capital Corporation, which had banking offices in Mishawaka and Elkhart, Indiana. In March 2009, we completed the acquisition of the Indiana retail branch banking network of Citizens Financial Group, which consisted of 65 branches and a training facility. The branches are located primarily in the Indianapolis area. On January 1, 2011, we closed on our acquisition of Monroe Bancorp, strengthening our presence in Bloomington, Indiana and the central and south central Indiana markets. On July 29, 2011, we acquired the banking operations of Integra Bank N.A. (Integra) in an FDIC-assisted transaction. Integra was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations, primarily in southwest Indiana, southeastern Illinois and western Kentucky. On September 15, 2012, we closed on our acquisition of Indiana Community Bancorp (IBT), strengthening our presence in Columbus, Indiana and the south central Indiana market. On July 12, 2013, we closed on our acquisition of 24 bank branches from Bank of America, which increased our presence in the South Bend/Elkhart, Indiana area and provided an entry into southwest Michigan. On April 25, 2014, we closed on our acquisition of Tower Financial Corporation (Tower). This acquisition added seven full-service branches in the Fort Wayne, Indiana market. On July 31, 2014, we completed the acquisition of United Bancorp, Inc. (United). This acquisition added 18 branches in Ann Arbor, Michigan and the surrounding area. On November 1, 2014, we completed the acquisition of LSB Financial Corp. (LSB). This acquisition added five branches in Lafayette, Indiana. On January 1, 2015, we completed the acquisition of Founders Financial Corporation (Founders). This acquisition added four branches in the Grand Rapids, Michigan market.

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The following table reflects the market locations where we have a significant share of the deposit market. The market share data is by metropolitan statistical area. The Evansville, Indiana data includes branches in Henderson, Kentucky.

Old National Deposit Market Share and Number of Branch Locations

Deposits as of June 30, 2015

Market Location	Number of Branches	Deposit Market Share Rank
Bloomington, Indiana	7	1
Adrian, Michigan	9	1
North Vernon, Indiana	1	1
Evansville, Indiana	18	2
Terre Haute, Indiana	7	2
Jasper, Indiana	6	2
Columbus, Indiana	5	2
Vincennes, Indiana	3	2
Washington, Indiana	2	2
Madisonville, Kentucky	2	3
Seymour, Indiana	2	3
Madison, Indiana	1	3

Source: FDIC

ACQUISITION AND DIVESTITURE STRATEGY

Since the formation of Old National in 1982, we have acquired over 50 financial institutions and other financial services businesses. Future acquisitions and divestitures will be driven by a disciplined financial process and will be consistent with the existing focus on community banking, client relationships and consistent quality earnings. Targeted geographic markets for acquisitions include mid-size markets with average to above average growth rates.

As with previous acquisitions, the consideration paid by us will be in the form of cash, debt or Old National stock, or a combination thereof. The amount and structure of such consideration is based on reasonable growth and cost savings assumptions and a thorough analysis of the impact on both long- and short-term financial results.

On January 1, 2011, we acquired Monroe Bancorp in an all stock transaction. Monroe Bancorp was headquartered in Bloomington, Indiana and had 15 banking centers. Pursuant to the merger agreement, the shareholders of Monroe Bancorp received approximately 7.6 million shares of Old National stock valued at approximately $90.1 million. On January 1, 2011, unaudited financial statements of Monroe Bancorp showed assets of $808.1 million, which included $509.6 million of loans, $166.4 million of securities and $711.5 million of deposits. The acquisition strengthened our deposit market share in the Bloomington, Indiana market and improved our deposit market share rank to first place in 2011.

On June 1, 2011, Old National s wholly owned trust subsidiary, American National Trust and Investment Management Company d/b/a Old National Trust Company (ONTC), acquired the trust business of Integra. As of the closing, the trust business had approximately $328 million in assets under management. Old National paid Integra $1.3 million in an all cash transaction.

On July 29, 2011, Old National acquired the banking operations of Integra in an FDIC- assisted transaction. Integra was a full service community bank headquartered in Evansville, Indiana that operated 52 branch locations. As part of the purchase and assumption agreement, Old National and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), other real estate owned (OREO) and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 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. We do not expect losses to exceed $275.0 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for

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which the FDIC has previously reimbursed the Bank under the loss sharing agreements. The loss sharing provisions of the agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

On September 15, 2012, Old National acquired IBT in an all stock transaction. IBT was headquartered in Columbus, Indiana and had 17 full-service banking centers serving the South Central Indiana area. Pursuant to the merger agreement, the shareholders of IBT received approximately 6.6 million shares of Old National common stock valued at approximately $88.5 million. Old National recorded assets with a fair value of approximately $907.1 million, including $497.4 million of loans, as well as $784.6 million of deposits. The acquisition strengthened our deposit market share in Columbus, Indiana and south central Indiana market.

On July 12, 2013, Old National acquired 24 bank branches from Bank of America in a cash transaction. Old National paid a deposit premium of 2.94%. The acquisition doubled Old National s presence in the South Bend/Elkhart, Indiana area and provided an entry into southwest Michigan.

On April 25, 2014, Old National acquired Tower through a stock and cash merger. Tower was an Indiana bank holding company with Tower Bank & Trust Company as its wholly-owned subsidiary. Headquartered in Fort Wayne, Indiana, Tower operated seven banking centers and had approximately $556 million in trust assets under management on the closing date of the acquisition. Pursuant to the merger agreement, the shareholders of Tower received approximately 5.6 million shares of Old National common stock valued at approximately $78.7 million. Old National recorded assets with a fair value of approximately $683.1 million, including $371.1 million of loans, as well as $528.0 million of deposits. The merger strengthened Old National s position as one of the largest deposit holders in Indiana.

On July 31, 2014, Old National acquired United through a stock and cash merger. United was a Michigan bank holding company with United Bank & Trust as its wholly-owned subsidiary. Headquartered in Ann Arbor, Michigan, United operated 18 banking centers and had approximately $688 million in trust assets under management as of June 30, 2014. Pursuant to the merger agreement, the shareholders of United received approximately 9.1 million shares of Old National common stock valued at approximately $122.0 million, and the assumption of United s options and stock appreciation rights, valued at $1.8 million. Old National recorded assets with a fair value of approximately $952.7 million, including $632.0 million of loans, as well as $763.7 million of deposits. This acquisition added 18 branches in Ann Arbor, Michigan and the surrounding area, doubling our presence in this state.

On November 1, 2014, Old National acquired LSB through a stock and cash merger. LSB was savings and loan holding company with Lafayette Savings Bank as its wholly-owned subsidiary. LSB was the largest bank headquartered in Lafayette, Indiana and operated five full-service banking centers. Pursuant to the merger agreement, the shareholders of LSB received approximately 3.6 million shares of Old National common stock valued at approximately $51.8 million. Old National recorded assets with a fair value of approximately $381.4 million, including $235.4 million of loans, as well as $292.1 million of deposits. This acquisition added five branches in Lafayette, Indiana.

On January 1, 2015, Old National acquired Grand Rapids, Michigan-based Founders Financial Corporation (Founders) through a stock and cash merger. Founders was a bank holding company with Founders Bank & Trust as its wholly-owned subsidiary. Founders Bank & Trust operated four full-service banking centers in Kent County. Pursuant to the merger agreement, the shareholders of Founders received approximately 3.4 million shares of Old National common stock valued at approximately $50.6 million. Old National recorded assets with a fair value of approximately $509.0 million, including $339.6 million of loans, as well as $376.7 million of deposits.

Over the past decade, we have transitioned our footprint into higher growth markets and opportunistically will continue to do so. We believe we have the right people and the right products in the right markets, with strong leadership in place.

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Divestitures

On August 14, 2015, Old National 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. Old National 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. See Note 14 to the consolidated financial statements for discussion on the change to deferred tax assets due to the reduction of our presence in Illinois.

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

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 September 30, 2015, AnchorBank reported total assets of $2.2 billion and $1.8 billion of deposit liabilities. Pursuant to the merger agreement, shareholders of Anchor may elect to receive either 3.5505 shares of Old National common stock or $48.50 in cash for each share of Anchor they hold, subject to no more than 40% of the outstanding shares of Anchor may receive cash. Based on Old National s 10-day average closing share price through January 8, 2016 of $13.34, this represents a total transaction value of approximately $461 million. The transaction value is likely to change until closing due to fluctuations in the price of Old National common stock and is also subject to adjustment under certain limited circumstances as provided in the merger agreement. The transaction remains subject to regulatory approval and the vote of Anchor shareholders. The transaction is anticipated to close in the second quarter of 2016.

COMPETITION

The banking industry and related financial service providers operate in a highly competitive market. Old National competes with financial service providers such as local, regional, and national banking institutions, savings and loan associations, credit unions, finance companies, investment brokers, and mortgage banking companies. In addition, Old National s non-bank services face competition with asset managers and advisory services, money market and mutual fund companies, and insurance agencies.

SUPERVISION AND REGULATION

Old National is subject to extensive regulation under federal and state laws. The regulatory framework is intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole and not for the protection of shareholders and creditors.

Significant elements of the laws and regulations applicable to Old National and its subsidiaries are described below. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to Old National and its subsidiaries could have a material effect on the business of the Company.

The Dodd-Frank Act. On July 21, 2010, financial regulatory reform legislation entitled the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was signed into law. The Dodd-Frank Act significantly restructured the financial regulatory environment in the United States. The Dodd-Frank Act contains numerous provisions that affect all bank holding companies and banks, including Old National and Old National Bank, some of which are described in more detail below. The scope and impact of many of the Dodd-Frank Act s provisions will be determined over time as regulations are issued and become effective. While the total impact of the fully implemented Dodd-Frank Act on Old National is not currently known, we expect the impact to be substantial;

and it may have an adverse impact on its financial performance and growth opportunities. Provisions in the legislation that affect the payment of interest on demand deposits and collection of interchange fees increased the costs associated with certain deposits and placed limitations on certain revenues those deposits generate.

The Volcker Rule. Section 619 of the Dodd-Frank Act contains provisions prohibiting proprietary trading and restricting the activities involving private equity and hedge funds (the Volcker Rule). Rules implementing the Volcker Rule were adopted in December 2013. Proprietary trading is defined as the trading of securities, derivatives, or futures (or options on any of the foregoing) as principal, where such trading is principally for the purpose of short-term resale, benefiting from actual or expected short-term price movements and realizing short-term arbitrage profits. The rule s definition of proprietary trading specifically excludes market-making-related activity, certain government issued securities trading and certain risk management activities. Old National and Old National Bank do not engage in any prohibited proprietary trading activities.

The final text of the Volcker Rule contained provisions to the effect that collateralized debt obligations (CDOs), including pooled trust preferred securities, would have to be sold prior to July 15, 2015. The practical implication of this rule provision, which was not expected by the industry, was that those instruments could no longer be accorded held-to-maturity accounting treatment but would have to be switched to available-for-sale accounting, and that all covered CDOs, regardless of the accounting classification, would need to be adjusted to fair value through an other-than-temporary impairment non-cash charge to earnings. On January 14, 2014, federal banking agencies released an interim final rule regarding the Volcker Rule s impact on trust preferred CDOs, which included a nonexclusive list of CDOs backed by trust preferred securities that depository institutions will be permitted to continue to hold. All of the trust preferred securities owned by Old National are on this list and held as available-for-sale . However, Old National does have one mutual fund totaling $0.8 million that will have to be divested. In December 2014, the Federal Reserve granted a one year extension on divestiture to July 2016. The Federal Reserve also announced its intention to grant an additional one year extension of the conformance period to July 2017. Any unrealized losses associated with these instruments have already impacted our capital.

The Durbin Amendment. The Dodd-Frank Act included provisions (the Durbin Amendment) which restrict interchange fees to those which are reasonable and proportionate for certain debit card issuers and limits the ability of networks and issuers to restrict debit card transaction routing. The Federal Reserve issued final rules implementing the Durbin Amendment on June 29, 2011. In the final rules, interchange fees for debit card transactions were capped at $0.21 plus five basis points in order to be eligible for a safe harbor such that the fee is conclusively determined to be reasonable and proportionate. The interchange fee restrictions contained in the Durbin Amendment, and the rules promulgated thereunder, apply to debit card issuers with $10 billion or more in total consolidated assets. We exceeded $10 billion in assets during the second quarter of 2014 and became subject to these interchange fee restrictions beginning July 1, 2015. The Durbin Amendment negatively impacted debit card and ATM fees by approximately $5.4 million, pre-tax, in the second half of 2015.

Bank Holding Company Regulation. Old National is registered as a bank holding company and has elected to be a financial holding company. It is subject to the supervision of, and regulation by, the Board of Governors of the Federal Reserve System (Federal Reserve) under the Bank Holding Company Act of 1956, as amended (BHC Act). The Federal Reserve has issued regulations under the BHC Act requiring a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. It is the policy of the Federal Reserve that, pursuant to this requirement, a bank holding company should stand ready to use its resources to provide adequate capital funds to its subsidiary banks during periods of financial stress or adversity. Under this requirement, Old National is expected to commit resources to support Old National Bank, including at times when Old National may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

The BHC Act requires the prior approval of the Federal Reserve to acquire more than a 5% voting interest of any bank or bank holding company. Additionally, the BHC Act restricts Old National s non-banking activities to those which are determined by the Federal Reserve to be closely related to banking and a proper incident thereto.

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Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), a bank holding company is required to guarantee the compliance of any insured depository institution subsidiary that may become undercapitalized (as defined in FDICIA) with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency.

Capital and Liquidity Requirements. Bank holding companies are required to comply with the Federal Reserve s risk-based capital guidelines. The Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the Currency (OCC) have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision, including Old National Bank, are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Old National s banking affiliate, Old National Bank, exceeded all risk-based minimum capital requirements of the FDIC and OCC as of December 31, 2015. For Old National s regulatory capital ratios and regulatory requirements as of December 31, 2015 and 2014, see Note 23 to the consolidated financial statements.

The federal regulatory authorities current risk-based capital guidelines are based upon the 1988 capital accord of the Basel Committee on Banking Supervision. The Basel Committee is a committee of central banks and bank regulators from the major industrialized countries that develops broad policy guidelines for use by a country s regulators in determining appropriate supervisory policies. In December 2010 and January 2011, the Basel Committee published the final texts of reforms on capital and liquidity supervisory policies generally referred to as Basel III.

Effective July 2, 2013, the Federal Reserve and the OCC approved final rules known as the Basel III Capital Rules substantially revising the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions, including Old National and Old National Bank. The Basel III Capital Rules address the components of capital and other issues affecting the numerator in banking institutions regulatory capital ratios. Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies rules. Certain of the Basel III Capital Rules came into effect for Old National and Old National Bank on January 1, 2015; these rules are subject to a phase-in period which began on January 1, 2015.

The Basel III Capital Rules introduced a new capital measure Common Equity Tier 1 (CET1). The rules specify that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting specified requirements. CET1 capital consists of common stock instruments that meet the eligibility criteria in the final rules, retained earnings, accumulated other comprehensive income, and common equity Tier 1 minority interest. The rules also define CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1, and not to the other components of capital. They also expand the scope of the adjustments as compared to existing regulations.

When fully phased-in on January 1, 2019, the Basel III Capital Rules will require banking organizations to maintain:

a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% CET1 ratio as that buffer is phased-in, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0% upon full implementation);

a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased-in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation);

a minimum ratio of total capital (that is, Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased-in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation); and

a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to adjusted average consolidated assets.

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The Basel III Capital Rules also provide for a countercyclical capital buffer that is applicable to only certain covered institutions and is not expected to have any current applicability to Old National or Old National Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will face limitations on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers based on the amount of the shortfall.

The Basel III Capital Rules provides for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, Old National and Old National Bank are given a one-time election (the Opt-out Election) to filter certain accumulated other comprehensive income (AOCI) components, comparable to the treatment under the current general risk-based capital rule. The Company choose the AOCI Opt-out Election on the March 31, 2015 Call Report and FR Y-9C for Old National Bank and Old National, respectively.

Implementation of the deductions and other adjustments to CET1 began on January 1, 2015 and will be phased-in over a five-year period (20% per year). The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and will be phased-in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

In addition, the Basel III Capital Rules revise the rules for calculating risk-weighted assets to enhance their risk sensitivity. They establish a new framework under which mortgage-backed securities and other securitization exposures will be subject to risk-weights ranging from 20% to 1,250%. The rules also establish adjusted risk-weights for credit exposures, including multi-family and commercial real estate exposures that are 90 days or more past due or on non-accrual, which will be subject to a 150% risk-weight, except in situations where qualifying collateral and/or guarantees are in place. The existing treatment of residential mortgage exposures will remain subject to either a 50% risk-weight (for prudently underwritten owner-occupied first liens that are current or less than 90 days past due) or a 100% risk-weight (for all other residential mortgage exposures including 90 days or more past due exposures).

Management believes that, as of December 31, 2015, Old National and Old National Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company s net income.

The final Basel III Capital Rules were effective for Old National on January 1, 2015. The final rules permit banks with less than $15 billion in assets to continue to treat trust preferred securities as Tier 1 capital. This treatment is permanently grandfathered as Tier 1 capital even if Old National should ever exceed $15 billion assets due to organic growth. Should Old National exceed $15 billion in assets as the result of a merger or acquisition, then the Tier 1 treatment of its outstanding trust preferred securities will be phased out, but those securities will still be treated as Tier 2 capital. The final rule also permits banks with less than $250 billion in assets to choose to continue excluding unrealized gains and losses on certain securities holdings for purposes of calculating regulatory capital. The Company chose the Opt-out Election in its March 31, 2015 Call Report. The rules limit a banking organization s capital distributions and certain discretionary bonus payments if the banking organization does not hold a capital conservation buffer consisting of a specified amount of CET1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

Historically, the regulation and monitoring of bank and bank holding company liquidity has been addressed as a supervisory matter, without minimum required formulaic measures. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific liquidity tests that, although similar in some respects to liquidity measures historically applied by banks and regulators for management and supervisory purposes, going forward would be required by regulation. One test, referred to as the liquidity coverage ratio

(LCR), is designed to ensure that the banking entity maintains an adequate level of unencumbered high-quality liquid assets equal to the entity s expected net cash outflow for a 30-day time horizon (or, if greater, 25% of its expected total cash outflow) under an acute liquidity stress scenario. The other test, referred to as the net stable funding ratio (NSFR), is designed to promote more medium- and long-term funding of the assets and activities of banking entities over a one-year time horizon. These requirements are expected to incent banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt as a component of assets and increase the use of long-term debt as a funding source. The Basel III liquidity framework was implemented as a minimum standard on January 1, 2015, with a phase-in period ending January 1, 2019. The NSFR will be subject to an observation period through mid-2016 and, subject to any revisions resulting from the analyses conducted and data collected during the observation period, implemented as a minimum standard by January 1, 2018. These new standards are subject to further rulemaking and their terms may well change before implementation. The federal banking agencies have not proposed rules implementing the Basel III liquidity framework and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

Management believes that, as of December 31, 2015, Old National Bank would meet the LCR requirement under the Basel III on a fully phased-in basis if such requirements were currently effective. Management s evaluation of the impact of the NSFR requirement is ongoing as of December 31, 2015. Requirements to maintain higher levels of liquid assets could adversely impact the Company s net income.

Stress Tests. The Dodd-Frank Act mandates company-run stress test requirements for U.S. bank holding companies with total consolidated assets of $10 billion to $50 billion. The objective of the stress test is to ensure that the financial institution has capital planning processes that account for its unique risks, and to help ensure that the institution has sufficient capital to continue operations throughout times of economic and financial stress. The stress tests are conducted with baseline, adverse and severely adverse economic scenarios. The final stress test rule defines total consolidated assets as the average of the institution s total consolidated assets over the four most recent consecutive quarters as reported in the institution s Call Report. An institution must comply with the stress test requirements beginning with the stress test cycle that commences in the calendar year after the year in which the institution meets the asset threshold. Old National s consolidated assets exceeded $10 billion in the second quarter of 2014, and Old National will be required to submit a stress test report in 2016. Requirements to maintain higher levels of capital or liquidity to address potential adverse stress scenarios could adversely impact the Company s net income.

Prompt Corrective Action Regulations. The Federal Deposit Insurance Act (the FDIA) requires, among other things, federal bank regulatory authorities to take prompt corrective action with respect to banks which do not meet minimum capital requirements. Under current prompt corrective action regulations, a bank will be (i) well capitalized if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

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The Basel III Capital Rules revised the prompt corrective action regulations pursuant to Section 38 of the FDIA, by:

- introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status;
- increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 risk-based capital ratio for well-capitalized status being 8.0% (as compared to the previous 6.0%); and
- eliminating the provision that provides that a bank with a composite supervisory rating of 1 may have a 3.0% leverage ratio and still be well-capitalized.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution s capital. In addition, for a capital restoration plan to be acceptable, the depository institution s parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution s total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

Management believes that, as of December 31, 2015, Old National Bank was well capitalized based on the aforementioned existing ratios and the ratios as modified by the Basel III Capital Rules.

Deposit Insurance. Substantially all of the deposits of Old National Bank are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC and Old National Bank is subject to deposit insurance assessments to maintain the DIF. Deposit insurance assessments are based on average consolidated total assets minus average tangible equity. Under the FDIC s risk-based assessment system, insured institutions with at least $10 billion in assets, such as Old National Bank, are assessed on the basis of a scoring system that combines the institution s regulatory ratings and certain financial measures. The scoring system assesses risk measures to produce two scores, a performance score and a loss severity score, that will be combined and converted to an initial assessment rate.

The performance score measures an institution s financial performance and its ability to withstand stress. The loss severity score quantifies the relative magnitude of potential losses to the FDIC in the event of an institution s failure. Once the performance and loss severity scores are calculated, these scores will be converted to a total score. An institution with a total score of 30 or less will pay the minimum base assessment rate, and an institution with a total score of 90 or more will pay the maximum initial base assessment rate. For total scores between 30 and 90, initial base assessment rates will rise at an increasing rate as the total score increases. The FDIC has the authority to raise or lower assessment rates, subject to limits, and to impose special additional assessments.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the DIF reserve ratio reaches 1.35% by December 31, 2020, as required by the Dodd-Frank Act. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

The temporary unlimited deposit insurance coverage for non-interest-bearing transaction accounts that became effective on December 31, 2010 pursuant to rules adopted in accordance with the Dodd-Frank Act terminated on December 31, 2012. These accounts are now insured under the general deposit insurance coverage rules of the FDIC.

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Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Safety and Soundness Regulations In accordance with the FDIA, the federal banking agencies adopted guidelines establishing general standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, regulations adopted by the federal banking agencies authorize the agencies to require that an institution that has been given notice that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If, after being so notified, the institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the agency must issue an order directing corrective actions and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of FDIA. If the institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Incentive Compensation. The Dodd-Frank Act requires the federal bank regulatory agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, such as Old National and Old National Bank, having at least $1 billion in total assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. In addition, these regulators must establish regulations or guidelines requiring enhanced disclosure to regulators of incentive-based compensation arrangements. The agencies proposed such regulations in April 2011, but the regulations have not been finalized. If the regulations are adopted in the form initially proposed, they will impose limitations on the manner in which Old National may structure compensation for its executives.

In June 2010, the Federal Reserve Board, OCC and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization s incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization s ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization s board of directors. These three principles are incorporated into the proposed joint compensation regulations under the Dodd-Frank Act, discussed above.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Old National, that are not large, complex banking organizations. These reviews will be tailored to each organization based on the scope and complexity of the organization s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization s supervisory ratings, which can affect the organization s ability to make acquisitions and take other actions.

Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization s safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Loans to One Borrower. Old National Bank generally may not make loans or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, up to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2015, Old National Bank was in compliance with the loans-to-one-borrower limitations.

Depositor Preference. The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Community Reinvestment Act. The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings that must be publicly disclosed. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA. Furthermore, banking regulators take into account CRA ratings when considering approval of certain applications. Old National Bank received a rating of outstanding in its latest CRA examination for the period ended December 31, 2012.

Financial Privacy. The federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. These regulations affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

Old National Bank is also subject to regulatory guidelines establishing standards for safeguarding customer information. These guidelines describe the federal banking agencies expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Anti-Money Laundering and the USA Patriot Act. A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the USA Patriot Act) substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

Office of Foreign Assets Control Regulation. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others which are administered by the U.S. Treasury Department Office of Foreign Assets Control. Failure to comply with these sanctions could have serious legal and reputational consequences, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

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Transactions with Affiliates. Transactions between Old National Bank and its affiliates are regulated by the Federal Reserve under sections 23A and 23B of the Federal Reserve Act and related regulations. These regulations limit the types and amounts of covered transactions engaged in by Old National Bank and generally require those transactions to be on an arm s-length basis. The term affiliate is defined to mean any company that controls or is under common control with Old National Bank and includes Old National and its non-bank subsidiaries. Covered transactions include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the Federal Reserve) from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In general, these regulations require that any such transaction by Old National Bank (or its subsidiaries) with an affiliate must be secured by designated amounts of specified collateral and must be limited to certain thresholds on an individual and aggregate basis.

Federal law also limits Old National Bank s authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of Old National Bank s capital.

Federal Home Loan Bank System. Old National Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the Federal Home Loan Bank of Indianapolis (FHLBI), Old National Bank is required to acquire and hold shares of capital stock of the FHLBI in an amount at least equal to the sum of the membership stock purchase requirement, determined on an annual basis at the end of each calendar year, and the activity-based stock purchase requirement, determined on a daily basis. For Old National Bank, the membership stock purchase requirement is 1.0% of the Mortgage-Related Assets, as defined by the FHLBI, which consists principally of residential mortgage loans and mortgage-backed securities, held by Old National Bank. The activity-based stock purchase requirement is equal to the sum of: (1) a specified percentage ranging from 2.0% to 5.0%, which for Old National Bank is 5.0%, of outstanding borrowings from the FHLBI; (2) a specified percentage ranging from 0.0% to 5.0%, which for Old National Bank is 3.0%, of the outstanding principal balance of Acquired Member Assets, as defined by the FHLBI, and delivery commitments for Acquired Member Assets; (3) a specified dollar amount related to certain off-balance sheet items, which for Old National Bank is inapplicable; and (4) a specified percentage ranging from 0.0% to 5.0% of the carrying value on the FHLBI s balance sheet of derivative contracts between the FHLBI and Old National Bank, which for Old National Bank is inapplicable. The FHLBI can adjust the specified percentages and dollar amount from time to time within the ranges established by the FHLBI capital plan. As of December 31, 2015, Old National Bank was in compliance with the minimum stock ownership requirement.

Federal Reserve System. Federal Reserve regulations require depository institutions to maintain cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). A reserve of 3% is to be maintained against aggregate transaction accounts between $12.4 million and $79.5 million (subject to adjustment by the Federal Reserve) plus a reserve of 10% (subject to adjustment by the Federal Reserve between 8% and 14%) against that portion of total transaction accounts in excess of $79.5 million. The first $12.4 million of otherwise reservable balances (subject to adjustment by the Federal Reserve) is exempt from the reserve requirements. Old National Bank is in compliance with the foregoing requirements.

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Other Regulations. Old National Bank is subject to federal consumer protection statutes and regulations promulgated under those laws, including, but not limited to, the:

- Truth-In-Lending Act and Regulation Z, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act and Regulation C, requiring financial institutions to provide certain information about home mortgage and refinanced loans;
- Fair Credit Reporting Act and Regulation V, governing the provision of consumer information to credit reporting agencies and the use of consumer information;
- Equal Credit Opportunity Act and Regulation B, prohibiting discrimination on the basis of race, religion or other prohibited factors in the extension of credit;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Truth in Savings Act and Regulation DD, which requires disclosure of deposit terms to consumers;
- Regulation CC, which relates to the availability of deposit funds to consumers;
- Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- Electronic Funds Transfer Act, governing automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities arising from the use of automated teller machines and other electronic banking services.

The Dodd-Frank Act also significantly impacts the various consumer protection laws, rules and regulations applicable to financial institutions. The statute rolls back the federal preemption of state consumer protection laws that was enjoyed by national banks by (1) requiring that a state consumer financial law prevent or significantly interfere with the exercise of a national bank s powers before it can be preempted, (2) mandating that any preemption decision be made on a case by case basis rather than a blanket rule, and (3) ending the applicability of preemption to subsidiaries and affiliates of national banks. As a result, we may now be subject to state consumer protection laws in each state where we do business, and those laws may be interpreted and enforced differently in each state.

The Dodd-Frank Act also created a new Consumer Financial Protection Bureau (CFPB), which took over responsibility for enforcing the principal federal consumer protection laws, such as the Truth in Lending Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Truth in Saving Act, among others, on July 21, 2011. Institutions that have assets of $10 billion or less will continue to be supervised and examined in this area by their primary federal regulators (in the case of the Bank, the OCC). Old National s consolidated assets exceeded $10 billion in the second quarter of 2014 and is now subject to the regulation of the CFPB.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks including, among other things, the authority to prohibit unfair, deceptive, or abusive acts and practices. Abusive acts or practices are defined as those that (1) materially interfere with a consumer s ability to understand a term or condition of a consumer financial product or service, or (2) take unreasonable advantage of a consumer s (a) lack of financial savvy, (b) inability to protect himself in the selection or use of consumer financial products or services, or (c) reasonable reliance on a covered entity to act in the consumer s interests. The CFPB has the authority to investigate possible violations of federal consumer financial law, hold hearings and commence civil litigation. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or an injunction.

The rules issued by the CFPB will have a long-term impact on our mortgage loan origination and servicing activities. Compliance with these rules will likely increase our overall regulatory compliance costs.

Dividend Limitation. Old National Bank is subject to the provisions of the National Bank Act, is supervised, regulated and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve and the FDIC. A substantial portion of Old National s cash revenue is derived from dividends paid to it by Old National Bank. These dividends are subject to various legal and regulatory restrictions as summarized in Note 23 to the consolidated financial statements.

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Legislative and Regulatory Initiatives. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of Old National in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. Old National cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of Old National. A change in statutes, regulations or regulatory policies applicable to Old National or any of its subsidiaries could have a material effect on Old National s business, financial condition and results of operations.

AVAILABLE INFORMATION

All reports filed electronically by Old National with the Securities and Exchange Commission (SEC), including the annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements, other information and amendments to those reports filed or furnished (if applicable), are accessible at no cost on Old National s web site at www.oldnational.com as soon as reasonably practicable after electronically submitting such materials to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC, and Old National s filings are accessible on the SEC s web site at www.sec.gov. The public may read and copy any materials filed by Old National with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

Old National s business could be harmed by any of the risks noted below. In analyzing whether to make or to continue an investment in Old National, investors should consider, among other factors, the following:

Risks Related to the Banking Industry

Old National operates in a highly regulated environment, and changes in laws and regulations to which Old National is subject may adversely affect Old National s results of operations.

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision and examination by, among others, the OCC, the FDIC, the CFPB, the Federal Reserve and the State of Indiana. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. In addition, the Treasury has certain supervisory and oversight duties and responsibilities under EESA and the CPP. See Business - Supervision and Regulation herein. Applicable laws and regulations may change, and such changes may adversely affect Old National s business. The Dodd-Frank Act, enacted in July 2010, mandated the most wide-ranging overhaul of financial industry regulation in decades. This legislation, among other things, weakened federal preemption of state consumer protection laws and established the CFPB with broad authority to administer and enforce a new federal regulatory framework of consumer financial regulation, including consumer mortgage banking. Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, making it difficult to anticipate the overall financial impact on Old National. Nevertheless, Old National expects the Dodd-Frank Act, including current and future rules implementing its provisions and the interpretations of those rules, will have a detrimental impact on revenues and expenses, require Old

National to change certain of its business practices, intensify the regulatory supervision of Old National and the financial services industry, increase Old National s capital requirements and impose additional assessments and costs on Old National. In addition, certain provisions in the legislation that had not previously applied to Old National became effective as Old National and its consolidated assets increased to over $10 billion in June 2014. This includes oversight by the CFPB and a requirement to submit our first stress test report in 2016. Requirements to maintain higher levels of capital or liquidity to address potential adverse stress scenarios could adversely impact the Company s net income.

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Regulatory authorities also have extensive discretion in connection with their supervisory and enforcement activities, including but not limited to the imposition of restrictions on the operation of an institution, the classification of assets by the institution, the adequacy of an institution s Bank Secrecy Act/Anti Money Laundering program management, and the adequacy of an institution s allowance for loan losses. Any change in such regulation and oversight, whether in the form of restrictions on activities, regulatory policy, regulations, or legislation, including but not limited to changes in the regulations governing institutions, could have a material impact on Old National and its operations.

If Old National fails to meet regulatory capital requirements which may require heightened capital, we may be forced to raise capital or sell assets.

Old National is subject to regulations that require us to satisfy certain capital ratios, such as the ratio of our Tier 1 capital to our risk-based assets. Both the Dodd-Frank Act, which reformed the regulation of financial institutions in a comprehensive manner, and the Basel III regulatory capital reforms, which increase both the amount and quality of capital that financial institutions must hold, will impact our capital requirements. Specifically, in July 2013, the U.S. federal banking authorities approved the implementation of the Basel III Rule. The Basel III Rule is applicable to all U.S. banks that are subject to minimum capital requirements as well as to bank and saving and loan holding companies, other than small bank holding companies (generally bank holding companies with consolidated assets of less than $500 million). The Basel III Rule not only increases most of the required minimum regulatory capital ratios, it introduces a new Common Equity Tier 1 Capital ratio and the concept of a capital conservation buffer. The Basel III Rule also expands the current definition of capital by establishing additional criteria that capital instruments must meet to be considered Additional Tier 1 Capital (i.e., Tier 1 Capital in addition to Common Equity) and Tier 2 Capital. A number of instruments that now generally qualify as Tier 1 Capital will not qualify or their qualifications will change when the Basel III Rule is fully implemented. The Basel III Rule has maintained the general structure of the current prompt corrective action thresholds while incorporating the increased requirements, including the Common Equity Tier 1 Capital ratio. In order to be a well-capitalized depository institution under the new regime, an institution must maintain a Common Equity Tier 1 Capital ratio of 6.5% or more, a Tier 1 Capital ratio of 8% or more, a Total Capital ratio of 10% or more, and a leverage ratio of 5% or more. Institutions must also maintain a capital conservation buffer consisting of Common Equity Tier 1 Capital. Financial institutions became subject to the Basel III Rule on January 1, 2015 with a phase-in period through 2019 for many of the changes. If we are unable to satisfy these heightened regulatory capital requirements, due to a decline in the value of our loan portfolio or otherwise, we will be required to improve such capital ratios by either raising additional capital or by disposing of assets. If we choose to dispose of assets, we cannot be certain that we will be able to do so at prices that we believe to be appropriate, and our future operating results could be negatively affected. If we choose to raise additional capital, we may accomplish this by selling additional shares of common stock, or securities convertible into or exchangeable for common stock, which could significantly dilute the ownership percentage of holders of our common stock and cause the market price of our common stock to decline. Additionally, events or circumstances in the capital markets generally may increase our capital costs and impair our ability to raise capital at any given time.

A reduction in our credit rating could adversely affect our business and/or the holders of our securities.

The credit rating agencies rating our indebtedness regularly evaluate Old National and Old National Bank, and credit ratings are based on a number of factors, including our financial strength and ability to generate earnings, as well as factors not entirely within our control, including conditions affecting the financial services industry and the economy and changes in rating methodologies. There can be no assurance that we will maintain our current credit ratings. A downgrade of the credit ratings of Old National or Old National Bank could adversely affect our access to liquidity and capital, and could significantly increase our cost of funds, and decrease the number of investors and counterparties willing to lend to us or purchase our securities. This could affect our growth, profitability and financial condition, including liquidity.

Changes in interest rates could adversely affect Old National s results of operations and financial condition.

Old National s earnings depend substantially on Old National s interest rate spread, which is the difference between (i) the rates Old National earns on loans, securities and other earning assets and (ii) the interest rates Old National pays on deposits and other borrowings. These rates are highly sensitive to many factors beyond Old National s control, including general economic conditions and the policies of various governmental and regulatory authorities. If market interest rates rise, Old National will have competitive pressures to increase the rates that Old National pays on deposits, which could result in a decrease of Old National s net interest income. If market interest rates decline, Old National could experience fixed rate loan prepayments and higher investment portfolio cash flows, resulting in a lower yield on earnings assets.

A failure or breach, including cyber-attacks, of our operational or security systems, could disrupt our business, result in the disclosure of confidential information, damage our reputation and create significant financial and legal exposure.

Although we devote significant resources to maintain and regularly upgrade our systems and processes that are designed to protect the security of our computer systems, software, networks and other technology assets and the confidentiality, integrity and availability of information belonging to us and our customers, there is no assurance that our security measures will provide absolute security. In fact, many other financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyberattacks and other means. Certain financial institutions in the United States have also experienced attacks from technically sophisticated and well-resourced third parties that were intended to disrupt normal business activities by making internet banking systems inaccessible to customers for extended periods. These denial-of-service attacks have not breached our data security systems, but require substantial resources to defend, and may affect customer satisfaction and behavior.

Despite our efforts to ensure the integrity of our systems, it is possible that we may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because the techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources, including persons who are involved with organized crime or associated with external service providers or who may be linked to terrorist organizations or hostile foreign governments. Those parties may also attempt to fraudulently induce employees, customers or other users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or clients. These risks may increase in the future as we continue to increase our mobile payments and other internet-based product offerings and expand our internal usage of web-based products and applications.

If our security systems were penetrated or circumvented, it could cause serious negative consequences for us, including significant disruption of our operations, misappropriation of our confidential information or that of our customers, or damage our computers or systems and those of our customers and counterparties, and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss of confidence in our security measures, customer dissatisfaction, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on us.

We rely on third party vendors, which could expose Old National to additional risk.

Third party vendors provide key components of our business infrastructure, including certain data processing and information services. On our behalf, third parties may transmit confidential, propriety information. Although we require third party providers to maintain certain levels of information security, such providers may remain vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious attacks that could ultimately compromise sensitive information. While we may contractually limit our liability in connection with attacks against third party providers, Old National remains exposed to the risk of loss associated with such vendors. In addition, a number of our vendors are large national entities with dominant market presence in their respective fields. Their services could prove difficult to replace in a timely manner if a failure or other service interruption were to occur. Failures of certain vendors to provide contracted services could adversely affect our ability to deliver products and services to our customers and cause us to incur significant expense.

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Changes in economic or political conditions could adversely affect Old National s earnings, as the ability of Old National s borrowers to repay loans, and the value of the collateral securing such loans, decline.

Old National s success depends, to a certain extent, upon economic or political conditions, local and national, as well as governmental monetary policies. Conditions such as recession, unemployment, changes in interest rates, inflation, money supply and other factors beyond Old National s control may adversely affect its asset quality, deposit levels and loan demand and, therefore, Old National s earnings. Because Old National has a significant amount of commercial real estate loans, decreases in real estate values could adversely affect the value of property used as collateral. Adverse changes in the economy may also have a negative effect on the ability of Old National s borrowers to make timely repayments of their loans, which would have an adverse impact on Old National s earnings. In addition, substantially all of Old National s loans are to individuals and businesses in Old National s market area. Consequently, any economic decline in Old National s primary market areas, which include Indiana, Kentucky, and Michigan, could have an adverse impact on Old National s earnings.

Old National continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Old National s future success depends, in part, upon its ability to address customer needs by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in Old National s operations. Old National may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could negatively affect Old National s growth, revenue, and profit.

Changes in consumer use of banks and changes in consumer spending and savings habits could adversely affect Old National s financial results.

Technology and other changes now allow many customers to complete financial transactions without using banks. For example, consumers can pay bills and transfer funds directly without going through a bank. This process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits. In addition, changes in consumer spending and savings habits could adversely affect Old National s operations, and Old National may be unable to timely develop competitive new products and services in response to these changes.

Our earnings could be adversely impacted by incidences of fraud and compliance failure.

Financial institutions are inherently exposed to fraud risk. A fraud can be perpetrated by a customer of Old National, an employee, a vendor, or members of the general public. We are most subject to fraud and compliance risk in connection with the origination of loans, ACH transactions, wire transactions, ATM transactions, and checking transactions. Our largest fraud risk, associated with the origination of loans, includes the intentional misstatement of information in property appraisals or other underwriting documentation provided to us by third parties. Compliance risk is the risk that loans are not originated in compliance with applicable laws and regulations and our standards. There can be no assurance that we can prevent or detect acts of fraud or violation of law or our compliance standards by the third parties that we deal with. Repeated incidences of fraud or compliance failures would adversely impact the performance of our loan portfolio.

Risks Related to Old National s Business

Acquisitions may not produce revenue enhancements or cost savings at levels or within timeframes originally anticipated and may result in unforeseen integration difficulties and dilution to existing shareholder value.

We have acquired, and expect to continue to acquire, other financial institutions or parts of those institutions in the future, and we may engage in de novo branch expansion. We may also consider and enter into new lines of business or offer new products or services.

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We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. There can be no assurance that integration efforts for any mergers or acquisitions will be successful. Also, we may issue equity securities in connection with acquisitions, which could cause ownership and economic dilution to our current shareholders. There is no assurance that, following any mergers or acquisitions, our integration efforts will be successful or that, after giving effect to the acquisition, we will achieve profits comparable to, or better than, our historical experience.

Acquisitions and mergers involve a number of expenses and risks, including:

- the time and costs associated with identifying potential new markets, as well as acquisition and merger targets;
- the accuracy of the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target institution;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible dilution to our existing shareholders;
- the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combined businesses;
- entry into new markets where we lack experience;
- the introduction of new products and services into our business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations;
- closing delays and increased expenses related to the resolution of lawsuits filed by shareholders of targets; and
- the risk of loss of key employees and customers.

Old National must generally receive federal regulatory approval before it can acquire a bank or bank holding company. Old National cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Old National may be required to sell banks or branches as a condition to receiving regulatory approval.

Future acquisitions could be material to Old National and it may issue additional shares of stock to pay for those acquisitions, which would dilute current shareholder s ownership interests.

Economic conditions have affected and could continue to adversely affect our revenues and profits.

Old National s financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services that Old National offers, is highly dependent upon the business environment in the markets where Old National operates and in the United States as a whole. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment, natural disasters, terrorist acts, or a combination of these or other factors.

Although the domestic economy has been in the recovery phase since 2009, the recovery is modest and there can be no assurance that the economy will not enter into another recession, whether in the near term or long term. Continuation of the slow recovery or another economic downturn or sustained, high unemployment levels may negatively impact our operating results and have a negative effect on the ability of our borrowers to make timely repayments of their loans increasing the risk of loan defaults and losses.

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If Old National s actual loan losses exceed Old National s allowance for loan losses, Old National s net income will decrease.

Old National makes various assumptions and judgments about the collectibility of Old National s loan portfolio, including the creditworthiness of Old National s borrowers and the value of the real estate and other assets serving as collateral for the repayment of Old National s loans. Despite Old National s underwriting and monitoring practices, the effect of a declining economy could negatively impact the ability of Old National s borrowers to repay loans in a timely manner and could also negatively impact collateral values. As a result, Old National may experience significant loan losses that could have a material adverse effect on Old National s operating results. Since Old National must use assumptions regarding individual loans and the economy, Old National s current allowance for loan losses may not be sufficient to cover actual loan losses. Old National s assumptions may not anticipate the severity or duration of the current credit cycle; and Old National may need to significantly increase Old National s provision for losses on loans if one or more of Old National s larger loans or credit relationships becomes delinquent or if Old National expands its commercial real estate and commercial lending. In addition, federal and state regulators periodically review Old National s allowance for loan losses and may require Old National to increase the provision for loan losses or recognize loan charge-offs. Material additions to Old National s allowance would materially decrease Old National s net income. There can be no assurance that Old National s monitoring procedures and policies will reduce certain lending risks or that Old National s allowance for loan losses will be adequate to cover actual losses.

Old National s loan portfolio includes loans with a higher risk of loss.

Old National Bank originates commercial real estate loans, commercial loans, agricultural real estate loans, agricultural loans, consumer loans, and residential real estate loans primarily within Old National s market areas. Commercial real estate, commercial, consumer, and agricultural real estate and operating loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. These loans also have greater credit risk than residential real estate for the following reasons:

Commercial Real Estate Loans. Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.

Commercial Loans. Repayment is dependent upon the successful operation of the borrower s business.

Consumer Loans. Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.

Agricultural Loans. Repayment is dependent upon the successful operation of the business, which is greatly dependent on many things outside the control of either Old National Bank or the borrowers. These factors include weather, input costs, commodity and land prices, and interest rates.

Our wholesale funding sources may prove insufficient to replace deposits or support our future growth.

As a part of our liquidity management, we use a number of funding sources in addition to core deposit growth and repayments and maturities of loans and investments. These sources include brokered certificates of deposit, repurchase agreements, and federal funds purchased. Negative operating results or changes in industry conditions could lead to an inability to replace these additional funding sources at maturity. Our financial flexibility could be constrained if we are unable to maintain our access to funding or if adequate financing is not available to accommodate future growth at acceptable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In this case, our results of operations and financial condition would be negatively affected.

Our accounting estimates and risk management processes rely on analytical and forecasting models.

The processes that we use to estimate probable loan losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depend upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation. If our models for determining interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If our models for determining probable loan losses are inadequate, the allowance for loan losses may not be sufficient to support future charge-offs. If our models to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition, and results of operations.

If Old National forecloses on collateral property, Old National may be subject to the increased costs associated with the ownership of real property, resulting in reduced revenues.

Old National may have to foreclose on collateral property to protect Old National s investment and may thereafter own and operate such property, in which case Old National will be exposed to the risks inherent in the ownership of real estate. The amount that Old National, as a mortgagee, may realize after a default is dependent upon factors outside of Old National s control, including, but not limited to: (i) general or local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the mortgaged properties; (vi) environmental remediation liabilities; (vii) ability to obtain and maintain adequate occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations and fiscal policies; and (x) acts of God. Certain expenditures associated with the ownership of real estate, principally real estate taxes, insurance, and maintenance costs, may adversely affect the income from the real estate. Therefore, the cost of operating real property may exceed the income earned from such property, and Old National may have to advance funds in order to protect Old National s investment, or Old National may be required to dispose of the real property at a loss. The foregoing expenditures and costs could adversely affect Old National s ability to generate revenues, resulting in reduced levels of profitability.

Old National operates in an extremely competitive market, and Old National s business will suffer if Old National is unable to compete effectively.

In our market area, Old National encounters significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies securities brokerage firms, insurance companies, money market mutual funds, and other financial intermediaries. Our competitors may have substantially greater resources and lending limits than Old National does and may offer services that Old National does not or cannot provide. Old National s profitability depends upon Old National s continued ability to compete successfully in Old National s market area.

Our business could suffer if we fail to attract and retain skilled people.

Our success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities we engage in can be intense. We may not be able to hire the best people or to keep them. The loss of any of our key personnel or an inability to continue to attract, retain, and motivate key personnel could adversely affect our business.

We have risk related to legal proceedings.

We are involved in judicial, regulatory and arbitration proceedings concerning matters arising from our business activities and fiduciary responsibilities. We establish reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. We may still incur legal costs for a matter even if we have not established a reserve. In addition, the actual cost of resolving a legal claim may be substantially higher than any amounts reserved for that matter. The ultimate resolution of a pending or future legal proceeding, depending on the remedy sought and granted, could materially adversely affect our results of operations and financial condition.

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Risks Related to Old National s Stock

We may not be able to pay dividends in the future in accordance with past practice.

Old National has traditionally paid a quarterly dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on Old National s earnings, capital requirements, financial condition, and other factors considered relevant by Old National s Board of Directors.

Old National is an entity separate and distinct from Old National Bank. The Bank conducts most of our operations and Old National depends upon dividends from the Bank to service its debt and to pay dividends to Old National s shareholders. The availability of dividends from the Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition including liquidity and capital adequacy of the Bank and other factors, that the OCC could assert that the payment of dividends or other payments is an unsafe or unsound practice. In addition, the payment of dividends by our other subsidiaries is also subject to the laws of the subsidiary s state of incorporation, and regulatory capital and liquidity requirements applicable to such subsidiaries. At December 31, 2015, the Bank could pay dividends of $100.2 million without prior regulatory approval. In the event that the Bank was unable to pay dividends to us, we in turn would likely have to reduce or stop paying dividends on our Common Stock. Our failure to pay dividends on our Common Stock could have a material adverse effect on the market price of our Common Stock. See Business Supervision and Regulation Dividend Limitations and Note 23 to the consolidated financial statements.

The price of Old National s common stock may be volatile, which may result in losses for investors.

General market price declines or market volatility in the future could adversely affect the price of Old National s common stock. In addition, the following factors may cause the market price for shares of Old National s common stock to fluctuate:

- announcements of developments related to Old National s business;
- fluctuations in Old National s results of operations;
- sales or purchases of substantial amounts of Old National s securities in the marketplace;
- general conditions in Old National s banking niche or the worldwide economy;
- a shortfall or excess in revenues or earnings compared to securities analysts expectations;
- changes in analysts recommendations or projections; and
- Old National s announcement of new acquisitions or other projects.

As previously noted, the Dodd-Frank Act and its implementing regulations impose various additional requirements on bank holding companies with $10 billion or more in total assets, including compliance with portions of the Federal Reserve s enhanced prudential oversight requirements and annual stress testing requirements. Compliance with the annual stress testing requirements, part of which must be publicly disclosed, may also be negatively interpreted by the market generally or our customers and, as a result, may adversely affect our stock price or our ability to retain our customers or effectively compete for new business opportunities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2015, Old National and its affiliates operated a total of 160 banking centers, primarily in the states of Indiana, Kentucky, and Michigan. Of these facilities, 67 were owned.

Impacting the number of the Company s branch properties in 2015 was the acquisition of Founders (4 branches), the divestiture of its southern Illinois region (12 branches) and 4 branches in eastern Indiana and 1 in Ohio, and the consolidation of 23 branches throughout the franchise. In addition, we purchased 14 branches in 2015 that we had previously leased.

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The executive offices of Old National are located at 1 Main Street, Evansville, Indiana. This building, which houses Old National s general corporate functions, is leased from an unaffiliated third party. The lease term expires December 31, 2031, and provides for the tenant s option to extend the term of the lease for four five-year periods. In addition, we lease 93 financial centers from unaffiliated third parties. The terms of these leases range from six months to twenty-four years. See Note 21 to the consolidated financial statements.

ITEM 3. LEGAL PROCEEDINGS

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. Though Old National continues to expressly deny any wrongdoing, it is anticipated that during the first quarter of 2016, Old National will enter 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 has been accrued for in the December 31, 2015 financial statements.

Following notice of the settlement to the class participants, the settlement agreement will be subject to Circuit Court approval which is expected to be sought in either the second or third quarter of 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 it is likely that the bench trial currently set for May 9, 2016 through May 13, 2016 will be reset by the Circuit Court for a later date.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Old National s common stock is traded on the NASDAQ Stock Market (NASDAQ) under the ticker symbol ONB. Prior to August 14, 2013, Old National s common stock was traded on the New York Stock Exchange (NYSE). The following table lists the high and low closing sales prices as reported by the NASDAQ, share volume, and dividend data for 2015 and 2014:

	Price Per Share High	Price Per Share Low	Share Volume	Dividend Declared
2015				
First Quarter	**$ 14.63**	**$ 13.29**	**39,532,157**	**$ 0.12**
Second Quarter	**14.84**	**13.46**	**35,091,031**	**0.12**
Third Quarter	**14.84**	**13.26**	**36,742,644**	**0.12**
Fourth Quarter	**14.94**	**13.42**	**52,015,374**	**0.12**
2014				
First Quarter	$ 15.20	$ 13.05	39,214,689	$ 0.11
Second Quarter	15.14	13.35	39,772,681	0.11
Third Quarter	14.56	12.97	46,669,622	0.11
Fourth Quarter	15.02	12.29	41,844,652	0.11

There were 29,882 shareholders of record as of December 31, 2015. Old National declared cash dividends of $0.48 per share during the year ended December 31, 2015 and $0.44 per share during the year ended December 31, 2014. Old National s ability to pay cash dividends depends primarily on cash dividends received from Old National Bank. Dividend payments from Old National Bank are subject to various regulatory restrictions. See Note 23 to the consolidated financial statements for additional information.

The following table summarizes the purchases of equity securities made by Old National during the fourth quarter of 2015:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/15 - 10/31/15	359	$ 13.80		306,230
11/01/15 - 11/30/15	134,171	14.00	134,171	172,059
12/01/15 - 12/31/15	177,288	13.95	172,059	
Total	311,818	$ 13.97	306,230	

On July 23, 2015, the Board of Directors of the Company approved the adoption of a new stock repurchase plan to replace the stock repurchase plan previously adopted on October 23, 2014 which superseded the plan adopted on January 23, 2014. Under the new plan, the Company is authorized to purchase up to 7.0 million shares of the Company s common stock through January 31, 2016. These shares may be purchased from time to time in either the open market or in privately negotiated transactions, in accordance with SEC regulations. The Company completed the previously announced stock repurchase plan of 7.0 million shares in December 2015. During the twelve months ended December 31, 2015, Old National also repurchased a limited number of shares associated with employee share-based incentive programs.

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On January 28, 2016, the Board of Directors declared a quarterly cash dividend of $0.13 per common share, an increase from the $0.12 paid on December 15, 2015. The Board of Directors did not authorize a new stock repurchase plan for 2016.

EQUITY COMPENSATION PLAN INFORMATION

The following table contains information concerning the 2008 Equity Incentive Plan approved by security holders, as of December 31, 2015.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	2,228,796	$ 14.45	4,912,159
Equity compensation plans not approved by security holders			
Total	2,228,796	$ 14.45	4,912,159

At December 31, 2015, 4.9 million shares remain available for issuance under the 2008 Equity Incentive Plan.

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The following table compares cumulative five-year total shareholder returns, assuming reinvestment of dividends, for our common stock to cumulative total returns of a broad-based equity market index and two published industry indices. The comparison of shareholder returns (change in December year end stock price plus reinvested dividends) for each of the periods assumes that $100 was invested on December 31, 2010, in common stock of each of the Company, the S&P Small Cap 600 Index, the NYSE Financial Index and the SNL Bank and Thrift Index with investment weighted on the basis of market capitalization.

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ITEM 6. SELECTED FINANCIAL DATA

(dollars in thousands, except per share data)	2015	2014	2013	2012	2011
Operating Results					
Net interest income	**$ 366,116**	$ 366,370	$ 317,424	$ 308,757	$ 272,873
Conversion to fully taxable equivalent (1)	**19,543**	16,999	16,876	13,188	11,821
Net interest income - tax equivalent basis	**385,659**	383,369	334,300	321,945	284,694
Provision for loan losses	**2,923**	3,097	(2,319)	5,030	7,473
Noninterest income	**230,632**	165,129	184,758	189,816	182,883
Noninterest expense	**430,932**	386,438	361,984	365,758	348,521
Net income	**116,716**	103,667	100,920	91,675	72,460
Common Share Data (2)					
Weighted average diluted shares	**116,255**	108,365	101,198	96,833	94,772
Net income (diluted)	**$ 1.00**	$ 0.95	$ 1.00	$ 0.95	$ 0.76
Cash dividends	**0.48**	0.44	0.40	0.36	0.28
Common dividend payout ratio (3)	**47.60**	46.48	39.91	37.80	36.59
Book value at year-end	**13.05**	12.54	11.64	11.81	10.92
Stock price at year-end	**13.56**	14.88	15.37	11.87	11.65
Balance Sheet Data (at December 31)					
Loans (4)	**$ 6,962,215**	$ 6,531,691	$ 5,090,669	$ 5,209,185	$ 4,771,731
Total assets	**11,991,527**	11,646,051	9,581,744	9,543,623	8,609,683
Deposits	**8,400,860**	8,490,664	7,210,903	7,278,953	6,611,563
Other borrowings	**1,291,747**	918,602	556,388	237,493	290,774
Shareholders equity	**1,491,170**	1,465,764	1,162,640	1,194,565	1,033,556
Performance Ratios					
Return on average assets (ROA)	**0.98%**	0.99%	1.05%	1.04%	0.86%
Return on average common shareholders equity (ROE)	**7.88**	7.91	8.54	8.34	7.24
Average equity to average assets	**12.42**	12.57	12.33	12.49	11.94
Net interest margin (5)	**3.72**	4.22	4.02	4.23	3.87
Efficiency ratio (6)	**68.65**	70.03	68.61	71.83	73.80
Asset Quality (7)					
Net charge-offs (recoveries) to average loans	**(0.02)%**	0.04%	0.10%	0.17%	0.49%
Allowance for loan losses to ending loans	**0.75**	0.76	0.93	1.05	1.22
Allowance for loan losses	**$ 52,233**	$ 47,849	$ 47,145	$ 54,763	$ 58,060
Underperforming assets (8)	**160,072**	170,535	165,656	302,643	340,543
Allowance for loan losses to nonaccrual loans (9)	**39.46%**	33.97%	36.71%	21.53%	19.47%
Allowance for loan losses to nonaccrual loans - excluding covered loans (9)	**41.02**	35.23	43.19	32.61	49.53
Other Data					
Full-time equivalent employees	**2,652**	2,938	2,608	2,684	2,551
Branches and financial centers	**160**	195	169	180	183

(1)

Calculated using the federal statutory tax rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.

(2) Diluted data assumes the exercise of stock options and the vesting of restricted stock.

(3) Cash dividends divided by net income.

(4) Includes loans and finance leases held for sale.

(5) Defined as net interest income on a tax equivalent basis as a percentage of average earning assets.

(6) Defined as noninterest expense before amortization of intangibles as a percent of fully taxable equivalent net interest income and noninterest income, excluding net gains from securities transactions. This presentation excludes intangible amortization and net securities gains, as is common in other company disclosures, and better aligns with true operating performance.

(7) Excludes loans and finance leases held for sale.

(8) Includes nonaccrual loans, renegotiated loans, loans 90 days past due still accruing and other real estate owned. Includes $12.4 million, $24.4 million, $45.5 million, $130.1 million, and $215.7 million of covered assets in 2015, 2014, 2013, 2012, and 2011, respectively, acquired in an FDIC assisted transaction, which are covered by loss sharing agreements with the FDIC providing for specified loss protection.

(9) Includes approximately $15.9 million, $41.2 million, $38.3 million, $156.8 million, and $201.3 million for 2015, 2014, 2013, 2012, and 2011, respectively, of purchased credit impaired loans that are categorized as nonaccrual because the collection of principal or interest is doubtful. These loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is an analysis of our results of operations for the fiscal years ended December 31, 2015, 2014, and 2013, and financial condition as of December 31, 2015 and 2014. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business. Readers are cautioned that, by their nature, forward-looking statements are based on estimates and assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from our expectations that are expressed or implied by any forward-looking statement. The discussion in Item 1A, Risk Factors, lists some of the factors that could cause our actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.

GENERAL OVERVIEW

Old National is the largest financial holding company incorporated in the state of Indiana and maintains its principal executive offices in Evansville, Indiana. Old National, through Old National Bank, provides a wide range of services, including commercial and consumer loan and depository services, and other traditional banking services. Old National also provides services to supplement the traditional banking business including fiduciary and wealth management services, investment and brokerage services, investment consulting, insurance, and other financial services.

Our basic mission is to be THE community bank in the cities and towns we serve. We focus on establishing and maintaining long-term relationships with customers, and are committed to serving the financial needs of the communities in our market area. Old National provides financial services primarily in Indiana, Kentucky, and Michigan.

CORPORATE DEVELOPMENTS IN FISCAL 2015

In 2015, we took a pause from acquisition activity and focused on the execution of our business strategy. We generated solid loan growth throughout our footprint and drove positive results in our Wealth Management, Investments, and Insurance product lines. We also made good progress on our expense management goals. Total revenues increased to $596.7 million, or 12%, from $531.5 million in 2014 and noninterest expenses remained well controlled, increasing to $430.9 million, or 12%, from $386.4 million in 2014. Net income for 2015 was $116.7 million, which compares favorably to 2014 net income of $103.7 million. Diluted earnings per share were $1.00 per share in 2015, compared to $0.95 in 2014.

BUSINESS OUTLOOK

A slowing Chinese economy and lingering uncertainty about the Federal Reserve s timeline to normalize interest rates may continue to pose challenges for 2016 revenue growth. However, despite those headwinds, we are seeing positive catalysts for growth. Lower energy costs have been a welcome development for consumers and manufacturers, labor market conditions continue to improve, and consumer confidence remains elevated.

Our focus for 2016 will be much like our focus in 2015, as we execute on our revenue growth and expense management strategy. We have transitioned our footprint into higher growth markets and opportunistically will continue to do so. We believe we have the right people and the right products in the right markets, with strong leadership in place. Core revenue growth, improvement in our operating leverage, and the prudent use of capital will remain priorities.

In addition, subsequent to year-end, we announced our entry into several vibrant new markets in Wisconsin. With 46 branches and $2.2 billion in assets, Anchor BanCorp Wisconsin Inc. will further distance us from $10 billion and give us a presence in the demographically attractive Wisconsin markets of Madison, Fox Valley, and Milwaukee. The transaction is subject to regulatory approval and customary closing conditions and is expected to close during the second quarter of 2016.

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RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the years ended December 31, 2015, 2014, and 2013:

(dollars in thousands)	2015	2014	2013
Income Statement Summary:			
Net interest income	**$ 366,116**	$ 366,370	$ 317,424
Provision for loan losses	**2,923**	3,097	(2,319)
Noninterest income	**230,632**	165,129	184,758
Noninterest expense	**430,932**	386,438	361,984
Other Data:			
Return on average common equity	**7.88%**	7.91%	8.54%
Efficiency ratio (1)	**68.65%**	70.03%	68.61%
Tier 1 leverage ratio	**8.54%**	8.79%	8.92%
Net charge-offs (recoveries) to average loans	**(0.02)%**	0.04%	0.10%

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

Comparison of Fiscal Years 2015 and 2014

Net Interest Income

Net interest income is the most significant component of our earnings, comprising over 61% of 2015 revenues. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources, and interest rate fluctuations. Other factors include the level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets, and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally costs less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy, and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

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

(dollars in thousands)	**2015**	**2014**	**2013**
Net interest income	**$ 366,116**	$ 366,370	$ 317,424
Conversion to fully taxable equivalent	**19,543**	16,999	16,876
Net interest income - taxable equivalent basis	**$ 385,659**	$ 383,369	$ 334,300
Average earning assets	**$ 10,363,098**	$ 9,082,768	$ 8,312,228
Net interest margin	**3.53%**	4.03%	3.82%
Net interest margin - taxable equivalent basis	**3.72%**	4.22%	4.02%

Net interest income was $366.1 million in 2015, a $0.3 million decrease from $366.4 million in 2014. Taxable equivalent net interest income was $385.7 million in 2015, a 1% increase from $383.4 million in 2014. The net interest margin on a fully taxable equivalent basis was 3.72% in 2015, a 50 basis point decrease compared to 4.22% in 2014. Both 2015 and 2014 included accretion income (interest income in excess of contractual interest income) associated with acquired loans. Excluding this accretion income in both periods, net interest income on a fully taxable equivalent basis would have been $322.6 million in 2015 compared to $296.8 million in 2014; and the net interest margin on a fully taxable equivalent basis would have been 3.11% in 2015 and 3.27% in 2014.

Net interest income in 2015 remained relatively flat when compared to 2014. Accretion income recorded in 2015 declined $23.5 million compared to 2014 reflecting the payoff of several large purchased credit impaired loans. We expect accretion income to gradually decrease over time. It should be noted that the accretion income associated with Integra, our FDIC-assisted acquisition, is partially offset by the amortization of our indemnification asset. See the discussion in the section Noninterest Income Related to Covered Assets for additional details. Offsetting the decrease in accretion income was an increase in average earning assets of $1.280 billion when compared to 2014 and a change in the mix of interest earning assets and interest bearing liabilities. Commercial and commercial real estate loans including covered loans, which typically generate higher interest income than investment securities with similar maturities, became the largest classification within earning assets beginning in 2015.

The yield on average earning assets decreased 44 basis points from 4.48% in 2014 to 4.04% in 2015 and the cost of interest-bearing liabilities increased 8 basis points from 0.35% in 2014 to 0.43% in 2015. Average earning assets increased by $1.280 billion, or 14%. The increase in average earning assets consisted of a $1.171 billion increase in loans, an $85.8 million increase in lower yielding investment securities, and a $23.2 million increase in money market and other interest-earning investments. Average interest-bearing liabilities increased $977.7 million, or 14%. The increase in average interest-bearing liabilities consisted of a $592.1 million increase in interest-bearing deposits, a $77.3 million increase in short-term borrowings, and a $308.3 million increase in other borrowings. Average noninterest-bearing deposits increased by $333.9 million.

The increase in average earning assets in 2015 compared to 2014 was primarily due to our acquisitions in 2014 and 2015. The loan portfolio including loans held for sale, which generally has an average yield higher than the investment portfolio, was approximately 66% of average interest earning assets in 2015 compared to 63% in 2014.

Average loans excluding loans held for sale increased $1.053 billion in 2015 compared to 2014 reflecting our acquisitions in 2014 and 2015. This increase was partially offset by a decrease in average covered loans of $44.3 million in 2015 and the reclassification of loans to loans held for sale, which decreased average loans by approximately $120.6 million in 2015.

The increases in average investments and average deposits also reflected our acquisitions in 2014 and 2015.

Average borrowed funds increased $385.6 million in 2015 compared to 2014 reflecting higher Federal Home Loan Bank advances and the issuance of $175.0 million of senior unsecured notes in August 2014.

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The following table presents a three-year average balance sheet and for each major asset and liability category, its related interest income and yield, or its expense and rate for the years ended December 31.

(tax equivalent basis, dollars in thousands)	2015 Average Balance	2015 Interest & Fees	2015 Yield/ Rate	2014 Average Balance	2014 Interest & Fees	2014 Yield/ Rate	2013 Average Balance	2013 Interest & Fees	2013 Yield/ Rate
Earning Assets									
Money market and other interest-earning investments (1)	**$ 43,383**	**$ 47**	**0.11%**	$ 20,148	$ 42	0.21%	$ 22,281	$ 38	0.17%
Investment securities: (2)									
U.S. Treasury & government-sponsored agencies (3)	**1,967,293**	**36,725**	**1.87**	2,041,978	38,742	1.90	2,037,575	40,063	1.97
States and political subdivisions (4)	**1,023,983**	**49,162**	**4.80**	889,343	45,112	5.07	818,427	43,649	5.33
Other securities	**444,520**	**10,903**	**2.45**	418,714	11,322	2.70	289,018	8,433	2.92
Total investment securities	**3,435,796**	**96,790**	**2.82**	3,350,035	95,176	2.84	3,145,020	92,145	2.93
Loans: (5)									
Commercial (4) (6) (7)	**1,754,141**	**75,900**	**4.33**	1,527,436	70,471	4.61	1,403,355	63,661	4.54
Commercial real estate (7)	**1,862,055**	**118,237**	**6.35**	1,474,136	130,780	8.87	1,328,503	95,010	7.15
Residential real estate (7)	**1,712,636**	**70,908**	**4.14**	1,497,122	60,904	4.07	1,414,214	58,271	4.12
Consumer, net of unearned income (7)	**1,555,087**	**56,850**	**3.66**	1,213,891	49,355	4.07	998,855	49,561	4.96
Total loans (6) (7)	**6,883,919**	**321,895**	**4.68**	5,712,585	311,510	5.45	5,144,927	266,503	5.18
Total earning assets	**10,363,098**	**$ 418,732**	**4.04%**	9,082,768	$ 406,728	4.48%	8,312,228	$ 358,686	4.32%
Less: Allowance for loan losses	**(50,538)**			(47,254)			(50,591)		
Non-Earning Assets									
Cash and due from banks	**163,275**			171,789			160,040		
Other assets	**1,451,125**			1,224,272			1,168,261		
Total assets	**$ 11,926,960**			$ 10,431,575			$ 9,589,938		

Interest-Bearing Liabilities									
NOW deposits	**2,160,019**	**$ 758**	**0.04%**	$ 1,989,794	$ 595	0.03%	$ 1,734,809	$ 487	0.03%
Savings deposits	**2,299,357**	**3,199**	**0.14**	2,104,076	2,875	0.14	1,916,133	2,836	0.15
Money market deposits	**677,414**	**577**	**0.09**	490,247	250	0.05	368,424	216	0.06
Time deposits	**1,063,782**	**9,634**	**0.91**	1,024,377	9,606	0.94	1,152,309	14,585	1.27
Total interest-bearing deposits	**6,200,572**	**14,168**	**0.23**	5,608,494	13,326	0.24	5,171,675	18,124	0.35
Short-term borrowings	**482,241**	**493**	**0.10**	404,919	310	0.08	517,653	641	0.12
Other borrowings	**1,061,681**	**18,412**	**1.73**	753,358	9,723	1.29	539,323	5,621	1.04
Total interest-bearing liabilities	**$ 7,744,494**	**$ 33,073**	**0.43%**	$ 6,766,771	$ 23,359	0.35%	$ 6,228,651	$ 24,386	0.39%
Noninterest-Bearing Liabilities									
Demand deposits	**2,500,571**			2,166,628			1,952,790		
Other liabilities	**200,994**			186,910			226,257		
Shareholders equity	**1,480,901**			1,311,266			1,182,240		
Total liabilities and shareholders equity	**$ 11,926,960**			$ 10,431,575			$ 9,589,938		
Interest Margin Recap									
Interest income/average earning assets		**$ 418,732**	**4.04%**		$ 406,728	4.48%		$ 358,686	4.32%
Interest expense/average earning assets		**33,073**	**0.32**		23,359	0.26		24,386	0.30
Net interest income and margin		**$ 385,659**	**3.72%**		$ 383,369	4.22%		$ 334,300	4.02%

(1) The 2015, 2014, and 2013 average balances include $35.2 million, $12.3 million, and $16.7 million, respectively, of required and excess balances held at the Federal Reserve.

(2) Changes in fair value are reflected in the average balance; however, yield information does not give effect to changes in fair value that are reflected as a component of shareholders equity.

(3) Includes U.S. government-sponsored entities and agency mortgage-backed securities at December 31, 2015.

(4) Interest on state and political subdivision investment securities and commercial loans includes the effect of taxable equivalent adjustments of $13.7 million and $5.9 million, respectively, in 2015; $11.8 million and $5.2 million, respectively, in 2014; and $12.3 million and $4.6 million, respectively, in 2013; using the federal statutory tax rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.

(5) Includes principal balances of nonaccrual loans. Interest income relating to nonaccrual loans is included only if received.

(6) Includes finance leases held for sale.

(7) Includes loans held for sale.

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The following table shows fluctuations in taxable equivalent net interest income attributable to changes in the average balances of assets and liabilities and the yields earned or rates paid for the years ended December 31.

	2015 vs. 2014			**2014 vs. 2013**		
	Total	**Attributed to**		**Total**	**Attributed to**	
(dollars in thousands)	**Change**	**Volume**	**Rate**	**Change**	**Volume**	**Rate**
Interest Income						
Money market and other interest-earning investments	**$ 5**	**$ 36**	**$ (31)**	$ 4	$ (4)	$ 8
Investment securities (1)	**1,614**	**2,426**	**(812)**	3,031	5,915	(2,884)
Loans (1)	**10,385**	**59,322**	**(48,937)**	45,007	30,180	14,827
Total interest income	**12,004**	**61,784**	**(49,780)**	48,042	36,091	11,951
Interest Expense						
NOW deposits	**163**	**55**	**108**	108	74	34
Savings deposits	**324**	**269**	**55**	39	267	(228)
Money market deposits	**327**	**127**	**200**	34	66	(32)
Time deposits	**28**	**363**	**(335)**	(4,979)	(1,409)	(3,570)
Short-term borrowings	**183**	**69**	**114**	(331)	(112)	(219)
Other borrowings	**8,689**	**4,663**	**4,026**	4,102	2,496	1,606
Total interest expense	**9,714**	**5,546**	**4,168**	(1,027)	1,382	(2,409)
Net interest income	**$ 2,290**	**$ 56,238**	**$ (53,948)**	$ 49,069	$ 34,709	$ 14,360

The variance not solely due to rate or volume is allocated equally between the rate and volume variances.

(1) Interest on investment securities and loans includes the effect of taxable equivalent adjustments of $13.7 million and $5.9 million, respectively, in 2015; $11.8 million and $5.2 million, respectively, in 2014; and $12.3 million and $4.6 million, respectively, in 2013; using the federal statutory rate in effect of 35% for all periods adjusted for the TEFRA interest disallowance applicable to certain tax-exempt obligations.

Provision for Loan Losses

The provision for loan losses was an expense of $2.9 million in 2015, compared to an expense of $3.1 million in 2014. Net recoveries totaled $1.5 million in 2015, compared to net charge-offs of $2.4 million in 2014. Continued loan growth in future periods, decreases in net recoveries, or credit quality deterioration would result in additional provision expense. For additional information about non-performing loans, charge-offs, and additional items impacting the provision, refer to the Risk Management - Credit Risk section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations .

Noninterest Income

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, investment products, and insurance. This source of revenue increased as a percentage of total revenue to 39% in 2015 compared to 31% in 2014.

Noninterest income was $230.6 million in 2015, an increase of $65.5 million, or 40%, compared to $165.1 million in 2014. The increase in noninterest income in 2015 was primarily due to a negative adjustment of $9.0 million for the FDIC indemnification asset in 2015 compared to a negative adjustment of $43.2 million for the FDIC indemnification asset in 2014. The increase was also due to our recent acquisitions, a $15.6 million gain on branch divestitures in 2015, and pre-tax deferred gains of $10.8 million resulting from the acquisition of fourteen bank properties that Old National had previously leased.

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The following table details the components of noninterest income for the years ended December 31.

				% Change From Prior Year	
(dollars in thousands)	**2015**	2014	2013	**2015**	2014
Wealth management fees	**$ 34,395**	$ 28,737	$ 23,493	**19.7%**	22.3%
Service charges on deposit accounts	**43,372**	47,433	49,562	**(8.6)**	(4.3)
Debit card and ATM fees	**21,340**	25,835	25,019	**(17.4)**	3.3
Mortgage banking revenue	**12,540**	6,017	4,420	**108.4**	36.1
Insurance premiums and commissions	**42,714**	41,466	38,483	**3.0**	7.8
Investment product fees	**17,924**	17,136	16,018	**4.6**	7.0
Company-owned life insurance	**8,604**	6,924	7,454	**24.3**	(7.1)
Other income	**20,988**	18,919	16,886	**10.9**	12.0
Total fee and service charge income	**201,877**	192,467	181,335	**4.9**	6.1
Net securities gains	**5,718**	9,830	4,341	**(41.8)**	126.4
Impairment on available-for-sale securities		(100)	(1,000)	**100.0**	90.0
Gain on sale leaseback transactions	**16,444**	6,094	6,476	**169.8**	(5.9)
Net gain on branch divestitures	**15,627**		2,894	**N/M**	N/M
Change in FDIC indemnification asset	**(9,034)**	(43,162)	(9,288)	**(79.1)**	N/M
Total noninterest income	**$ 230,632**	$ 165,129	$ 184,758	**39.7%**	(10.6)%
Noninterest income to total revenue (1)	**37.4%**	30.1%	35.6%		

(1) Total revenue includes the effect of a taxable equivalent adjustment of $19.5 million in 2015, $17.0 million in 2014, and $16.9 million in 2013.
N/M = Not meaningful

Wealth management fees increased $5.7 million to $34.4 million in 2015 reflecting our recent acquisitions. In addition, wealth management fees fluctuate in tandem with the fixed income and equities markets.

Service charges and overdraft fees on deposit accounts, our largest source of noninterest income, continued to be challenged. Service charges and overdraft fees were $43.4 million in 2015, a $4.0 million decrease from $47.4 million in 2014.

Debit card and ATM fees decreased $4.5 million in 2015 compared to 2014 as the Durbin Amendment, which limits interchange fees on debit card transactions for banks with $10 billion or more in assets, became effective for us on July 1, 2015. The Durbin Amendment negatively impacted debit card and ATM fees by approximately $5.4 million, pre-tax, in the second half of 2015.

Mortgage banking revenue increased $6.5 million to $12.5 million in 2015 compared to $6.0 million in 2014 primarily due to increased sales to the secondary market in 2015 and an increase in production attributable to our new associates at acquired banks.

Insurance premiums and commissions increased $1.2 million to $42.7 million in 2015 compared to $41.5 million in 2014 reflecting higher commissions on property and casualty. This increase was partially offset by lower contingency income in 2015 compared to 2014.

Net securities gains were $5.7 million in 2015 compared to $9.7 million in 2014. Included in 2014 is a $100 thousand other-than-temporary impairment charge on one limited partnership investment.

Gain on sale leaseback transactions increased $10.4 million to $16.4 million in 2015 compared to 2014. During the fourth quarter of 2015, Old National acquired fourteen bank properties that it previously leased, resulting in the recognition of approximately $10.8 million of pre-tax deferred gains. Old National had deferred gains remaining associated with prior sale leaseback transactions totaling $40.7 million as of December 31, 2015, which will be recognized over the remaining term of the leases.

In 2015, we recorded a net gain of $15.6 million in connection with the August 2015 divestitures of our previously announced branch sales, which included a deposit premium of $19.3 million, goodwill allocation of $3.8 million, and $0.9 million of other transaction expenses. We divested our southern Illinois region (twelve branches) along with four branches in eastern Indiana and one in Ohio.

Other income increased $2.1 million in 2015 compared to 2014 primarily due to favorable variances in net gains (losses) on sales of property and other assets and higher non-fee based revenue, partially offset by unfavorable variances in net gains (losses) on sales of foreclosed properties.

Noninterest Income Related to Covered Assets

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

Changes in the FDIC indemnification asset resulted in a negative adjustment to noninterest income of $9.0 million in 2015, compared to a negative adjustment to noninterest income of $43.2 million in 2014. Several large loans paid off in 2014 resulting in a large decrease in the indemnification asset and higher amortization expense in 2014. At December 31, 2015, $2.5 million of the remaining indemnification asset is expected to be amortized and reported as a reduction of noninterest income over the next nine months.

Noninterest Expense

Noninterest expense totaled $430.9 million in 2015, an increase of $44.5 million, or 12%, from $386.4 million in 2014. The increase was primarily due to higher salaries and benefits, other expense, occupancy expenses, and amortization of intangibles. These increases were partially offset by lower acquisition and integration costs. Operating expenses associated with the acquisitions of Tower, United, LSB, and Founders totaled $39.0 million in 2015 compared to $18.5 million in 2014. In addition, noninterest expense also included acquisition and integration costs associated with these transactions totaling $5.7 million in 2015 compared to $15.6 million in 2014. Noninterest expense in 2015 also included costs associated with branch divestitures, closures, and consolidations totaling $9.5 million, $5.6 million of severance expense related to early retirement offers and other workforce reductions, and a $4.8 million legal settlement accrual.

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The following table details the components of noninterest expense for the years ended December 31.

(dollars in thousands)	2015	2014	2013	% Change From Prior Year 2015	2014
Salaries and employee benefits	**$ 243,875**	$ 219,301	$ 202,435	**11.2%**	8.3%
Occupancy	**53,239**	49,099	48,360	**8.4**	1.5
Equipment	**13,183**	12,453	11,879	**5.9**	4.8
Marketing	**10,410**	9,591	7,212	**8.5**	33.0
Data processing	**27,309**	25,382	21,608	**7.6**	17.5
Communication	**9,586**	10,476	10,521	**(8.5)**	(0.4)
Professional fees	**11,756**	16,390	11,948	**(28.3)**	37.2
Loan expense	**6,373**	6,107	6,972	**4.4**	(12.4)
Supplies	**2,275**	2,958	2,361	**(23.1)**	25.3
FDIC assessment	**7,503**	6,261	5,097	**19.8**	22.8
Other real estate owned expense	**2,703**	3,101	4,129	**(12.8)**	(24.9)
Amortization of intangibles	**11,746**	9,120	8,162	**28.8**	11.7
Other expense	**30,974**	16,199	21,300	**91.2**	(23.9)
Total noninterest expense	**$ 430,932**	$ 386,438	$ 361,984	**11.5%**	6.8%

Salaries and benefits, the largest component of noninterest expense, totaled $243.9 million in 2015, compared to $219.3 million in 2014, an increase of $24.6 million, or 11%. Included in 2015 are increases of $10.7 million in salaries and benefits expense associated with the Tower, United, LSB, and Founders acquisitions. Also included in 2015 is $5.6 million of severance expense related to early retirement offers and other workforce reductions and higher commissions of $10.2 million.

Occupancy expenses increased $4.1 million to $53.2 million in 2015 compared to 2014 primarily due to our acquisitions in 2014 and 2015. Also contributing to the increase in occupancy expenses were higher real estate taxes of $2.6 million. Real estate taxes in 2014 included a refund of $1.3 million.

Data processing expense was $27.3 million in 2015, an increase of $1.9 million compared to 2014. Data processing expense increased primarily due to higher expenses related to upgrades in software and equipment.

Professional fees decreased $4.6 million in 2015 compared to 2014 primarily due to additional expenses recorded in 2014 associated with the acquisitions of Tower, United, LSB, and Founders.

Amortization of intangibles increased $2.6 million in 2015 compared to 2014 reflecting additional customer relationship and core deposit intangibles associated with our acquisitions in 2014 and 2015.

Other expense was $31.0 million in 2015 compared to $16.2 million in 2014. The increases reflected costs associated with branch divestitures, closures, and consolidations totaling $7.8 million in 2015 primarily due to asset impairments and lease termination settlements. Also contributing to the increase in other expense was a $4.8 million legal settlement accrual and higher charitable contributions of $1.7 million.

Provision for Income Taxes

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The effective tax rate was 28.3% in 2015 compared to 27.0% in 2014. The higher effective tax rate in 2015 when compared to 2014 is the result of an increase in pre-tax income, as well as tax differences arising from the sale of Illinois branches in the third quarter of 2015. See Note 14 to the consolidated financial statements for additional details on Old National s income tax provision.

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Comparison of Fiscal Years 2014 and 2013

In 2014, we generated net income of $103.7 million and diluted net income per share of $0.95 compared to $100.9 million and diluted net income per share of $1.00, respectively, in 2013. The 2014 earnings included a $48.9 million increase in net interest income and a $3.3 million decrease in income tax expense. These increases to net income were partially offset by a $5.4 million increase in the provision for loan losses, a $19.6 million decrease in noninterest income, and a $24.5 million increase in noninterest expense.

Net interest income was $366.4 million in 2014, a 15% increase from $317.4 million in 2013. Taxable equivalent net interest income was $383.4 million in 2014, a 15% increase from the $334.3 million reported in 2013. The net interest margin on a fully taxable equivalent basis was 4.22% for 2014, a 20 basis point increase compared to the 4.02% reported in 2013. Average earning assets increased by $770.5 million during 2014 and the yield on average earning assets increased 16 basis points from 4.32% in 2013 to 4.48% in 2014. Average interest-bearing liabilities increased $538.7 million and the cost of interest-bearing liabilities decreased from 0.39% in 2013 to 0.35% in 2014.

The provision for loan losses was an expense of $3.1 million in 2014, compared to a credit of $2.3 million in 2013. Charge-offs remained low during 2014 and we continued to see positive trends in credit quality; however, loan growth in 2014 contributed to the need for additional loan loss reserve and provision expense.

Noninterest income was $165.1 million in 2014, a decrease of $19.6 million, or 10.6%, compared to $184.8 million in 2013. The decrease in noninterest income in 2014 was primarily due to a negative adjustment to the FDIC indemnification asset of $43.2 million in 2014 compared to a negative adjustment of $9.3 million to the FDIC indemnification asset in 2013. The decrease also reflected a gain on branch divestitures of $2.9 million that was recorded in the first quarter of 2013. These decreases were partially offset by net securities gains increase of $6.4 million, wealth management fees increase of $5.2 million, and insurance premiums and commissions increase of $3.0 million.

Noninterest expense totaled $386.4 million in 2014, an increase of $24.5 million, or 6.8% from the $362.0 million recorded in 2013. Included in 2014 is $6.9 million of costs related to the operation of the 7 branches acquired from Tower, $10.2 million of costs related to the operation of the 18 branches acquired from United, and $1.4 million of costs related to the operation of the 4 branches acquired from LSB. In addition, $15.6 million of acquisition and integration costs are included in 2014.

The provision for income taxes was $38.3 million in 2014 compared to $41.6 million in 2013. Old National s effective tax rate was 27.0% in 2014 compared to 29.2% in 2013.

BUSINESS LINE RESULTS

We operate in two operating segments: banking and insurance. See Part 1, Item 1 for a discussion of our operating segments. The following table summarizes our business line results for the years ended December 31.

(dollars in thousands)	2015	2014	2013
Banking	**$ 129,500**	$ 109,776	$ 104,265
Insurance	**2,070**	2,428	1,925
Other	**(14,854)**	(8,537)	(5,270)

Net income	**$ 116,716**	$ 103,667	$ 100,920

The 2015 banking segment profit increased $19.7 million from 2014 primarily due to a favorable variance in adjustments to the FDIC indemnification asset, a $15.4 million gain on branch divestitures in the third quarter of 2015, and pre-tax deferred gains of $10.8 million resulting from the acquisition of fourteen bank properties that Old National had previously leased. In addition, banking segment noninterest income increased in 2015 when compared to 2014 primarily due to fee income associated with the acquisitions of Tower in April 2014, United in July 2014, LSB in November 2014, and Founders in January 2015. These increases in the 2015 banking segment profit were partially offset by higher operating expenses associated with the acquisitions of Tower, United, LSB, and Founders. The 2014 banking segment profit increased $5.5 million from 2013 primarily due to the acquisitions of Tower in April 2014, United in July 2014, and LSB in November 2014.

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FINANCIAL CONDITION

Overview

At December 31, 2015, our assets were $11.992 billion, a 3% increase compared to $11.646 billion at December 31, 2014. The increase was primarily due to the acquisition of Founders in January 2015. Earning assets, comprised of investment securities, portfolio loans, loans held for sale, money market investments, interest earning accounts with the Federal Reserve, and trading securities, were $10.471 billion at December 31, 2015, an increase of 4% compared to $10.111 billion at December 31, 2014.

Earning Assets

Investment Securities

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we also have $16.0 million of 15- and 20-year fixed-rate mortgage-backed securities, $142.9 million of U.S. government-sponsored entity and agency securities, and $713.2 million of state and political subdivision securities in our held-to-maturity investment portfolio at December 31, 2015.

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 $3.9 million at December 31, 2015 and December 31, 2014.

At December 31, 2015, the investment securities portfolio was $3.380 billion compared to $3.547 billion at December 31, 2014, a decrease of 5%. Included in the investment securities portfolio at December 31, 2015 are $61.4 million of investment securities associated with the acquisition of Founders. Investment securities represented 32% of earning assets at December 31, 2015, compared to 35% at December 31, 2014. Investment securities also decreased as a percentage of total earning assets due to a proportionately larger increase in loan balances. Stronger commercial loan demand in the future and management s decision to deleverage the balance sheet could result in a reduction in the securities portfolio. As of December 31, 2015, management does not intend to sell any securities in an unrealized loss position and does not believe we will be required to sell such securities.

The investment securities available-for-sale portfolio had net unrealized losses of $5.8 million at December 31, 2015, compared to net unrealized losses of $1.3 million at December 31, 2014. Net unrealized losses increased from December 31, 2014 to December 31, 2015 due to an increase in interest rates and a change in the mix of investment securities.

The investment portfolio had an effective duration of 3.99 at December 31, 2015, compared 3.71 at December 31, 2014. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. Generally, there is more uncertainty in interest rates over a longer average maturity, resulting in a higher duration percentage. The weighted average yields on available-for-sale investment securities were 2.38% in 2015 and 2.23% in 2014. The average yields on the held-to-maturity portfolio were 4.99% in 2015 and 2014.

At December 31, 2015, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: $340.5 million by Indiana, which represented 22.8% of shareholders equity, and $220.9 million by Texas, which represented 14.8% of shareholders equity. Of the Indiana municipal bonds, 94% are rated A or better, and the remaining 6% generally represent non-rated local interest bonds where Old National has a market presence. All of the Texas municipal bonds are rated AA or better, and the majority of issues are backed by the AAA rated State of Texas Permanent School Fund Guarantee Program.

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Loan Portfolio

We lend primarily to consumers and small to medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling, and retailing. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Kentucky, and Michigan.

The following table, including covered loans, presents the composition of the loan portfolio at December 31.

(dollars in thousands)	2015	2014	2013	2012	2011	Four-Year Growth Rate
Commercial	**$ 1,814,940**	$ 1,646,767	$ 1,402,750	$ 1,392,459	$ 1,341,409	7.9%
Commercial real estate	**1,868,972**	1,751,907	1,242,818	1,438,709	1,393,304	7.6
Consumer	**1,603,158**	1,379,117	1,049,974	1,004,827	990,061	12.8
Total loans excluding residential real estate	**5,287,070**	4,777,791	3,695,542	3,835,995	3,724,774	9.2
Residential real estate	**1,661,335**	1,540,410	1,387,422	1,360,599	1,042,429	12.4
Total loans	**6,948,405**	6,318,201	5,082,964	5,196,594	4,767,203	9.9%
Less: Allowance for loan losses	**52,233**	47,849	47,145	54,763	58,060	
Net loans	**$ 6,896,172**	$ 6,270,352	$ 5,035,819	$ 5,141,831	$ 4,709,143	

Commercial and Commercial Real Estate Loans

At December 31, 2015, commercial and commercial real estate loans, including covered loans, were $3.684 billion, an increase of $285.2 million, or 8%, compared to December 31, 2014. Included in commercial and commercial real estate loans at December 31, 2015 is $164.7 million related to the outstanding loans in the new market we acquired in the Founders transaction.

The following table presents the maturity distribution and rate sensitivity of commercial loans at December 31, 2015 and an analysis of these loans that have predetermined and floating interest rates. A significant percentage of commercial loans are due within one year, reflecting the short-term nature of a large portion of these loans.

(dollars in thousands)	Within 1 Year	1 - 5 Years	Beyond 5 Years	Total	% of Total
Interest rates:					
Predetermined	**$ 254,789**	**$ 416,928**	**$ 215,206**	**$ 886,923**	**49%**
Floating	**585,022**	**245,766**	**97,229**	**928,017**	**51**
Total	**$ 839,811**	**$ 662,694**	**$ 312,435**	**$ 1,814,940**	**100%**

Residential Real Estate Loans

Residential real estate loans, primarily 1-4 family properties, increased $120.9 million, or 8%, at December 31, 2015 compared to December 31, 2014. Included in residential real estate loans at December 31, 2015 is $110.7 million related to the outstanding loans in the new market we acquired in the Founders transaction.

Consumer Loans

Consumer loans, including automobile loans, personal and home equity loans and lines of credit, and covered loans, increased $224.0 million, or 16%, at December 31, 2015 compared to December 31, 2014. Included in consumer loans at December 31, 2015 is $51.6 million related to the outstanding loans in the new market we acquired in the Founders transaction. Old National also experienced $172.4 million of organic growth in consumer loans from December 31, 2014 to December 31, 2015.

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Allowance for Loan Losses

To provide for the risk of loss inherent in extending credit, we maintain an allowance for loan losses. The determination of the allowance is based upon the size and current risk characteristics of the loan portfolio and includes an assessment of individual problem loans, actual loss experience, current economic events, and regulatory guidance. Additional information about our Allowance for Loan Losses is included in the Risk Management - Credit Risk section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes 1 and 6 to the consolidated financial statements.

At December 31, 2015, the allowance for loan losses was $52.2 million, an increase of $4.4 million compared to $47.8 million at December 31, 2014. The Company experienced loan growth in 2015 that contributed to an increased need for additional allowance for loan losses. This increased need was partially offset by net recoveries of $1.5 million in 2015. Continued loan growth in future periods could result in an increase in provision expense. As a percentage of total loans excluding loans held for sale, the allowance was 0.75% at December 31, 2015, compared to 0.76% at December 31, 2014. The decrease in the percentage from December 31, 2014 is primarily a result of the acquisition of Founders. The acquired loans were recorded at fair value pursuant to ASC 805, and accordingly no allowance was recorded at the acquisition date. The provision for loan losses was an expense of $2.9 million in 2015 compared to an expense of $3.1 million in 2014.

For commercial loans, the allowance for loan losses increased by $5.7 million at December 31, 2015 compared to December 31, 2014. The allowance for loan losses as a percentage of the commercial loan portfolio increased to 1.45% at December 31, 2015, from 1.26% at December 31, 2014. The higher allowance for loan losses as a percentage of the commercial loan portfolio is the result of higher loss ratios and a change in the mix between acquired and originated loans.

For commercial real estate loans, the allowance for loan losses decreased by $1.4 million at December 31, 2015 compared to December 31, 2014. The allowance for loan losses as a percentage of the commercial real estate loan portfolio decreased to 0.86% at December 31, 2015, from 0.99% at December 31, 2014. The lower allowance for loan losses need is the result of improved asset quality and the increase in purchased loans that were recorded at fair value. The fair value adjustment considers credit impairment resulting in no need for an allowance for loan losses at the date of acquisition. An allowance may be recorded in future periods if the loan experiences subsequent deterioration. See the discussion in the section Asset Quality for additional details.

The allowance for loan losses for residential real estate loans as a percentage of that portfolio decreased to 0.12% at December 31, 2015, from 0.19% at December 31, 2014. The allowance for loan losses for consumer loans as a percentage of that portfolio decreased to 0.49% at December 31, 2015, from 0.50% at December 31, 2014.

Allowance for Losses on Unfunded Commitments

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. This allowance is reported as a liability on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these loan losses is recorded as a component of other expense. The allowance for losses on unfunded commitments was $3.6 million at December 31, 2015, compared to $4.4 million at December 31, 2014.

Loans Held for Sale

Loans held for sale were $13.8 million at December 31, 2015, compared to $213.5 million at December 31, 2014. Included in loans held for sale at December 31, 2015 were $13.8 million of mortgage loans held for immediate sale in the secondary market. Included in loans held for sale at December 31, 2014 were $197.9 million of loans identified to be sold in connection with the southern Illinois and eastern Indiana branch divestitures, and $15.6 million of mortgage loans held for immediate sale in the secondary market. The mortgage loans are sold at or prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company s balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse and Old National has experienced no material losses. Mortgage originations are subject to volatility due to interest rates and home sales.

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We have elected the fair value option under FASB ASC 825-10 (SFAS No. 159) prospectively for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balance by $0.2 million as of December 31, 2015, compared to $0.4 million as of December 31, 2014.

During the fourth quarter of 2014, $71.6 million residential real estate loans held for investment, $50.1 million consumer loans held for investment, $45.5 million commercial loans held for investment, and $30.7 million commercial real estate loans held for investment were reclassified to loans held for sale at the lower of cost or fair value. In connection with our branch divestitures, these loans were sold during the third quarter of 2015 for $193.6 million, resulting in a gain of $0.1 million. At December 31, 2015, there were no loans held for sale under this arrangement. See Note 2 to the consolidated financial statements for additional information.

Covered Assets

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

Covered assets continue to decline as we work through these purchased credit impaired loans and represented less than 2% of total net loans at December 31, 2015. A summary of covered assets is presented below:

	December 31,	
(dollars in thousands)	**2015**	**2014**
Loans, net of discount and allowance	**$ 106,650**	$ 144,156
Other real estate owned	**4,904**	9,121
Total covered assets	**$ 111,554**	$ 153,277

FDIC Indemnification Asset

Because the FDIC will reimburse Old National for losses incurred on certain acquired loans, an indemnification asset was recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The indemnification asset, on the acquisition date, reflected the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. Reimbursement claims are submitted to the FDIC and the receivable is reduced when the FDIC pays the claim. At December 31, 2015, the $9.0 million loss sharing asset is comprised of a $6.9 million FDIC indemnification asset and a $2.1 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 December 31, 2015, $4.4 million of the FDIC indemnification asset is related to expected indemnification payments and $2.5 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income. We currently expect the majority of the $2.5 million to be amortized over the next nine months.

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

(dollars in thousands)	2015	2014
Balance at January 1,	$ 20,603	$ 88,513
Adjustments not reflected in income:		
Cash received from the FDIC	(3,548)	(26,342)
Other	1,009	1,594
Adjustments reflected in income:		
Amortization	(10,709)	(41,611)
Higher loan loss expectations	275	59
Impairment/(recovery) of value and net (gain)/loss on sales of other real estate	1,400	(1,610)
Balance at December 31,	$ 9,030	$ 20,603

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at December 31, 2015 totaled $619.9 million, an increase of $50.4 million compared to $569.5 million at December 31, 2014. During 2015, we recorded $61.5 million of goodwill and other intangible assets associated with the acquisition of Founders, which is included in the Banking column for segment reporting.

Funding

Total funding, comprised of deposits and wholesale borrowings, was $10.321 billion at December 31, 2015, an increase of 4% from $9.961 billion at December 31, 2014. Total deposits were $8.401 billion, including $7.401 billion in transaction accounts and $1.000 billion in time deposits at December 31, 2015. Total deposits decreased $89.8 million, or 1%, compared to December 31, 2014. Included in total deposits at December 31, 2015 are $271.3 million from the acquisition of Founders. Noninterest-bearing demand deposits increased $61.1 million from December 31, 2014 to December 31, 2015. NOW deposits decreased $43.3 million from December 31, 2014 to December 31, 2015, while savings deposits decreased $21.2 million. Money market deposits increased $2.6 million from December 31, 2014 to December 31, 2015, while time deposits decreased $89.0 million.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At December 31, 2015, wholesale borrowings, including short-term borrowings and other borrowings, totaled $1.920 billion, an increase of $450.3 million, or 31%, from December 31, 2014. Wholesale funding as a percentage of total funding was 19% at December 31, 2015, compared to 15% at December 31, 2014. The increase in wholesale funding from December 31, 2014 to December 31, 2015 was primarily due to an increase in Federal Home Loan Bank advances, which were used to fund the deposits sold during the third quarter of 2015. See Notes 12 and 13 to the consolidated financial statements for additional details on our financing activities.

The following table details the average balances of all funding sources for the years ended December 31.

(dollars in thousands)	2015	2014	2013	% Change From Prior Year 2015	2014
Demand deposits	**$ 2,500,571**	$ 2,166,628	$ 1,952,790	**15.4%**	11.0%
NOW deposits	**2,160,019**	1,989,794	1,734,809	**8.6**	14.7
Savings deposits	**2,299,357**	2,104,076	1,916,133	**9.3**	9.8
Money market deposits	**677,414**	490,247	368,424	**38.2**	33.1
Time deposits	**1,063,782**	1,024,377	1,152,309	**3.8**	(11.1)
Total deposits	**8,701,143**	7,775,122	7,124,465	**11.9**	9.1
Short-term borrowings	**482,241**	404,919	517,653	**19.1**	(21.8)
Other borrowings	**1,061,681**	753,358	539,323	**40.9**	39.7
Total funding sources	**$ 10,245,065**	$ 8,933,399	$ 8,181,441	**14.7%**	9.2%

The following table presents a maturity distribution for certificates of deposit with denominations of $100,000 or more at December 31.

(dollars in thousands)	Year-End Balance	Maturity Distribution 1-90 Days	91-180 Days	181-365 Days	Beyond 1 Year
2015	**$ 303,759**	**$ 56,273**	**$ 28,657**	**$ 86,625**	**$ 132,204**
2014	313,629	64,149	33,443	70,043	145,994
2013	265,295	51,808	28,071	71,781	113,635

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities decreased $40.5 million, or 18%, from December 31, 2014 primarily due to lower deferred gains on sale leaseback transactions and the timing of investment securities purchases.

Capital

Shareholders equity totaled $1.491 billion, or 12% of total assets, at December 31, 2015 and $1.466 billion, or 13% of total assets, at December 31, 2014. The December 31, 2015 balance includes $50.6 million from the 3.4 million shares of common stock that were issued in conjunction with the acquisition of Founders.

We paid cash dividends of $0.48 per share in 2015, which decreased equity by $55.6 million. We repurchased 6.3 million shares of our stock under our buyback program, reducing shareholders equity by $86.8 million in 2015. Shares issued for reinvested dividends, stock options, restricted stock, and stock compensation plans increased shareholders equity by $5.2 million in 2015.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. For additional information on capital adequacy see Note 23 to the consolidated financial statements.

RISK MANAGEMENT

Overview

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

Credit Risk

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

Investment Activities

We carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At December 31, 2015, we had pooled trust preferred securities with a fair value of $7.9 million, or less than 1% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and at December 31, 2015, the unrealized loss on our pooled trust preferred securities was approximately $9.4 million. There was no other-than-temporary impairment recorded in 2015 or 2014 on these securities.

All of our mortgage-backed securities are backed by U.S. government-sponsored or federal agencies. Municipal bonds, corporate bonds, and other debt securities are evaluated by reviewing the credit-worthiness of the issuer and general market conditions. See Note 4 to the consolidated financial statements for additional details about our investment security portfolio.

Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National manages exposure to counterparty risk in connection with its derivatives transactions by generally engaging in transactions with counterparties having ratings of at least A by Standard & Poor s Rating Service or A2 by Moody s Investors Service. Total credit exposure is monitored by counterparty, and managed within limits that management believes to be prudent. Old National s net counterparty exposure was an asset of $212.0 million at December 31, 2015.

Lending Activities

Commercial

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

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

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

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

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Consumer

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

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

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

Asset Quality

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

We lend primarily to small- and medium-sized commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling, and retailing. At December 31, 2015, we had no concentration of loans in any single industry exceeding 10% of our portfolio and had no exposure to foreign borrowers or sovereign debt. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Kentucky, and Michigan. We are experiencing a slow and gradual improvement in the economy of our principal markets. Management expects that trends in under-performing, criticized, and classified loans will be influenced by the degree to which the economy strengthens or weakens.

During the third quarter of 2011, Old National acquired the banking operations of Integra Bank in an FDIC assisted transaction. As of December 31, 2015, acquired loans totaled $125.3 million and there was $4.9 million of other real estate owned. The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. At December 31, 2015, approximately $107.6 million of loans and $4.9 million of other real estate owned are covered by the loss sharing agreements. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 80% of losses up to $275.0 million. We do not expect losses to exceed $275.0 million. These covered assets are included in our summary of under-performing, criticized, and classified assets found below.

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On January 1, 2015, Old National closed on its acquisition of Founders. As of December 31, 2015, acquired loans from the Founders transaction totaled $327.1 million and other real estate owned totaled $0.3 million. In accordance with accounting for business combinations, there was no allowance brought forward on any of the acquired loans, as the credit losses evident in the loans were included in the determination of the fair value of the loans at the acquisition date. Old National reviewed the acquired loans and determined that as of December 31, 2015, $6.9 million met the definition of criticized and $8.2 million were considered classified. Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These assets are included in our summary of under-performing, criticized, and classified assets found below.

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Summary of under-performing, criticized and classified assets:

(dollars in thousands)	2015	2014	2013	2012	2011
Nonaccrual loans:					
Commercial	**$ 57,536**	$ 38,460	$ 28,635	$ 36,766	$ 34,104
Commercial real estate	**47,350**	67,402	52,363	95,829	66,187
Residential real estate	**14,953**	13,968	10,333	11,986	10,247
Consumer	**5,198**	5,903	5,318	5,809	4,790
Covered loans (1)	**7,336**	15,124	31,793	103,946	182,880
Total nonaccrual loans (2)	**132,373**	140,857	128,442	254,336	298,208
Renegotiated loans not on nonaccrual:					
Noncovered loans	**14,147**	12,710	15,596	9,737	1,325
Covered loans	**138**	148	148	177	
Past due loans still accruing (90 days or more):					
Commercial	**565**	33		322	358
Commercial real estate		138		236	279
Residential real estate	**114**	1	35	66	
Consumer	**227**	286	189	438	473
Covered loans (1)	**10**		14	15	2,338
Total past due loans	**916**	458	238	1,077	3,448
Other real estate owned	**7,594**	7,241	7,562	11,179	7,119
Other real estate owned, covered (1)	**4,904**	9,121	13,670	26,137	30,443
Total under-performing assets	**$ 160,072**	$ 170,535	$ 165,656	$ 302,643	$ 340,543
Classified loans (includes nonaccrual, renegotiated, past due 90 days, and other problem loans)	**$ 204,710**	$ 233,486	$ 159,783	$ 233,445	$ 204,120
Classified loans, covered (1)	**8,584**	17,413	35,500	121,977	200,221
Other classified assets (3)	**6,857**	14,752	32,650	43,887	83,087
Criticized loans	**132,898**	194,809	135,401	113,264	80,148
Criticized loans, covered (1)	**1,449**	4,525	8,421	9,344	23,034
Total criticized and classified assets	**$ 354,498**	$ 464,985	$ 371,755	$ 521,917	$ 590,610
Asset Quality Ratios including covered assets:					
Non-performing loans/total loans (4) (5)	**2.11%**	2.43%	2.84%	5.08%	6.28%
Under-performing assets/total loans and foreclosed properties (4)	**2.30**	2.69	3.25	5.78	7.09
Under-performing assets/total assets	**1.33**	1.46	1.73	3.17	3.96
Allowance for loan losses/under-performing assets (6)	**32.63**	28.06	28.46	18.09	17.05
	39.46	33.97	36.71	21.53	19.47

Allowance for loan losses/nonaccrual loans (2)					
Asset Quality Ratios excluding covered assets:					
Non-performing loans/total loans (4) (5)	**2.03**	2.24	2.31	3.31	2.82
Under-performing assets/total loans and foreclosed properties (4)	**2.16**	2.37	2.46	3.55	3.01
Under-performing assets/total assets	**1.23**	1.25	1.25	1.80	1.45
Allowance for loan losses/under-performing assets (6)	**34.73**	30.31	34.78	28.55	45.74
Allowance for loan losses/nonaccrual loans (2)	**41.02**	35.23	43.19	32.61	49.53

(1) The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans and other real estate owned. At December 31, 2015, we expect 80% of any losses incurred on these covered assets to be reimbursed to Old National by the FDIC.

(2) Includes approximately $15.9 million, $41.2 million, $38.3 million, $156.8 million, and $201.3 million for 2015, 2014, 2013, 2012, and 2011, respectively, of purchased credit impaired loans that are categorized as nonaccrual because the collection of principal or interest is doubtful. These loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

(3) Includes 2 pooled trust preferred securities, 2 corporate securities, and 1 insurance policy at December 31, 2015.

(4) Loans exclude loans held for sale and leases held for sale.

(5) Non-performing loans include nonaccrual and renegotiated loans.

(6) Because the acquired loans were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date.

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Under-performing assets totaled $160.1 million at December 31, 2015, compared to $170.5 million at December 31, 2014. Under-performing assets as a percentage of total loans and other real estate owned at December 31, 2015 was 2.30%, a 39 basis point improvement from 2.69% at December 31, 2014. At December 31, 2015, under-performing assets related to covered assets acquired in the Integra Bank acquisition were approximately $12.4 million, which included $7.3 million of nonaccrual loans, $0.2 million of renegotiated loans, and $4.9 million of other real estate owned. The nonaccrual loans are categorized in this manner because the collection of principal or interest is doubtful. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

Nonaccrual loans decreased $8.5 million from December 31, 2014 to December 31, 2015 primarily due to decreases in nonaccrual commercial real estate loans and acquired covered nonaccrual loans, partially offset by an increase in nonaccrual commercial loans. Nonaccrual loans at December 31, 2015 include $5.7 million of loans related to the Founders acquisition. Because the acquired loans were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. The ratio of non-performing loans to total loans at December 31, 2015 was 2.11%, a 32 basis point improvement from 2.43% at December 31, 2014. As a percentage of nonaccrual loans (excluding covered loans), the allowance for loan losses was 41.02% at December 31, 2015, compared to 35.23% at December 31, 2014. Included in nonaccrual loans at December 31, 2015, December 31, 2014, and December 31, 2013 were $15.9 million, $41.2 million, and $38.3 million, respectively, of purchased credit impaired loans that were included in the nonaccrual category because the collection of principal or interest is doubtful. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets. We would expect our nonaccrual loans to remain at elevated levels until management can work through and resolve these purchased credit impaired loans.

Interest income of approximately $7.2 million and $5.7 million would have been recorded on nonaccrual and renegotiated loans outstanding at December 31, 2015 and 2014, respectively, if such loans had been accruing interest throughout the year in accordance with their original terms. Excluding purchased credit impaired loans accounted for under ASC 310-30, the amount of interest income actually recorded on nonaccrual and renegotiated loans was $2.1 million in 2015 and $1.6 million in 2014. We had $30.0 million of renegotiated loans which are included in nonaccrual loans at December 31, 2015, compared to $22.1 million at December 31, 2014.

Total criticized and classified assets were $354.5 million at December 31, 2015, a decrease of $110.5 million from December 31, 2014 to December 31, 2015. Included in criticized and classified assets at December 31, 2015 is $15.2 million related to the acquisition of Founders. Other classified assets include investment securities that fell below investment grade rating totaling $6.9 million at December 31, 2015, compared to $14.8 million at December 31, 2014.

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. It is our policy to charge off small commercial loans scored through our small business credit center with contractual balances under $250,000 that have been placed on nonaccrual status or became 90 days or more delinquent, without regard to the collateral position. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

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

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

At December 31, 2015, our TDRs consisted of $23.4 million of commercial loans, $14.6 million of commercial real estate loans, $2.7 million of residential loans, and $3.6 million of consumer loans totaling $44.3 million. Approximately $30.0 million of the TDRs at December 31, 2015 were included with nonaccrual loans. At December 31, 2014, our TDRs consisted of $15.2 million of commercial loans, $15.2 million of commercial real estate loans, $2.1 million of residential loans, and $2.5 million of consumer loans, totaling $35.0 million. Approximately $22.1 million of the TDRs at December 31, 2014 were included with nonaccrual loans.

Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling $2.3 million at December 31, 2015 and $2.8 million at December 31, 2014. As of December 31, 2015, Old National had committed to lend an additional $6.2 million to customers with outstanding loans that are classified as TDRs.

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

Purchased credit impaired (PCI) loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the purchased credit impaired loan is being accounted for as part of a pool, it will not be removed from the pool. As of December 31, 2015, 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 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.

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

The activity in our allowance for loan losses is as follows:

(dollars in thousands)	**2015**	2014	2013	2012	2011
Balance, January 1	**$ 47,849**	$ 47,145	$ 54,763	$ 58,060	$ 72,309
Loans charged-off:					
Commercial	**2,906**	3,396	3,810	7,636	10,300
Commercial real estate	**469**	2,352	5,427	4,386	12,319
Residential real estate	**1,039**	793	1,487	2,204	1,945
Consumer credit	**6,404**	4,675	6,279	8,094	10,335
Total charge-offs	**10,818**	11,216	17,003	22,320	34,899
Recoveries on charged-off loans:					
Commercial	**4,611**	2,986	4,098	5,166	4,330
Commercial real estate	**3,233**	2,576	2,963	5,104	2,302
Residential real estate	**354**	205	310	464	319
Consumer credit	**4,081**	3,056	4,333	3,259	6,226
Total recoveries	**12,279**	8,823	11,704	13,993	13,177
Net charge-offs (recoveries)	**(1,461)**	2,393	5,299	8,327	21,722
Provision for loan losses	**2,923**	3,097	(2,319)	5,030	7,473
Balance, December 31	**$ 52,233**	$ 47,849	$ 47,145	$ 54,763	$ 58,060
Average loans for the year (1)	**$ 6,756,135**	$ 5,703,294	$ 5,135,139	$ 4,857,522	$ 4,440,467
Asset Quality Ratios:					
Allowance/year-end loans (1)	**0.75%**	0.76%	0.93%	1.05%	1.22%
Allowance/average loans (1)	**0.77**	0.84	0.92	1.13	1.31
Net charge-offs (recoveries)/average loans (2)	**(0.02)**	0.04	0.10	0.17	0.49

(1) Loans exclude loans held for sale.
(2) Net charge-offs include write-downs on loans transferred to held for sale.

The allowance for loan losses increased $4.4 million, or 9%, from December 31, 2014 to December 31, 2015. Net recoveries totaled $1.5 million in 2015 compared to net charge-offs of $2.4 million in 2014. There were no industry segments representing a significant share of total net charge-offs. Net charge-offs (recoveries) to average loans was (0.02)% in 2015 compared to 0.04% in 2014. The allowance to average loans, which ranged from 0.75% to 1.22% for the last five years, was 0.75% at December 31, 2015. Over the last twelve months, charge-offs have remained low. Continued loan growth in future periods could result in an increase in provision expense.

Because the acquired loans were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date. We would expect that as the fair value mark is accreted into income over future periods, a reserve will be established to absorb credit deterioration or adverse changes in expected cash flows. At December 31, 2015, $2.0 million had been reserved for these purchased credits.

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

			Purchased Loans					
	Legacy		Covered			Non-covered		
(dollars in thousands)	FAS 5	FAS 114	FAS 5	FAS 114	SOP 03-3	FAS 5	FAS 114	SOP 03-3
Recorded investment	$ 5,636,847	$ 67,100	$ 55,592	$ 4,156	$ 47,839	$ 1,071,939	$ 31,690	$ 33,242
Remaining purchase discount			2,237		16,553	52,197	9,087	25,117
Allowance, January 1, 2015	$ 33,974	$ 8,784	$ 1,007	$ 1,441	$ 1,104	$	$	$ 1,539
Charge-offs	(3,957)	(3,375)	(330)	(32)	(1,105)	(1,327)	(379)	(313)
Recoveries	35	7,843	76	5	384	689	2,855	392
Provision expense	9,248	(2,291)	(667)	(1,059)	113	638	(2,304)	(755)
Allowance, December 31, 2015	$ 39,300	$ 10,961	$ 86	$ 355	$ 496	$	$ 172	$ 863

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. The reserve for unfunded loan commitments is classified as a liability account on the balance sheet and totaled $3.6 million at December 31, 2015, compared to $4.4 million at December 31, 2014.

The following table details the allowance for loan losses by loan category and the percent of loans in each category compared to total loans at December 31.

	2015		**2014**		**2013**		**2012**		**2011**	
(dollars in thousands)	**Amount**	**% of Loans to Total Loans**	**Amount**	**% of Loans to Total Loans**	**Amount**	**% of Loans to Total Loans**	**Amount**	**% of Loans to Total Loans**	**Amount**	**% of Loans to Total Loans**
Commercial	**$ 25,568**	**26.0%**	$ 17,401	25.8%	$ 15,013	27.0%	$ 14,642	25.7%	$ 19,959	25.5%
Commercial real estate	**15,993**	**26.6**	17,348	27.1	19,031	22.8	26,391	24.2	26,862	22.4
Residential real estate	**2,051**	**23.7**	2,962	24.1	3,123	26.8	3,677	25.5	3,516	20.9
Consumer credit	**7,684**	**22.2**	6,586	20.7	4,574	19.1	4,337	17.4	6,780	18.1
Covered loans	**937**	**1.5**	3,552	2.3	5,404	4.3	5,716	7.2	943	13.1
Total	**$ 52,233**	**100.0%**	$ 47,849	100.0%	$ 47,145	100.0%	$ 54,763	100.0%	$ 58,060	100.0%

Market Risk

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

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

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

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

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

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

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

(dollars in thousands)	Immediate Rate Decrease -50 Basis Points	Base	Immediate Rate Increase +100 Basis Points	+200 Basis Points	+300 Basis Points
December 31, 2015					
Projected interest income:					
Money market, other interest earning investments, and investment securities	$ 202,753	$ 214,385	$ 229,147	$ 243,069	$ 256,974
Loans	479,834	512,210	577,959	642,455	705,686
Total interest income	682,587	726,595	807,106	885,524	962,660
Projected interest expense:					
Deposits	15,935	26,548	72,564	118,580	164,597
Borrowings	46,618	56,125	78,905	101,685	124,464
Total interest expense	62,553	82,673	151,469	220,265	289,061

Net interest income	$ 620,034	$ 643,922	$ 655,637	$ 665,259	$ 673,599
Change from base	$ (23,888)		$ 11,715	$ 21,337	$ 29,677
% change from base	-3.71%		1.82%	3.31%	4.61%

At December 31, 2014, our two year cumulative horizon modeling results indicated a -3.09%, 2.90%, 5.21%, and 7.03% change in net interest income from base case for the -50 basis points, +100 basis points, +200 basis points, and +300 basis points scenarios, respectively. Our asset sensitivity decreased marginally year over year primarily due to changes in our balance sheet mix resulting from the Founders acquisition in January 2015, as well as branch divestitures in August 2015. Our asset sensitivity also decreased year over year due to a greater reliance on wholesale funding to fund the branch divestitures and a generally lower level of other core deposits. We use derivative instruments to mitigate interest rate risk, including certain cash flow hedges on variable-rate debt with a notional amount of $725 million at December 31, 2015.

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

Because the models are driven by expected behavior in various interest rate scenarios and many factors besides market interest rates affect our net interest income, we recognize that model outputs are not guarantees of actual results. For this reason, we model many different combinations of interest rates and balance sheet assumptions to understand our overall sensitivity to market interest rate changes, including shocks, yield curve flattening, yield curve steepening, as well as forecasts of likely interest rate scenarios. As of December 31, 2015, our projected net interest income sensitivity based on the asset/liability models we utilize was within the limits of the Company s interest rate risk policy for the scenarios tested.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. We also provide derivatives to our commercial customers in connection with managing interest rate risk. Our derivatives had an estimated fair value loss of $11.0 million at December 31, 2015, compared to an estimated fair value loss of $5.3 million at December 31, 2014. See Note 20 to the consolidated financial statements for further discussion of derivative financial instruments.

Liquidity Risk

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

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

A time deposit maturity schedule for Old National Bank is shown in the following table as of December 31, 2015.

(dollars in thousands)

Maturity Bucket	**Amount**	**Rate**
2016	$ 580,463	0.99%
2017	157,355	0.71
2018	111,585	1.13
2019	54,877	1.55
2020	73,497	1.81
2021 and beyond	22,290	1.20

Total	$ 1,000,067	1.06%

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

Moody s Investor Service affirmed the Long-Term Rating of A3 of Old National Bancorp s senior unsecured/issuer rating on May 14, 2015.

Moody s Investor Service upgraded Old National Bank s long-term deposit rating to Aa3 from A2 on May 14, 2015. The bank s short-term deposit rating was affirmed at P-1 and the bank s issuer rating was downgraded to A2 from A3.

The credit ratings of Old National and Old National Bank at December 31, 2015 are shown in the following table.

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

N/A = not applicable

On January 14, 2016, Moody s Investor Service placed the ratings of Old National Bancorp and its lead bank subsidiary, Old National Bank (collectively, Old National) on review for possible downgrade following the announcement that it has agreed to acquire Anchor Bancorp of Wisconsin (unrated) in a stock and cash transaction expected to close in the second quarter of 2016.

Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposit and short-term and medium-term bank notes as well. As of December 31, 2015, Old National Bancorp and its subsidiaries had the following availability of liquid funds and borrowings.

(dollars in thousands)	Parent Company	Subsidiaries
Available liquid funds:		
Cash and due from banks	$ 54,761	$ 165,057
Unencumbered government-issued debt securities		1,002,316
Unencumbered investment grade municipal securities		436,684
Unencumbered corporate securities		88,541
Availability of borrowings:		
Amount available from Federal Reserve discount window*		450,379
Amount available from Federal Home Loan Bank Indianapolis*		468,788

Total available funds	$ 54,761	$ 2,611,765

* Based on collateral pledged

The Parent Company (Old National Bancorp) has routine funding requirements consisting primarily of operating expenses, dividends to shareholders, debt service, net derivative cash flows, and funds used for acquisitions. The Parent Company can obtain funding to meet its obligations from dividends and management fees collected from its subsidiaries, operating line of credit, and through the issuance of debt securities. Additionally, the Parent Company has a shelf registration in place with the Securities and Exchange Commission permitting ready access to the public debt and equity markets. At December 31, 2015, the Parent Company s other borrowings outstanding were $214.2 million.

Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. Prior regulatory approval to pay dividends was not required in 2014 or 2015 and is not currently required.

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OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements include commitments to extend credit and financial guarantees. Commitments to extend credit and financial guarantees are used to meet the financial needs of our customers. Our banking affiliates have entered into various agreements to extend credit, including loan commitments of $1.746 billion and standby letters of credit of $62.6 million at December 31, 2015. At December 31, 2015, approximately $1.667 billion of the loan commitments had fixed rates and $79.3 million had floating rates, with the floating interest rates ranging from 0% to 25%. At December 31, 2014, loan commitments were $1.584 billion and standby letters of credit were $65.3 million. The term of these off-balance sheet arrangements is typically one year or less.

Old National entered into a risk participation in an interest rate swap during the second quarter of 2007, which had a notional amount of $7.2 million at December 31, 2015. 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 $12.0 million at December 31, 2015.

CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES

The following table presents our significant fixed and determinable contractual obligations and significant commitments at December 31, 2015. Further discussion of each obligation or commitment is included in the referenced note to the consolidated financial statements.

		Payments Due In				
(dollars in thousands)	Note Reference	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without stated maturity		**$ 7,400,793**	**$**	**$**	**$**	**$ 7,400,793**
IRAs, consumer and brokered certificates of deposit	11	**580,463**	**268,940**	**128,374**	**22,290**	**1,000,067**
Short-term borrowings	12	**628,499**				**628,499**
Other borrowings	13	**592,355**	**241,117**	**53,010**	**405,265**	**1,291,747**
Fixed interest payments (1)		**14,845**	**25,335**	**22,516**	**51,654**	**114,350**
Operating leases	21	**28,445**	**55,242**	**51,511**	**209,897**	**345,095**
Other long-term liabilities (2)		**200**				**200**

(1) Our senior notes, subordinated notes, certain trust preferred securities, and certain Federal Home Loan Bank advances have fixed rates ranging from 0.35% to 6.76%. All of our other long-term debt is at LIBOR based variable rates at December 31, 2015. The projected variable interest assumes no increase in LIBOR rates from December 31, 2015.

(2) Amount expected to be contributed to the pension plans in 2016. Amounts for 2017 and beyond are unknown at this time.

We rent certain premises and equipment under operating leases. See Note 21 to the consolidated financial statements for additional information on long-term lease arrangements.

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 20 to the consolidated financial statements.

In the normal course of business, various legal actions and proceedings are pending against us and our affiliates which are incidental to the business in which they are engaged. Further discussion of contingent liabilities is included in Note 21 to the consolidated financial statements.

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

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Goodwill and Intangibles

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

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

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

Acquired Impaired Loans

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

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

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

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

Allowance for Loan Losses

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

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

Judgments and Uncertainties. Effective January 1, 2015, we began using 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 adopted the probability of default and loss given default model for commercial and commercial real estate loans because we believe this approach has a tendency to react more quickly to credit cycle shifts (both positive and negative). Switching from migration analysis to the probability of default and loss given default model for our performing commercial and commercial real estate loans did not have a material effect on our allowance for loan losses at the date of adoption.

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Prior to January 1, 2015, we used migration analysis as a tool to determine the adequacy of the allowance for loan losses for performing commercial and commercial real estate loans. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination. Judgment is used to select and weight the historical periods which are most representative of the current environment.

We calculated migration analysis using several different scenarios based on varying assumptions to evaluate the widest range of possible outcomes. The migration-derived historical commercial loan loss rates were applied to the current commercial loan pools to arrive at an estimate of probable losses for the loans existing at the time of analysis. The amounts determined by migration analysis were adjusted for management s best estimate of the effects of current economic conditions, loan quality trends, results from internal and external review examinations, loan volume trends, credit concentrations, and various other factors.

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

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

Management s analysis of probable losses in the portfolio at December 31, 2015 resulted in a range for allowance for loan losses of $14.5 million. The range pertains to general (FASB ASC 310, Receivables/SFAS 5) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, Receivables/SFAS 114) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy and our projection of FAS 5 loss rates inherent in the portfolio, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of $1.9 million and an increase of $7.6 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and may not represent actual results.

Derivative Financial Instruments

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

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

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

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Income Taxes

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

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

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

Valuation of Securities

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

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

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

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

- The financial condition and near-term prospects of the issuer;
- The underlying fundamentals of the relevant market and the outlook for such market for the near future;
- Our intent to sell the debt security or whether it is more likely than not that we will be required to sell the debt security before its anticipated recovery; and
- When applicable for purchased beneficial interests, the estimated cash flows of the securities are assessed for adverse changes.

Quarterly, securities are evaluated for other-than-temporary impairment in accordance with FASB ASC 320 (SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*), and FASB ASC

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325-10 (Emerging Issues Task Force No. 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interest in Securitized Financial Assets*) and FASB ASC 320-10 (FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). An impairment that is an other-than-temporary impairment is a decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment. Other-than-temporary impairments result in reducing the security s carrying value by the amount of credit loss. The credit component of the other-than-temporary impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income.

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

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

Management has discussed the development and selection of these critical accounting estimates with the Audit Committee and the Audit Committee has reviewed our disclosure relating to it in this Management s Discussion and Analysis of Financial Condition and Results of Operations .

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information contained under the caption Management s Discussion and Analysis of Financial Condition and Results of Operations Market Risk of this Form 10-K is incorporated herein by reference in response to this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

MANAGEMENT S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the financial statements and related financial information appearing in this annual report on Form 10-K. The financial statements and notes have been prepared in conformity with accounting principles generally accepted in the United States and include some amounts which are estimates based upon currently available information and management s judgment of current conditions and circumstances. Financial information throughout this annual report on Form 10-K is consistent with that in the financial statements.

Management maintains a system of internal accounting controls which is believed to provide, in all material respects, reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition, transactions are properly authorized and recorded, and the financial records are reliable for preparing financial statements and maintaining accountability for assets. In addition, Old National has a Code of Business Conduct and Ethics, a Senior Financial and Executive Officer Code of Ethics and Corporate Governance Guidelines that outline high levels of ethical business standards. Old National has also appointed a Chief Ethics Officer and had a third party perform an independent validation of our ethics program. All systems of internal accounting controls are based on management s judgment that the cost of controls should not exceed the benefits to be achieved and that no system can provide absolute assurance that control objectives are achieved. Management believes Old National s system provides the appropriate balance between cost of controls and the related benefits.

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In order to monitor compliance with this system of controls, Old National maintains an extensive internal audit program. Internal audit reports are issued to appropriate officers and significant audit exceptions, if any, are reviewed with management and the Audit Committee.

The Board of Directors, through an Audit Committee comprised solely of independent outside directors, oversees management s discharge of its financial reporting responsibilities. The Audit Committee meets regularly with Old National s independent registered public accounting firm, Crowe Horwath LLP, and the managers of financial reporting, internal audit and loan review. During these meetings, the committee meets privately with the independent registered public accounting firm as well as with financial reporting and internal audit personnel to review accounting, auditing, and financial reporting matters. The appointment of the independent registered public accounting firm is made by the Audit Committee.

The consolidated financial statements in this annual report on Form 10-K have been audited by Crowe Horwath LLP, for the purpose of determining that the consolidated financial statements are presented fairly, in all material respects in conformity with accounting principles generally accepted in the United States. Crowe Horwath LLP s report on the financial statements follows.

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Old National is responsible for establishing and maintaining adequate internal control over financial reporting. A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Old National s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria established in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on that assessment Old National has concluded that, as of December 31, 2015, the Company s internal control over financial reporting is effective. Old National s independent registered public accounting firm has audited the effectiveness of Old National s internal control over financial reporting as of December 31, 2015 as stated in their report which follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Crowe Horwath LLP
Independent Member Crowe Horwath International

Board of Directors and Shareholders

Old National Bancorp

Evansville, Indiana

We have audited the accompanying consolidated balance sheets of Old National Bancorp as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in shareholders equity, and cash flows for each of the years in the three-year period ended December 31, 2015. We also have audited Old National Bancorp s internal control over financial reporting as of December 31, 2015, based on criteria established in 2013 in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Old National Bancorp s management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the company s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Old National Bancorp as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Old National Bancorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in 2013 in *Internal Control Integrated Framework* issued by the COSO.

Crowe Horwath LLP

Indianapolis, Indiana

February 25, 2016

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OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

	December 31,	
(dollars and shares in thousands, except per share data)	**2015**	**2014**
Assets		
Cash and due from banks	**$ 91,311**	$ 207,871
Money market and other interest-earning investments	**128,507**	32,092
Total cash and cash equivalents	**219,818**	239,963
Trading securities - at fair value	**3,941**	3,881
Investment securities - available-for-sale, at fair value	**2,418,221**	2,627,831
Investment securities - held-to-maturity, at amortized cost (fair value $929,417 and $903,935, respectively)	**872,111**	844,054
Federal Home Loan Bank/Federal Reserve Bank stock, at cost	**86,146**	71,175
Loans held for sale ($13,810 and $15,562, respectively at fair value)	**13,810**	213,490
Loans, net of unearned income	**6,840,818**	6,170,493
Covered loans, net of discount	**107,587**	147,708
Total loans	**6,948,405**	6,318,201
Allowance for loan losses	**(51,296)**	(44,297)
Allowance for loan losses - covered loans	**(937)**	(3,552)
Net loans	**6,896,172**	6,270,352
FDIC indemnification asset	**9,030**	20,603
Premises and equipment, net	**196,676**	135,892
Accrued interest receivable	**69,098**	60,966
Goodwill	**584,634**	530,845
Other intangible assets	**35,308**	38,694
Company-owned life insurance	**341,294**	325,617
Assets held for sale	**5,679**	9,127
Other real estate owned and repossessed personal property	**7,594**	7,241
Other real estate owned - covered	**4,904**	9,121
Other assets	**227,091**	237,199
Total assets	**$ 11,991,527**	$ 11,646,051
Liabilities		
Deposits:		
Noninterest-bearing demand	**$ 2,488,855**	$ 2,427,748
Interest-bearing:		
NOW	**2,133,536**	2,176,879
Savings	**2,201,352**	2,222,557
Money market	**577,050**	574,462

Time	**1,000,067**	1,089,018
Total deposits	**8,400,860**	8,490,664
Short-term borrowings	**628,499**	551,309
Other borrowings	**1,291,747**	918,602
Accrued expenses and other liabilities	**179,251**	219,712
Total liabilities	**10,500,357**	10,180,287
Commitments and contingencies (Note 21)		
Shareholders Equity		
Preferred stock, series A, 2,000 shares authorized, no shares issued or outstanding		
Common stock, $1.00 per share stated value, 150,000 shares authorized, 114,297 and 116,847 shares issued and outstanding, respectively	**114,297**	116,847
Capital surplus	**1,087,911**	1,118,292
Retained earnings	**323,759**	262,180
Accumulated other comprehensive income (loss), net of tax	**(34,797)**	(31,555)
Total shareholders equity	**1,491,170**	1,465,764
Total liabilities and shareholders equity	**$ 11,991,527**	$ 11,646,051

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
(dollars and shares in thousands, except per share data)	**2015**	**2014**	**2013**
Interest Income			
Loans including fees:			
Taxable	**$ 304,452**	$ 296,141	$ 252,499
Nontaxable	**11,566**	10,207	9,411
Investment securities:			
Taxable	**57,336**	60,903	60,371
Nontaxable	**25,788**	22,436	19,491
Money market and other interest-earning investments	**47**	42	38
Total interest income	**399,189**	389,729	341,810
Interest Expense			
Deposits	**14,168**	13,326	18,124
Short-term borrowings	**493**	310	641
Other borrowings	**18,412**	9,723	5,621
Total interest expense	**33,073**	23,359	24,386
Net interest income	**366,116**	366,370	317,424
Provision for loan losses	**2,923**	3,097	(2,319)
Net interest income after provision for loan losses	**363,193**	363,273	319,743
Noninterest Income			
Wealth management fees	**34,395**	28,737	23,493
Service charges on deposit accounts	**43,372**	47,433	49,562
Debit card and ATM fees	**21,340**	25,835	25,019
Mortgage banking revenue	**12,540**	6,017	4,420
Insurance premiums and commissions	**42,714**	41,466	38,483
Investment product fees	**17,924**	17,136	16,018
Company-owned life insurance	**8,604**	6,924	7,454
Net securities gains	**5,718**	9,830	4,341
Total other-than-temporary impairment losses		(100)	(1,000)
Loss recognized in other comprehensive income			
Impairment losses recognized in earnings		(100)	(1,000)
Recognition of deferred gain on sale leaseback transactions	**16,444**	6,094	6,476
Net gain on branch divestitures	**15,627**		2,894
Change in FDIC indemnification asset	**(9,034)**	(43,162)	(9,288)
Other income	**20,988**	18,919	16,886

Total noninterest income	**230,632**	165,129	184,758
Noninterest Expense			
Salaries and employee benefits	**243,875**	219,301	202,435
Occupancy	**53,239**	49,099	48,360
Equipment	**13,183**	12,453	11,879
Marketing	**10,410**	9,591	7,212
Data processing	**27,309**	25,382	21,608
Communication	**9,586**	10,476	10,521
Professional fees	**11,756**	16,390	11,948
Loan expense	**6,373**	6,107	6,972
Supplies	**2,275**	2,958	2,361
FDIC assessment	**7,503**	6,261	5,097
Other real estate owned expense	**2,703**	3,101	4,129
Amortization of intangibles	**11,746**	9,120	8,162
Other expense	**30,974**	16,199	21,300
Total noninterest expense	**430,932**	386,438	361,984
Income before income taxes	**162,893**	141,964	142,517
Income tax expense	**46,177**	38,297	41,597
Net income	**$ 116,716**	$ 103,667	$ 100,920
Net income per common share - basic	**$ 1.01**	$ 0.96	$ 1.00
Net income per common share - diluted	**1.00**	0.95	1.00
Weighted average number of common shares outstanding - basic	**115,726**	107,818	100,712
Weighted average number of common shares outstanding - diluted	**116,255**	108,365	101,198
Dividends per common share	**$ 0.48**	$ 0.44	$ 0.40

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(dollars in thousands)	**2015**	**2014**	**2013**
Net income	**$ 116,716**	$ 103,667	$ 100,920
Other comprehensive income (loss):			
Change in securities available-for-sale:			
Unrealized holding gains (losses) for the period	**1,173**	42,515	(125,761)
Reclassification for securities transferred to held-to-maturity			31,005
Reclassification adjustment for securities gains realized in income	**(5,718)**	(9,830)	(4,341)
Other-than-temporary-impairment on available-for-sale securities associated with credit loss realized in income		100	1,000
Income tax effect	**1,487**	(12,425)	37,935
Unrealized gains (losses) on available-for-sale securities	**(3,058)**	20,360	(60,162)
Change in securities held-to-maturity:			
Adjustment for securities transferred from available-for-sale			(31,005)
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**1,692**	1,437	225
Income tax effect	**(396)**	(446)	10,744
Changes from securities held-to-maturity	**1,296**	991	(20,036)
Cash flow hedges:			
Net unrealized derivative losses on cash flow hedges	**(8,107)**	(9,514)	(306)
Reclassification adjustment for losses realized in net income	**2,719**	248	
Income tax effect	**2,047**	3,521	116
Changes from cash flow hedges	**(3,341)**	(5,745)	(190)
Defined benefit pension plans:			
Net actuarial (gain) loss recognized in income	**(171)**	(6,266)	6,901
Amortization of net loss and settlement cost recognized in income	**3,173**	1,933	3,436
Income tax effect	**(1,141)**	1,638	(4,216)
Changes from defined benefit pension plans	**1,861**	(2,695)	6,121
Other comprehensive income (loss), net of tax	**(3,242)**	12,911	(74,267)
Comprehensive income	**$ 113,474**	$ 116,578	$ 26,653

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(dollars in thousands)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
Balance, January 1, 2013	$ 101,179	$ 916,918	$ 146,667	$ 29,801	$ 1,194,565
Net income			100,920		100,920
Other comprehensive income (loss)				(74,267)	(74,267)
Dividends - common stock			(40,278)		(40,278)
Common stock issued	22	268			290
Common stock repurchased	(1,728)	(22,564)			(24,292)
Stock based compensation expense		3,958			3,958
Stock activity under incentive compensation plans	386	1,674	(316)		1,744
Balance, December 31, 2013	99,859	900,254	206,993	(44,466)	1,162,640
Net income			103,667		103,667
Other comprehensive income (loss)				12,911	12,911
Acquisition - Tower Financial	5,626	73,101			78,727
Acquisition - United Bancorp	9,117	114,689			123,806
Acquisition - LSB Financial	3,557	48,201			51,758
Dividends - common stock			(48,181)		(48,181)
Common stock issued	24	302			326
Common stock repurchased	(1,886)	(23,944)			(25,830)
Stock based compensation expense		4,162			4,162
Stock activity under incentive compensation plans	550	1,527	(299)		1,778
Balance, December 31, 2014	**116,847**	**1,118,292**	**262,180**	**(31,555)**	**1,465,764**
Net income			**116,716**		**116,716**
Other comprehensive income (loss)				**(3,242)**	**(3,242)**
Acquisition - Founders Financial Corporation	**3,402**	**47,224**			**50,626**
Dividends - common stock			**(55,552)**		**(55,552)**
Common stock issued	**29**	**362**			**391**
Common stock repurchased	**(6,399)**	**(82,296)**			**(88,695)**
Stock based compensation expense		**4,255**			**4,255**
Stock activity under incentive compensation plans	**418**	**74**	**415**		**907**
Balance, December 31, 2015	**$ 114,297**	**$ 1,087,911**	**$ 323,759**	**$ (34,797)**	**$ 1,491,170**

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)	Years Ended December 31, 2015	2014	2013
Cash Flows From Operating Activities			
Net income	**$ 116,716**	$ 103,667	$ 100,920
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**14,101**	12,366	11,227
Amortization of other intangible assets	**11,746**	9,120	8,162
Net premium amortization on investment securities	**18,609**	15,430	16,573
Amortization of FDIC indemnification asset	**9,034**	43,162	9,288
Stock compensation expense	**4,255**	4,162	3,958
Provision for loan losses	**2,923**	3,097	(2,319)
Net securities gains	**(5,718)**	(9,830)	(4,341)
Impairment on available-for-sale securities		100	1,000
Recognition of deferred gain on sale leaseback transactions	**(16,444)**	(6,094)	(6,476)
Net gain on branch divestitures	**(15,627)**		(2,894)
Net gains on sales of other assets	**(5,232)**	(3,546)	(3,331)
Loss on retirement of debt			993
Increase in cash surrender value of company-owned life insurance	**(7,380)**	(6,920)	(4,492)
Residential real estate loans originated for sale	**(350,846)**	(148,946)	(143,387)
Proceeds from sale of residential real estate loans	**362,157**	147,566	152,225
Increase in interest receivable	**(7,523)**	(4,731)	(3,222)
Decrease in other real estate owned	**4,538**	7,049	16,084
Decrease in other assets	**16,079**	19,676	3,720
Increase (decrease) in accrued expenses and other liabilities	**(26,408)**	14,392	11,723
Total adjustments	**8,264**	96,053	64,491
Net cash flows provided by operating activities	**124,980**	199,720	165,411
Cash Flows From Investing Activities			
Net cash and cash equivalents of acquired banks	**(37,098)**	(3,050)	530,000
Payments related to branch divestitures	**(333,095)**		(168,268)
Purchases of investment securities available-for-sale	**(832,419)**	(568,993)	(1,229,570)
Purchases of investment securities held-to-maturity	**(74,862)**	(103,299)	(31,841)
Purchases of Federal Home Loan Bank/Federal Reserve Bank stock	**(21,872)**	(6,901)	(4,204)
Proceeds from maturities, prepayments, and calls of investment securities available-for-sale	**764,649**	468,764	632,614
Proceeds from sales of investment securities available-for-sale	**343,486**	214,912	231,806
Proceeds from maturities, prepayments, and calls of investment securities held-to-maturity	**39,799**	16,189	25,208

Proceeds from sales of investment securities held-to-maturity	**855**		
Proceeds from sales of Federal Home Loan Bank/Federal Reserve Bank stock	**8,711**	7,507	
Proceeds from sale of loans and leases			114,527
Reimbursement under FDIC loss share agreements	**3,548**	26,342	19,527
Net principal collected from (loans made to) loan customers	**(285,875)**	(196,287)	(3,622)
Proceeds from sale of premises and equipment and other assets	**7,714**	2,755	3,394
Purchases of premises and equipment and other assets	**(85,661)**	(20,473)	(18,617)
Net cash flows provided by (used in) investing activities	**(502,120)**	(162,534)	100,954
Cash Flows From Financing Activities			
Net increase (decrease) in deposits and short-term borrowings:			
Deposits	**89,328**	(304,510)	(454,837)
Short-term borrowings	**64,698**	59,659	(127,483)
Payments for maturities on other borrowings	**(229,172)**	(211,159)	(2,521)
Payments related to retirement of debt			(50,993)
Proceeds from issuance of other borrowings	**575,000**	525,000	375,000
Cash dividends paid on common stock	**(55,552)**	(48,181)	(40,278)
Common stock repurchased	**(88,695)**	(25,830)	(24,292)
Proceeds from exercise of stock options, including tax benefit	**997**	749	1,412
Common stock issued	**391**	326	290
Net cash flows provided by (used in) financing activities	**356,995**	(3,946)	(323,702)
Net increase (decrease) in cash and cash equivalents	**(20,145)**	33,240	(57,337)
Cash and cash equivalents at beginning of period	**239,963**	206,723	264,060
Cash and cash equivalents at end of period	**$ 219,818**	$ 239,963	$ 206,723

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

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OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATURE OF OPERATIONS

Old National Bancorp, a financial holding company headquartered in Evansville, Indiana, operates primarily in Indiana, Kentucky, and Michigan. Its principal subsidiaries include Old National Bank and ONB Insurance Group, Inc. Through its bank and non-bank affiliates, Old National Bancorp provides to its clients an array of financial services including loan, deposit, wealth management, investment consulting, investment, and insurance products.

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying 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 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.

All significant intercompany transactions and balances have been eliminated.

TRADING SECURITIES

Trading securities consist of investments in various mutual funds held in grantor trusts formed by Monroe Bancorp in connection with a deferred compensation plan. These mutual funds are recorded as trading securities at fair value. Gains and losses are included in net securities gains.

INVESTMENT SECURITIES

Old National classifies investment securities as available-for-sale or held-to-maturity on the date of purchase. Securities classified as available-for-sale are recorded at fair value with the unrealized gains and losses, net of tax effect, recorded in other comprehensive income. Realized gains and losses affect income and the prior fair value adjustments are reclassified within shareholders equity. Securities classified as held-to-maturity, which management has the intent and ability to hold to maturity, are reported at amortized cost. Premiums and discounts are amortized on the level-yield method. Anticipated prepayments are considered when amortizing premiums and discounts on mortgage backed securities. Gains and losses on the sale of available-for-sale securities are determined using the specific-identification method.

Other-Than-Temporary Impairment Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (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 including an evaluation of credit ratings, (3) whether the market decline was affected by macroeconomic conditions, (4) the intent of Old National to sell a security, and (5) whether it is more likely than not Old National will have to sell the security before recovery of its cost basis. If Old National intends to sell an impaired security, Old National records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. If a security is determined to be other-than-temporarily impaired, but Old National does not intend to sell the security and it is not more likely than not that it will be required to sell the security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. See Note 4 to the consolidated financial statements for a detailed description of the quarterly evaluation process.

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FEDERAL HOME LOAN BANK (FHLB) STOCK

Old National is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

LOANS HELD FOR SALE

Loans that Old National has originated with a commitment to sell are classified as loans held for sale and are recorded in accordance with FASB ASC 825-10 (SFAS No. 159) at fair value, determined individually, as of the balance sheet date. The loan s fair value includes the servicing value of the loans as well as any accrued interest.

LOANS

Loans that Old National intends to hold for investment purposes are classified as portfolio loans. Portfolio loans are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the principal balances of loans outstanding. 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.

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.

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.

For all loan classes, 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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Acquired loans accounted for under 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.

It is Old National s policy to charge 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 all portfolio segments, the general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations.

Further information regarding Old National s policies and methodology used to estimate the allowance for loan losses is presented in Note 6.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Land is stated at cost. Depreciation is charged to operating expense over the useful lives of the assets, principally on the straight-line method. Useful lives for premises and equipment are as follows: buildings and building improvements 15 to 39 years; and furniture and equipment 3 to 10 years. Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Interest costs on construction of qualifying assets are capitalized.

Premises and equipment are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are adjusted to fair value. Such impairments are included in other expense.

GOODWILL AND OTHER INTANGIBLE ASSETS

The excess of the cost of acquired entities over the fair value of identifiable assets acquired less liabilities assumed is recorded as goodwill. In accordance with FASB ASC 350 (SFAS No. 142, *Goodwill and Other Intangible Assets*), amortization of goodwill and indefinite-lived assets is not recorded. However, the recoverability of goodwill and other intangible assets are annually tested for impairment. Other intangible assets, including core deposits and customer business relationships, are amortized primarily on an accelerated cash flow basis over their estimated useful lives, generally over a period of 5 to 15 years.

COMPANY-OWNED LIFE INSURANCE

Old National has purchased life insurance policies on certain key executives. Old National records company-owned life insurance at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Company-owned life insurance totaled $341.3 million at December 31, 2015 and $325.6 million at December 31, 2014.

LOAN SERVICING RIGHTS

When loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gain on sales of loans. Fair value is based on market prices for comparable servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

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Loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type, term, and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with mortgage banking revenue on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement as mortgage banking revenue, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned.

DERIVATIVE FINANCIAL INSTRUMENTS

As part of Old National s overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps, and floors. All derivative instruments are recognized on the balance sheet at their fair value in accordance with ASC 815, as amended. At the inception of the derivative contract, Old National will designate the derivative as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), or (3) an instrument with no hedging designation (stand-alone derivative). For derivatives that are designated and qualify as a fair value hedge, the change in value of the derivative, as well as the offsetting change in value of the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. For derivatives that are designated and qualify as a cash flow hedge, the effective portion of the change in value on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For all hedging relationships, changes in fair value of derivatives that are not effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings during the period of the change. Similarly, the changes in the fair value of derivatives that do not qualify for hedge accounting under ASC Topic 815 are also reported currently in earnings, in noninterest income.

The accrued net settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, consistent with the item being hedged.

Old National formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivative instruments that are designated as fair-value or cash-flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Old National also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivative instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Old National discontinues hedge accounting prospectively when it is determined that (1) the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item; (2) the derivative expires, is sold, or terminated; (3) the derivative instrument is de-designated as a hedge because the forecasted transaction is no longer probable of occurring; (4) a hedged firm commitment no longer meets the definition of a firm commitment; (5) or management otherwise determines that designation of the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued, the future changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transaction is still expected to occur, changes in value that were accumulated in other comprehensive income are amortized or accreted into earnings over the same periods which the hedged transactions will affect earnings.

Old National enters into various stand-alone mortgage-banking derivatives in order to hedge the risk associated with the fluctuation of interest rates. Changes in fair value are recorded as mortgage banking revenue. Old National also enters into various stand-alone derivative contracts to provide derivative products to customers which are carried at fair value with changes in fair value recorded as other noninterest income.

Old National is exposed to losses if a counterparty fails to make its payments under a contract in which Old National is in the net receiving position. Old National anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. In addition, Old National obtains collateral above certain thresholds of the fair value of its hedges for each counterparty based upon their credit standing. All of the contracts to which Old National is a party settle monthly, quarterly, or semiannually. Further, Old National has netting agreements with the dealers with which it does business.

CREDIT-RELATED FINANCIAL INSTRUMENTS

In the ordinary course of business, Old National s affiliate bank has entered into credit-related financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. The notional amount of these commitments is not reflected in the consolidated financial statements until they are funded.

FORECLOSED ASSETS

Other assets include real estate properties acquired as a result of foreclosure and repossessed personal property and are initially recorded at the fair value of the property less estimated cost to sell. Any excess recorded investment over the fair value of the property received is charged to the allowance for loan losses. Any subsequent write-downs are charged to expense, as are the costs of operating the properties. Foreclosed assets totaled $12.5 million at December 31, 2015 and $16.4 million at December 31, 2014. Covered other real estate owned from the Integra acquisition (see discussion below regarding covered assets) is included in foreclosed assets and totaled $4.9 million at December 31, 2015 and $9.1 million at December 31, 2014.

SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

We purchase certain securities, generally U.S. government-sponsored entity and agency securities, under agreements to resell. The amounts advanced under these agreements represent short-term secured loans and are reflected as assets in the accompanying consolidated balance sheets. We also sell certain securities under agreements to repurchase. These agreements are treated as collateralized financing transactions. These secured borrowings are reflected as liabilities in the accompanying consolidated balance sheets and are recorded at the amount of cash received in connection with the transaction. Short-term securities sold under agreements to repurchase generally mature within one to four days from the transaction date. Securities, generally U.S. government and federal agency securities, pledged as collateral under these financing arrangements can be repledged by the secured party. Additional collateral may be required based on the fair value of the underlying securities.

COVERED ASSETS, LOSS SHARE AGREEMENTS, AND INDEMNIFICATION ASSET

On July 29, 2011, Old National acquired the banking operations of Integra in an FDIC assisted transaction. As part of the purchase and assumption agreement, Old National and the FDIC entered into loss sharing agreements (each, a loss sharing agreement and collectively, the loss sharing agreements), whereby the FDIC will cover a substantial portion of any future losses on loans (and related unfunded commitments), OREO and up to 90 days of certain accrued interest on loans. The acquired loans and OREO subject to the loss sharing agreements are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC will reimburse Old National for 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. We do not expect losses to exceed $275.0 million. Old National will reimburse the FDIC for its share of recoveries with respect to losses for which the FDIC has previously reimbursed Old National under the loss sharing agreements. The loss sharing provisions of the

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agreements for commercial and single family residential mortgage loans are in effect for five and ten years, respectively, from the July 29, 2011 acquisition date and the loss recovery provisions for such loans are in effect for eight years and ten years, respectively, from the acquisition date.

Loans were recorded at fair value in accordance with ASC Topic 805, Business Combinations. No allowance for loan losses related to the acquired loans was recorded on the acquisition date as the fair value of the loans acquired incorporated assumptions regarding credit risk. Loans acquired are recorded at fair value in accordance with the fair value methodology prescribed in ASC Topic 820, exclusive of the loss share agreements with the FDIC. These loans were aggregated into pools of loans based on common risk characteristics such as credit score, loan type, and date of origination. The fair value estimates associated with these pools of loans include estimates related to expected prepayments and the amount and timing of undiscounted expected principal, interest, and other cash flows.

Because the FDIC will reimburse us for losses incurred on certain acquired loans, an indemnification asset (FDIC loss share receivable) was recorded at fair value at the acquisition date. The indemnification asset is recognized at the same time as the indemnified loans, and measured on the same basis, subject to collectibility or contractual limitations. The loss share agreements on the acquisition date reflect the reimbursements expected to be received from the FDIC, using an appropriate discount rate, which reflects counterparty credit risk and other uncertainties. The carrying value of the indemnification asset was $9.0 million at December 31, 2015 and $20.6 million at December 31, 2014.

The loss share agreements continue to be measured on the same basis as the related indemnified loans. Because the acquired loans are subject to the accounting prescribed by ASC Topic 310, subsequent changes to the basis of the loss share agreements also follow that model. Deterioration in the expected credit quality of both OREO and loans would increase the basis of the indemnification asset. The offset for both OREO and loans is recorded through the consolidated statement of income. Increases in the credit quality or cash flows of loans (reflected as an adjustment to yield and accreted into income over the remaining life of the loans) decrease the basis of the indemnification asset, with the decrease being amortized into income over the same period or the life of the loss share agreements, whichever is shorter. Loss assumptions used in the basis of the indemnified loans are consistent with the loss assumptions used to measure the indemnification asset. Initial fair value accounting incorporates into the fair value of the indemnification asset an element of the time value of money, which is accreted back into income over the life of the loss share agreements.

NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during each year. Diluted net income per share is computed as above and assumes the conversion of outstanding stock options and restricted stock.

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The following table reconciles basic and diluted net income per share for the years ended December 31.

(dollars and shares in thousands, except per share data)	2015	2014	2013
Basic Earnings Per Share			
Net income	**$ 116,716**	$ 103,667	$ 100,920
Weighted average common shares outstanding	**115,726**	107,818	100,712
Basic Earnings Per Share	**$ 1.01**	$ 0.96	$ 1.00
Diluted Earnings Per Share			
Net income	**$ 116,716**	$ 103,667	$ 100,920
Weighted average common shares outstanding	**115,726**	107,818	100,712
Effect of dilutive securities:			
Restricted stock	**440**	488	455
Stock options (1)	**89**	59	31
Weighted average shares outstanding	**116,255**	108,365	101,198
Diluted Earnings Per Share	**$ 1.00**	$ 0.95	$ 1.00

(1) Options to purchase 0.7 million shares, 1.0 million shares, and 1.0 million shares outstanding at December 31, 2015, 2014, and 2013, 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.

STOCK-BASED COMPENSATION

Compensation cost is recognized for stock options and restricted stock awards and units issued to employees based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of our common stock at the date of grant is used for restricted stock awards. A third party provider is used to value certain restricted stock units where the performance measure is based on total shareholder return. Compensation expense is recognized over the requisite service period.

INCOME TAXES

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

We recognize a tax position as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the more likely than not test, no tax benefit is recorded.

We recognize interest and/or penalties related to income tax matters in income tax expense.

LOSS CONTINGENCIES

Loss contingencies, including claims and legal actions arising in the normal course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. See Note 21 to the consolidated financial statements for further disclosure.

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STATEMENT OF CASH FLOWS DATA

For the purpose of presentation in the accompanying consolidated statement of cash flows, cash and cash equivalents are defined as cash, due from banks, federal funds sold and resell agreements, and money market investments, which have maturities less than 90 days. The following tables summarize the supplemental cash flow information for the years ended December 31:

(dollars in thousands)	2015	2014	2013
Cash payments:			
Interest	**$ 32,712**	$ 21,005	$ 25,817
Income taxes (net of refunds)	**14,824**	18,820	11,782
Noncash Investing and Financing Activities:			
Transfer of loans held for investment to loans held for sale		197,928	102,793
Transfer of leases to loans held for sale			11,553
Transfer of premises and equipment to assets held for sale	**9,070**	3,042	
Transfer of securities from available-for-sale to held-to-maturity			357,788

Approximately 3.4 million shares of common stock, valued at approximately $50.6 million, were issued in the acquisition of Founders Financial Corporation on January 1, 2015. Approximately 5.6 million shares of common stock, valued at approximately $78.7 million, were issued in the acquisition of Tower Financial Corporation on April 25, 2014. Approximately 9.1 million shares of common stock, valued at approximately $123.8 million, were issued in the acquisition of United Bancorp on July 31, 2014. Approximately 3.6 million shares of common stock, valued at approximately $51.8 million, were issued in the acquisition of LSB Financial Corp. on November 1, 2014.

IMPACT OF ACCOUNTING CHANGES

FASB ASC 323 In January 2014, the FASB issued an update (ASU No. 2014-01, Accounting for Investments in Qualified Affordable Housing Projects) impacting FASB ASC 323, Investments Equity Method and Joint Ventures. This update permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

FASB ASC 310 In January 2014, the FASB issued an update (ASU No. 2014-04, Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure) impacting FASB ASC 310-40. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the property in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments also require disclosure of (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

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FASB ASC 205 and 360 In April 2014, the FASB issued an update (ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity) impacting FASB ASC 205, Presentation of Financial Statements, and FASB ASC 360, Property, Plant, and Equipment. The amendments in this update change the requirements for reporting discontinued operations. A discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity s operations and financial results. An entity will have to present, for each comparative period, the assets and liabilities of a disposal group that includes discontinued operations separately in the asset and liability sections of the statement of financial position. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

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 860 In June 2014, the FASB issued an update (ASU No. 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures) impacting FASB ASC 860, Transfers and Servicing. The amendments in this update change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require new disclosures. An entity is required to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. An entity must also provide additional information about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. An entity is required to present changes in accounting for transactions outstanding on the effective date as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

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) impacting FASB ASC 860, Transfers and Servicing. 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 310 In August 2014, the FASB issued an update (ASU No. 2014-14, Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure) impacting FASB ASC 310-40, Receivables Troubled Debt Restructuring by Creditors. This update affects creditors that hold government-guaranteed mortgage loans.

The amendments in this update require that a mortgage loan be derecognized and that a separate other receivable be recognized if the following conditions are met: (1) The loan has a government guarantee that is not separable from the loan before foreclosure. (2) At the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under the claim. (3) At the time of foreclosure, the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this update became effective for interim and annual periods beginning after December 15, 2014 and did not have a material impact on the consolidated financial statements.

FASB ASC 835 In April 2015, the FASB issued an update (ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs) impacting FASB ASC 835-30, Interest-Imputation of Interest. This update is part of FASB s initiative to reduce complexity in accounting standards; otherwise known as the Simplification Initiative. The FASB Board received feedback that having different balance sheet presentation requirements for debt issuance costs and debt discount and premium creates unnecessary complexity. Recognizing debt issuance costs as a deferred charge (that is, an asset) also is different from the guidance in International Financial Reporting Standards, which requires that transaction costs be deducted from the carrying value of the financial liability and not recorded as separate assets. To simplify presentation of debt issuance costs, the amendments in the update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The Company elected to adopt this update as of December 31, 2015 and there was no material impact on the consolidated financial statements.

The guidance of ASU No. 2015-03 did not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance for debt issuance costs related to line-of-credit arrangements within the update, in August 2015, the SEC staff stated that they would not object to any entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement.

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.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the 2015 presentation. Such reclassifications had no effect on net income or shareholders equity and were insignificant amounts.

NOTE 2 ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

Tower Financial Corporation

On September 10, 2013, Old National announced that it had entered into an agreement to acquire Tower Financial Corporation (Tower) through a stock and cash merger. The acquisition contemplated by this agreement was completed effective April 25, 2014 (the Closing Date). Tower was an Indiana bank holding company with Tower Bank & Trust Company as its wholly-owned subsidiary. Headquartered in Fort Wayne, Indiana, Tower operated seven banking centers and had approximately $556 million in trust assets under management on the Closing Date. The merger strengthened Old National s position as one of the largest deposit holders in Indiana and 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 Tower was $110.4 million, consisting of $31.7 million of cash and the issuance of 5.6 million shares of Old National Common Stock valued at $78.7 million. This acquisition was accounted for under

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the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, while $5.6 million of transaction and integration costs associated with the acquisition were expensed as incurred.

As of December 31, 2014, 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	$ 56,345
Investment securities	140,567
Federal Home Loan Bank stock	2,192
Loans held for sale	474
Loans	371,054
Premises and equipment	8,516
Accrued interest receivable	2,371
Other real estate owned	473
Company-owned life insurance	21,281
Other assets	15,200
Deposits	(527,995)
Short-term borrowings	(18,898)
Other borrowings	(21,113)
Accrued expenses and other liabilities	(4,681)
Net tangible assets acquired	45,786
Definite-lived intangible assets acquired	8,382
Goodwill	56,203
Purchase price	$ 110,371

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 25 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, as described in Note 25 of these consolidated financial statement footnotes.

	Estimated Fair Value (in millions)	**Estimated Useful Lives (Years)**
Core deposit intangible	$ 4.6	7
Trust customer relationship intangible	$ 3.8	12

Acquired loan data for Tower can be found in the table below:

(in thousands)	Fair Value of Acquired Loans at Acquisition Date	Gross Contractual Amounts Receivable at Acquisition Date	Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected
Acquired receivables subject to ASC 310-30	$ 12,855	$ 22,746	$ 5,826
Acquired receivables not subject to ASC 310-30	$ 358,199	$ 450,865	$ 42,302

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United Bancorp, Inc.

On January 8, 2014, Old National announced that it had entered into an agreement to acquire United Bancorp, Inc. (United) through a stock and cash merger. The acquisition contemplated by this agreement was completed effective July 31, 2014 (the Closing Date). United was a Michigan bank holding company with United Bank & Trust as its wholly-owned subsidiary. Headquartered in Ann Arbor, Michigan, United operated eighteen banking centers and had approximately $688 million in trust assets under management as of June 30, 2014. The merger doubled Old National s presence in Michigan to 36 total branches and 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 United was $157.8 million, consisting of $34.0 million of cash, the issuance of 9.1 million shares of Old National Common Stock valued at $122.0 million, and the assumption of United s options and stock appreciation rights, valued at $1.8 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, while $7.6 million of transaction and integration costs were expensed as incurred.

As of July 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	$ 16,447
Investment securities	154,885
Federal Home Loan Bank stock	2,880
Loans held for sale	1,073
Loans	632,016
Premises and equipment	7,741
Accrued interest receivable	2,614
Other real estate owned	1,676
Company-owned life insurance	14,857
Other assets	16,822
Deposits	(763,681)
Short-term borrowings	(10,420)
Other borrowings	(12,515)
Accrued expenses and other liabilities	(8,337)
Net tangible assets acquired	56,058
Definite-lived intangible assets acquired	10,763
Loan servicing rights	8,983
Goodwill	81,952
Purchase price	$ 157,756

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 25 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, as described in Note 25 of these consolidated financial statement footnotes.

	Estimated Fair Value (in millions)	Estimated Useful Lives (Years)
Core deposit intangible	$ 5.9	7
Trust customer relationship intangible	$ 4.9	12

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Acquired loan data for United can be found in the table below:

(in thousands)	Fair Value of Acquired Loans at Acquisition Date	Gross Contractual Amounts Receivable at Acquisition Date	Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected
Acquired receivables subject to ASC 310-30	$ 8,391	$ 15,483	$ 5,487
Acquired receivables not subject to ASC 310-30	$ 623,625	$ 798,967	$ 89,430

LSB Financial Corp.

On June 3, 2014, Old National announced that it had entered into an agreement to acquire LSB Financial Corp. (LSB) through a stock and cash merger. The acquisition was completed effective November 1, 2014 (the Closing Date). LSB was a savings and loan holding company with Lafayette Savings Bank as its wholly-owned subsidiary. LSB was the largest bank headquartered in Lafayette, Indiana and operated five full-service banking centers. The merger strengthened Old National s position as one of the largest deposit holders in Indiana and 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 LSB was $69.6 million, consisting of $17.8 million of cash and the issuance of 3.6 million shares of Old National Common Stock valued at $51.8 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, while $3.2 million of transaction and integration costs associated with the acquisition were expensed as incurred.

As of September 30, 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	$ 7,589
Investment securities	63,684
Federal Home Loan Bank stock	3,185
Loans held for sale	1,035
Loans	235,377
Premises and equipment	6,492
Accrued interest receivable	1,044
Other real estate owned	30
Company-owned life insurance	7,438
Other assets	11,490

Deposits	(292,068)
Other borrowings	(15,203)
Accrued expenses and other liabilities	(4,582)
Net tangible assets acquired	25,511
Definite-lived intangible assets acquired	2,618
Loan servicing rights	990
Goodwill	40,476
Purchase price	$ 69,595

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 25 of these consolidated financial statement footnotes.

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The acquired identifiable intangible asset is core deposit intangible and the estimated fair value is $2.6 million. The core deposit intangible asset will be amortized over an estimated useful life of 7 years and is included in the Banking segment, as described in Note 25 of these consolidated financial statement footnotes.

Acquired loan data for LSB can be found in the table below:

(in thousands)	Fair Value of Acquired Loans at Acquisition Date	Gross Contractual Amounts Receivable at Acquisition Date	Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected
Acquired receivables subject to ASC 310-30	$ 11,986	$ 24,493	$ 9,903
Acquired receivables not subject to ASC 310-30	$ 223,391	$ 340,832	$ 57,884

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. To date, transaction and integration costs of $4.9 million associated with the acquisition have been expensed and remaining integration costs will be expensed in future quarters as incurred.

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As of December 31, 2015, the Company finalized its valuation of all assets and liabilities acquired, resulting in no material change to purchase accounting adjustments. A summary of the final purchase price allocation is as follows (in thousands):

Cash and cash equivalents	$ 3,978
Investment securities	75,383
Federal Home Loan Bank stock	1,810
Loans held for sale	3,473
Loans	339,569
Premises and equipment	3,604
Accrued interest receivable	1,260
Other real estate owned	674
Company-owned life insurance	8,297
Other assets	8,804
Deposits	(376,656)
Other borrowings	(39,380)
Accrued expenses and other liabilities	(1,307)
Net tangible assets acquired	29,509
Definite-lived intangible assets acquired	5,515
Loan servicing rights	664
Goodwill	56,014
Purchase price	$ 91,702

The portion of the purchase price allocated to goodwill will not be deductible for tax purposes and is included in the Banking segment, as described in Note 25 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, as described in Note 25 of these consolidated financial statement footnotes.

	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. See Note 14 to the consolidated financial statements for discussion on the change to deferred tax assets due to the reduction of our presence in Illinois.

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

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 September 30, 2015, AnchorBank reported total assets of $2.2 billion and $1.8 billion of deposit liabilities. Pursuant to the merger agreement, shareholders of Anchor may elect to receive either 3.5505 shares of Old National common stock or $48.50 in cash for each share of Anchor they hold, subject to no more than 40% of the outstanding shares of Anchor may receive cash. Based on Old National s 10-day average closing share price through January 8, 2016 of $13.34, this represents a total transaction value of approximately $461 million. The transaction value is likely to change until closing due to fluctuations in the price of Old National common stock and is also subject to adjustment under certain limited circumstances as provided in the merger agreement. The transaction remains subject to regulatory approval and the vote of Anchor shareholders. The transaction is anticipated to close in the second quarter of 2016.

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NOTE 3 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 years ended December 31, 2015, 2014, and 2013:

(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
2015					
Balance at January 1, 2015	**$ (748)**	**$ (15,776)**	**$ (5,935)**	**$ (9,096)**	**$ (31,555)**
Other comprehensive income (loss) before reclassifications	**554**		**(5,027)**		**(4,473)**
Amounts reclassified from accumulated other comprehensive income (loss) (a)	**(3,612)**	**1,296**	**1,686**	**1,861**	**1,231**
Net other comprehensive income (loss)	**(3,058)**	**1,296**	**(3,341)**	**1,861**	**(3,242)**
Balance at December 31, 2015	**$ (3,806)**	**$ (14,480)**	**$ (9,276)**	**$ (7,235)**	**$ (34,797)**
2014					
Balance at January 1, 2014	$ (21,108)	$ (16,767)	$ (190)	$ (6,401)	$ (44,466)
Other comprehensive income (loss) before reclassifications	26,391		(5,899)		20,492
Amounts reclassified from accumulated other comprehensive income (loss) (a)	(6,031)	991	154	(2,695)	(7,581)
Net other comprehensive income (loss)	20,360	991	(5,745)	(2,695)	12,911
Balance at December 31, 2014	$ (748)	$ (15,776)	$ (5,935)	$ (9,096)	$ (31,555)
2013					
Balance at January 1, 2013	$ 39,054	$ 3,269	$	$ (12,522)	$ 29,801
Other comprehensive income (loss) before reclassifications	(57,958)	(20,224)	(190)		(78,372)
Amounts reclassified from accumulated other comprehensive income (loss) (a)	(2,204)	188		6,121	4,105
Net other comprehensive income (loss)	(60,162)	(20,036)	(190)	6,121	(74,267)
Balance at December 31, 2013	$ (21,108)	$ (16,767)	$ (190)	$ (6,401)	$ (44,466)

(a) See table below for details about reclassifications.

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The following tables summarize the significant amounts reclassified out of each component of AOCI for the years ended December 31, 2015, 2014, and 2013:

Details about AOCI Components	**Amount Reclassified from AOCI Years Ended December 31,**			**Affected Line Item in the Statement Where Net Income is Presented**
(dollars in thousands)	**2015**	**2014**	**2013**	
Unrealized gains and losses on available-for-sale securities				
	$ 5,718	$ 9,830	$ 4,341	Net securities gains
		(100)	(1,000)	Impairment losses
	5,718	9,730	3,341	Income before income taxes
	(2,106)	(3,699)	(1,137)	Income tax (expense) benefit
	$ 3,612	$ 6,031	$ 2,204	Net income
Unrealized gains and losses on held-to-maturity securities				
	$ (1,692)	$ (1,437)	$ (225)	Interest income/(expense)
	396	446	37	Income tax (expense) benefit
	$ (1,296)	$ (991)	$ (188)	Net income
Gains and losses on cash flow hedges				
Interest rate contracts	**$ (2,719)**	$ (248)	$	Interest income/(expense)
	1,033	94		Income tax (expense) benefit
	$ (1,686)	$ (154)	$	Net income
Amortization of defined benefit pension items				
Actuarial gains/(losses)	**$ 171**	$ 6,266	$ (6,901)	Salaries and employee benefits
Amortization of net actuarial losses	**(3,173)**	(1,933)	(3,436)	Salaries and employee benefits
	1,141	(1,638)	4,216	Income tax (expense) benefit
	$ (1,861)	$ 2,695	$ (6,121)	Net income
Total reclassifications for the period	**$ (1,231)**	$ 7,581	$ (4,105)	Net income

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NOTE 4 - 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 December 31 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
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**
2014				
Available-for-Sale				
U.S. Treasury	$ 14,978	$ 196	$ (8)	$ 15,166
U.S. government-sponsored entities and agencies	692,704	1,533	(8,286)	685,951
Mortgage-backed securities - Agency	1,233,811	18,219	(10,368)	1,241,662
States and political subdivisions	304,435	11,023	(917)	314,541
Pooled trust preferred securities	17,965		(11,358)	6,607
Other securities	365,235	2,338	(3,669)	363,904
Total available-for-sale securities	$ 2,629,128	$ 33,309	$ (34,606)	$ 2,627,831
Held-to-Maturity				
U.S. government-sponsored entities and agencies	$ 167,207	$ 6,279	$	$ 173,486
Mortgage-backed securities - Agency	23,648	926		24,574
States and political subdivisions	653,199	52,753	(77)	705,875
Total held-to-maturity securities	$ 844,054	$ 59,958	$ (77)	$ 903,935

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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 years ended December 31:

(dollars in thousands)	2015	2014	2013
Proceeds from sales of available-for-sale securities	**$ 343,486**	$ 214,912	$ 231,806
Proceeds from calls of available-for-sale securities	**404,277**	123,141	172,465
Total	**$ 747,763**	$ 338,053	$ 404,271
Realized gains on sales of available-for-sale securities	**$ 5,640**	$ 9,938	$ 4,715
Realized gains on calls of available-for-sale securities	**605**	154	50
Realized losses on sales of available-for-sale securities	**(518)**	(128)	(865)
Realized losses on calls of available-for-sale securities	**(15)**	(471)	(171)
Other securities gains (1)	**6**	337	612
Net securities gains	**$ 5,718**	$ 9,830	$ 4,341

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

Investment securities with a carrying value of $1.4 billion were pledged to secure public and other funds at December 31, 2015 and December 31, 2014.

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 $3.9 million at December 31, 2015 and December 31, 2014.

At December 31, 2015, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: $340.5 million by Indiana, which represented 22.8% of shareholders equity, and $220.9 million by Texas, which represented 14.8% of shareholders equity. Of the Indiana municipal bonds, 94% are rated A or better, and the remaining 6% generally represent non-rated local interest bonds where Old National has a market presence. All of the Texas municipal bonds are rated AA or better, and the majority of issues are backed by the AAA rated State of Texas Permanent School Fund Guarantee Program.

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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.

(dollars in thousands)	At December 31, 2015		
Maturity	**Amortized Cost**	**Fair Value**	**Weighted Average Yield**
Available-for-Sale			
Within one year	**$ 38,082**	**$ 38,117**	**1.84%**
One to five years	**585,477**	**584,779**	**1.76**
Five to ten years	**341,481**	**344,189**	**2.71**
Beyond ten years	**1,459,023**	**1,451,136**	**2.57**
Total	**$ 2,424,063**	**$ 2,418,221**	**2.38%**
Held-to-Maturity			
Within one year	**$ 10,338**	**$ 10,576**	**6.59%**
One to five years	**32,117**	**33,502**	**4.05**
Five to ten years	**199,045**	**205,606**	**3.55**
Beyond ten years	**630,611**	**679,733**	**5.47**
Total	**$ 872,111**	**$ 929,417**	**4.99%**

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The following table summarizes the investment securities with unrealized losses at December 31 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
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)**
2014						
Available-for-Sale						
U.S. Treasury	$ 9,524	$ (8)	$	$	$ 9,524	$ (8)
U.S. government-sponsored entities and agencies	180,488	(563)	257,914	(7,723)	438,402	(8,286)
Mortgage-backed securities - Agency	31,304	(122)	386,788	(10,246)	418,092	(10,368)
States and political subdivisions	41,481	(288)	9,534	(629)	51,015	(917)
Pooled trust preferred securities			6,607	(11,358)	6,607	(11,358)
Other securities	115,973	(906)	95,344	(2,763)	211,317	(3,669)
Total available-for-sale	$ 378,770	$ (1,887)	$ 756,187	$ (32,719)	$ 1,134,957	$ (34,606)
Held-to-Maturity						
States and political subdivisions	$ 6,171	$ (77)	$	$	$ 6,171	$ (77)
Total held-to-maturity	$ 6,171	$ (77)	$	$	$ 6,171	$ (77)

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 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 in 2015. Other-than-temporary impairments totaled $100 thousand in 2014 and $1.0 million in 2013.

As of December 31, 2015, Old National s securities portfolio consisted of 1,746 securities, 260 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 primarily the result of fluctuations in interest rates. Our pooled trust preferred securities are discussed below.

Pooled Trust Preferred Securities

At December 31, 2015, our securities portfolio contained three pooled trust preferred securities with a fair value of $7.9 million and unrealized losses of $9.4 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 $3.2 million at December 31, 2015. This security was rated A3 at inception, but is rated D at December 31, 2015. 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 years ended December 31, 2015 and 2014, our model indicated no other-than-temporary impairment losses on this security. At December 31, 2015, we have no intent to sell any securities that are 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 $6.2 million at December 31, 2015 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 years ended December 31, 2015 and 2014, our analysis indicated no other-than-temporary impairment 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 December 31, 2015 (dollars in thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2015	# 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	$ 3,434	$ 232	$ (3,202)	$	24/40	33.3%	7.2%	0.0%
Pretsl XXVII LTD	B	B	4,425	2,304	(2,121)		33/45	21.5%	15.0%	34.5%
Trapeza Ser 13A	A2A	BBB	9,461	5,364	(4,097)		50/59	12.1%	9.0%	48.5%
			17,320	7,900	(9,420)					
Single Issuer trust preferred securities:										
Fleet Cap Tr V (BOA)		BB+	3,389	2,958	(431)					
JP Morgan Chase Cap XIII		BBB-	4,756	4,175	(581)					
NB-Global		BB+	768	845	77					
Chase Cap II		BBB-	808	855	47					
			9,721	8,833	(888)					
Total			$ 27,041	$ 16,733	$ (10,308)	$				

(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 December 31, 2015, and the related life-to-date credit losses recognized in earnings:

(dollars in thousands)	Vintage	Lowest Credit Rating (1)	Amortized Cost	Amount of other-than-temporary impairment recognized in earnings Years Ended December 31, 2015	2014	2013	Life-to date
Reg Div Funding	2004	D	$ 3,434	$	$	$	$ 5,685
Limited partnership			760		100		100

Total	$ 4,194	$	$ 100	$	$ 5,785

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

NOTE 5 LOANS HELD FOR SALE

Loans held for sale were $13.8 million at December 31, 2015, compared to $213.5 million at December 31, 2014. Included in loans held for sale at December 31, 2015 were $13.8 million of mortgage loans held for immediate sale in the secondary market, compared to $15.6 million at December 31, 2014. 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*). Prior to mid-2014, residential loans originated by Old National were primarily sold on a servicing released basis. Beginning with the inception of an in-house servicing unit in the third quarter of 2014, conventional mortgage production is now sold on a servicing retained basis. Certain loans, such as government guaranteed mortgage loans continue to be sold on servicing released basis.

During the fourth quarter of 2014, $71.6 million residential real estate loans held for investment, $50.1 million consumer loans held for investment, $45.5 million commercial loans held for investment, and $30.7 million commercial real estate loans held for investment were reclassified to loans held for sale at the lower of cost or fair value. In connection with our branch divestitures, these loans were sold during the third quarter of 2015 for $193.6 million, resulting in a gain of $0.1 million. At December 31, 2015, there were no loans held for sale under this arrangement.

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NOTE 6 FINANCE RECEIVABLES 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 at December 31 by lending classification was as follows:

(dollars in thousands)	2015	2014
Commercial (1)	**$ 1,804,615**	$ 1,629,600
Commercial real estate:		
Construction	**185,449**	134,552
Other	**1,662,372**	1,576,558
Residential real estate	**1,644,614**	1,519,156
Consumer credit:		
Heloc	**359,954**	360,320
Auto	**1,050,336**	846,969
Other	**133,478**	103,338
Covered loans	**107,587**	147,708
Total loans	**6,948,405**	6,318,201
Allowance for loan losses	**(51,296)**	(44,297)
Allowance for loan losses - covered loans	**(937)**	(3,552)
Net loans	**$ 6,896,172**	$ 6,270,352

(1) Includes direct finance leases of $14.4 million at December 31, 2015 and $19.3 million at December 31, 2014.
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.

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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 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. We do not expect losses to exceed $275.0 million. See Notes 1 and 7 to the consolidated financial statements for further details on our covered loans.

Related Party Loans

In the ordinary course of business, Old National grants loans to certain executive officers, directors, and significant subsidiaries (collectively referred to as related parties).

Activity in related party loans during 2015 is presented in the following table:

(dollars in thousands)	2015
Balance at January 1,	$ 20,560
New loans	2,286

Repayments	**(14,970)**
Officer and director changes	**269**
Balance at December 31,	**$ 8,145**

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.

Effective January 1, 2015, we began using 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 adopted the probability of default and loss given default model for commercial loans because we believe this approach has a tendency to react more quickly to credit cycle shifts (both positive and negative). Switching from migration analysis to the probability of default and loss given default model for our performing commercial and commercial real estate loans did not have a material effect on our allowance for loan losses at the date of adoption.

Prior to January 1, 2015, we used migration analysis as a tool to determine the adequacy of the allowance for loan losses for performing commercial and commercial real estate loans. Migration analysis is a statistical technique that attempts to estimate probable losses for existing pools of loans by matching actual losses incurred on loans back to their origination. Judgment is used to select and weight the historical periods which are most representative of the current environment.

We calculated migration analysis using several different scenarios based on varying assumptions to evaluate the widest range of possible outcomes. The migration-derived historical commercial loan loss rates were applied to the current commercial loan pools to arrive at an estimate of probable losses for the loans existing at the time of analysis. The amounts determined by migration analysis were adjusted for management s best estimate of the effects of current economic conditions, loan quality trends, results from internal and external review examinations, loan volume trends, credit concentrations, and various other factors.

We continue to 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 (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.

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Old National s activity in the allowance for loan losses for the years ended December 31, 2015, 2014, and 2013 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Unallocated	Total
2015						
Allowance for loan losses:						
Beginning balance	**$ 20,670**	**$ 17,348**	**$ 2,962**	**$ 6,869**	**$**	**$ 47,849**
Charge-offs	**(2,906)**	**(469)**	**(1,039)**	**(6,404)**		**(10,818)**
Recoveries	**4,611**	**3,233**	**354**	**4,081**		**12,279**
Provision	**3,972**	**(4,119)**	**(226)**	**3,296**		**2,923**
Ending balance	**$ 26,347**	**$ 15,993**	**$ 2,051**	**$ 7,842**	**$**	**$ 52,233**
2014						
Allowance for loan losses:						
Beginning balance	$ 16,565	$ 22,401	$ 3,239	$ 4,940	$	$ 47,145
Charge-offs	(3,396)	(2,352)	(793)	(4,675)		(11,216)
Recoveries	2,986	2,576	205	3,056		8,823
Provision	4,515	(5,277)	311	3,548		3,097
Ending balance	$ 20,670	$ 17,348	$ 2,962	$ 6,869	$	$ 47,849
2013						
Allowance for loan losses:						
Beginning balance	$ 14,642	$ 31,289	$ 3,677	$ 5,155	$	$ 54,763
Charge-offs	(3,810)	(5,427)	(1,487)	(6,279)		(17,003)
Recoveries	4,098	2,963	310	4,333		11,704
Provision	1,635	(6,424)	739	1,731		(2,319)
Ending balance	$ 16,565	$ 22,401	$ 3,239	$ 4,940	$	$ 47,145

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The following table provides Old National s recorded investment in financing receivables by portfolio segment at December 31, 2015 and 2014 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Unallocated	Total
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:						
Individually evaluated for impairment	**$ 60,959**	**$ 41,987**	**$**	**$**	**$**	**$ 102,946**
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**
December 31, 2014						
Allowance for loan losses:						
Individually evaluated for impairment	$ 7,280	$ 2,945	$	$	$	$ 10,225
Collectively evaluated for impairment	12,163	13,354	2,945	6,519		34,981
Noncovered loans acquired with deteriorated credit quality	406	1,049	17	67		1,539
Covered loans acquired with deteriorated credit quality	821			283		1,104
Total allowance for loan losses	$ 20,670	$ 17,348	$ 2,962	$ 6,869	$	$ 47,849
Loans and leases outstanding:						
	$ 38,485	$ 45,335	$	$	$	$ 83,820

Individually evaluated for impairment						
Collectively evaluated for impairment	1,598,352	1,631,794	1,519,171	1,359,537		6,108,854
Loans acquired with deteriorated credit quality	2,770	37,394	133	7,073		47,370
Covered loans acquired with deteriorated credit quality	7,160	37,384	21,106	12,507		78,157
Total loans and leases outstanding	$ 1,646,767	$ 1,751,907	$ 1,540,410	$ 1,379,117	$	$ 6,318,201

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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 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 December 31, 2015 and 2014, 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** **Credit Risk Profile by** **Internally Assigned Grade**	**Commercial** **2015**	**2014**	**Commercial Real Estate - Construction** **2015**	**2014**	**Commercial Real Estate - Other** **2015**	**2014**
Grade:						
Pass	**$ 1,668,667**	$ 1,442,904	**$ 179,543**	$ 119,958	**$ 1,491,750**	$ 1,374,191
Criticized	**54,606**	89,775	**3,300**	2,229	**74,992**	102,805
Classified - substandard	**23,806**	58,461	**1,857**	5,866	**49,029**	38,659
Classified - nonaccrual	**55,067**	38,003	**749**	6,499	**39,164**	59,771
Classified - doubtful	**2,469**	457			**7,437**	1,132
Total	**$ 1,804,615**	$ 1,629,600	**$ 185,449**	$ 134,552	**$ 1,662,372**	$ 1,576,558

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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 December 31, 2015 and 2014, excluding covered loans:

(dollars in thousands)	**Residential**	**Heloc**	**Consumer Auto**	**Other**
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**
2014				
Performing	$ 1,505,188	$ 357,205	$ 845,708	$ 101,811
Nonperforming	13,968	3,115	1,261	1,527
Total	$ 1,519,156	$ 360,320	$ 846,969	$ 103,338

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, which are individually evaluated as of December 31, 2015 and 2014, 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
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**
December 31, 2014			
With no related allowance recorded:			
Commercial	$ 25,483	$ 25,854	$
Commercial Real Estate - Construction	2,168	1,397	
Commercial Real Estate - Other	28,637	30,723	
Residential	588	658	
Consumer	685	748	
With an allowance recorded:			
Commercial	7,471	10,488	4,883
Commercial Real Estate - Construction	98	98	11
Commercial Real Estate - Other	14,432	16,503	2,934
Residential	1,476	1,476	74
Consumer	1,543	1,543	77
Total	$ 82,581	$ 89,488	$ 7,979

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The average balance of impaired loans, excluding covered loans, and interest income recognized on impaired loans for the years ended December 31, 2015 and 2014 are included in the table below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
Year Ended December 31, 2015		
With no related allowance recorded:		
Commercial	**$ 33,678**	**$ 475**
Commercial Real Estate - Construction	**1,085**	
Commercial Real Estate - Other	**28,637**	**539**
Residential	**985**	**22**
Consumer	**943**	**5**
With an allowance recorded:		
Commercial	**11,924**	**428**
Commercial Real Estate - Construction	**168**	**1**
Commercial Real Estate - Other	**14,593**	**324**
Residential	**1,230**	**47**
Consumer	**2,034**	**98**
Total	**$ 95,277**	**$ 1,939**
Year Ended December 31, 2014		
With no related allowance recorded:		
Commercial	$ 21,592	$ 325
Commercial Real Estate - Construction	1,347	69
Commercial Real Estate - Other	21,560	328
Residential	347	1
Consumer	505	14
With an allowance recorded:		
Commercial	7,579	94
Commercial Real Estate - Construction	49	4
Commercial Real Estate - Other	12,160	409
Residential	1,857	69
Consumer	1,189	58
Total	$ 68,185	$ 1,371

(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 December 31 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
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	**$ 16,266**	**$ 4,090**	**$ 916**	**$ 132,373**	**$ 153,645**	**$ 6,794,760**
December 31, 2014						
Commercial	$ 649	$ 813	$ 33	$ 38,460	$ 39,955	$ 1,589,645
Commercial Real Estate:						
Construction				6,499	6,499	128,053
Other	3,834	1,468	138	60,903	66,343	1,510,215
Residential	11,606	3,959	1	13,968	29,534	1,489,622
Consumer:						
Heloc	577	376		3,115	4,068	356,252
Auto	3,349	695	203	1,261	5,508	841,461
Other	969	129	83	1,527	2,708	100,630
Covered loans	1,477	584		15,124	17,185	130,523
Total	$ 22,461	$ 8,024	$ 458	$ 140,857	$ 171,800	$ 6,146,401

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At December 31, 2015, these loans totaled $311.4 million, of which $171.1 million had been sold to other financial institutions and $140.3 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder s share of ownership and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Troubled Debt Restructurings

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

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

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

If we are unable to resolve a nonperforming loan issue, the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based on quantitative benchmarks or subjectively based upon certain events or particular circumstances. It is Old National s policy to charge 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 years ended December 31, 2015 and 2014:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
2015					
Balance at January 1, 2015	**$ 15,205**	**$ 15,226**	**$ 2,063**	**$ 2,459**	**$ 34,953**
(Charge-offs)/recoveries	**872**	**1,064**	**(64)**	**3**	**1,875**
Payments	**(29,913)**	**(6,273)**	**(658)**	**(1,168)**	**(38,012)**
Additions	**37,190**	**4,585**	**1,352**	**2,308**	**45,435**
Balance at December 31, 2015	**$ 23,354**	**$ 14,602**	**$ 2,693**	**$ 3,602**	**$ 44,251**
2014					
Balance at January 1, 2014	$ 22,443	$ 22,639	$ 2,344	$ 1,441	$ 48,867
(Charge-offs)/recoveries	126	795	10	(102)	829
Payments	(18,281)	(9,722)	(466)	(466)	(28,935)
Additions	13,696	3,554	175	1,586	19,011
Removals - subsequent restructuring	(2,779)	(2,040)			(4,819)
Balance at December 31, 2014	$ 15,205	$ 15,226	$ 2,063	$ 2,459	$ 34,953

2013

Balance at January 1, 2013	$ 12,660	$ 18,422	$ 499	$ 473	$ 32,054
(Charge-offs)/recoveries	879	1	1	(61)	820
Payments	(6,251)	(5,635)	(57)	(455)	(12,398)
Additions	15,155	9,851	1,901	1,484	28,391
Balance at December 31, 2013	$ 22,443	$ 22,639	$ 2,344	$ 1,441	$ 48,867

Approximately $30.0 million of the TDRs at December 31, 2015 were included with nonaccrual loans, compared to $22.1 million at December 31, 2014. Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling $2.3 million at December 31, 2015 and $2.8 million at December 31, 2014. As of December 31, 2015, Old National had committed to lend an additional $6.2 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 years ended December 31, 2015, 2014, and 2013 are the same since the loan modifications did not involve the forgiveness of principal. Old National did not record any charge-offs at the modification date. The following table presents loans by class modified as TDRs that occurred during the year ended December 31, 2015:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	**42**	**$ 37,190**	**$ 37,190**
Commercial Real Estate - construction	**5**	**1,162**	**1,162**
Commercial Real Estate - other	**27**	**3,423**	**3,423**
Residential	**13**	**1,352**	**1,352**
Consumer - other	**32**	**2,308**	**2,308**
Total	**119**	**$ 45,435**	**$ 45,435**

The TDRs described above decreased the allowance for loan losses by $0.8 million and resulted in charge-offs of $0.2 million during 2015.

The following table presents loans by class modified as TDRs that occurred during the year ended December 31, 2014:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:			
Commercial	32	$ 13,696	$ 13,696
Commercial Real Estate - construction	1	484	484
Commercial Real Estate - other	34	3,070	3,070
Residential	2	175	175
Consumer - other	28	1,586	1,586
Total	97	$ 19,011	$ 19,011

The TDRs described above increased the allowance for loan losses by $0.5 million and resulted in charge-offs of $0.1 million during 2014.

The following table presents loans by class modified as TDRs that occurred during the year ended December 31, 2013:

(dollars in thousands)

	Number of Loans		Pre-modification Outstanding Recorded Investment		Post-modification Outstanding Recorded Investment
Troubled Debt Restructuring:					
Commercial	35	$	15,155	$	15,155
Commercial Real Estate - construction	1		60		60
Commercial Real Estate - other	36		9,791		9,791
Residential	14		1,901		1,901
Consumer - other	49		1,484		1,484
Total	135	$	28,391	$	28,391

The TDRs described above increased the allowance for loan losses by $0.1 million and resulted in charge-offs of $0.2 million during 2013.

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

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There were five commercial loans and five commercial real estate loans totaling $1.4 million that were modified as TDRs within the last twelve months, and for which there was a payment default during 2015.

There were no loans that were modified as TDRs during 2014 for which there was a payment default within the last twelve months.

The terms of certain other loans were modified during the year ended December 31, 2015 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or if the delay in a payment was 90 days or less.

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 December 31, 2015, 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 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.

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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:

	December 31,	
(dollars in thousands)	**2015**	**2014**
Commercial	**$ 691**	$ 2,770
Commercial real estate	**28,499**	37,394
Residential	**127**	133
Consumer	**3,925**	7,073
Carrying amount	**33,242**	47,370
Allowance for loan losses	**(863)**	(1,539)
Carrying amount, net of allowance	**$ 32,379**	$ 45,831

The outstanding balance of noncovered loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $107.1 million at December 31, 2015 and $135.9 million at December 31, 2014.

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 $14.0 million during 2015 and $16.0 million during 2014. 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, 2015	$ 3,564	$ 1,389	$ 13,354	$ 4,559	$ 1,516	$ 2,409	$	$ 26,791
New loans purchased							1,812	1,812
Accretion of income	(2,017)	(512)	(6,054)	(1,729)	(1,715)	(1,200)	(770)	(13,997)
Reclassifications from (to) nonaccretable difference	(59)	152	1,233	743	2,479	3,762	1,770	10,080
Disposals/other adjustments	535	679	953	140	532			2,839
Balance at December 31, 2015	$ 2,023	$ 1,708	$ 9,486	$ 3,713	$ 2,812	$ 4,971	$ 2,812	$ 27,525

Included in Old National s allowance for loan losses is $0.9 million related to the purchased loans disclosed above at December 31, 2015, compared to $1.5 million at December 31, 2014.

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.

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Income is not 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.

NOTE 7 COVERED LOANS

Covered loans represent loans acquired from the FDIC that are subject to loss share agreements. The carrying amount of covered loans was $107.6 million at December 31, 2015, compared to $147.7 million at December 31, 2014. The composition of covered loans by lending classification was as follows:

	At December 31, 2015		
(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	$ 2,893	$ 7,432	$ 10,325
Commercial real estate	19,424	1,727	21,151
Residential	16,577	144	16,721
Consumer	8,945	50,445	59,390
Covered loans	47,839	59,748	107,587
Allowance for loan losses	(496)	(441)	(937)
Covered loans, net	$ 47,343	$ 59,307	$ 106,650

(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 $214.4 million at December 31, 2015 and $241.9 million at December 31, 2014.

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The following table is a roll-forward of acquired impaired loans accounted for under ASC 310-30 for the years ended December 31, 2015 and 2014:

(dollars in thousands)	Contractual Cash Flows (1)	Nonaccretable Difference	Accretable Yield	Carrying Amount (2)
2015				
Balance at January 1, 2015	**$ 124,809**	**$ (12,014)**	**$ (35,742)**	**$ 77,053**
Principal reductions and interest payments	**(43,792)**	**(1,666)**		**(45,458)**
Accretion of loan discount			**21,529**	**21,529**
Changes in contractual and expected cash flows due to remeasurement	**(4,139)**	**8,409**	**(4,109)**	**161**
Removals due to foreclosure or sale	**(1,316)**	**463**	**(244)**	**(1,097)**
Loans removed from loss share coverage	**(5,705)**	**79**	**781**	**(4,845)**
Balance at December 31, 2015	**$ 69,857**	**$ (4,729)**	**$ (17,785)**	**$ 47,343**
2014				
Balance at January 1, 2014	$ 251,042	$ (46,793)	$ (73,211)	$ 131,038
Principal reductions and interest payments	(109,254)	(2,145)	(940)	(112,339)
Accretion of loan discount			61,945	61,945
Changes in contractual and expected cash flows due to remeasurement	(9,935)	34,692	(22,067)	2,690
Removals due to foreclosure or sale	(7,044)	2,232	(1,469)	(6,281)
Balance at December 31, 2014	$ 124,809	$ (12,014)	$ (35,742)	$ 77,053

(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 decrease 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.

Accretable yield, or income expected to be collected on the covered loans accounted for under ASC 310-30, is as follows:

(dollars in thousands)	2015	2014
Balance at January 1,	**$ 35,742**	$ 73,211
Accretion of income	**(21,529)**	(61,945)
Reclassifications from (to) nonaccretable difference	**4,109**	22,067
Loans removed from loss share coverage	**(781)**	
Disposals/other adjustments	**244**	2,409
Balance at December 31,	**$ 17,785**	$ 35,742

At December 31, 2015, the $9.0 million loss sharing asset is comprised of a $6.9 million FDIC indemnification asset and a $2.1 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 December 31, 2015, $4.4 million of the FDIC indemnification asset is

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related to expected indemnification payments and $2.5 million is expected to be amortized and reported in noninterest income as an offset to future accreted interest income. At December 31, 2014, $8.8 million of the FDIC indemnification asset was related to expected indemnification payments and $9.7 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.

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 years ended December 31, 2015 and 2014:

(dollars in thousands)	**2015**	2014
Balance at January 1,	**$ 20,603**	$ 88,513
Adjustments not reflected in income:		
Cash received from the FDIC	**(3,548)**	(26,342)
Other	**1,009**	1,594
Adjustments reflected in income:		
Amortization	**(10,709)**	(41,611)
Higher loan loss expectations	**275**	59
Impairment/(recovery) of value and net (gain)/loss on sales of other real estate	**1,400**	(1,610)
Balance at December 31,	**$ 9,030**	$ 20,603

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NOTE 8 OTHER REAL ESTATE OWNED

The following table presents activity in other real estate owned for the years ended December 31, 2015 and 2014:

(dollars in thousands)	Other Real Estate Owned (1)	Other Real Estate Owned, Covered
2015		
Balance at January 1, 2015	**$ 7,241**	**$ 9,121**
Additions	**5,665**	**1,487**
Sales	**(5,710)**	**(5,373)**
(Impairment)/recovery of value	**398**	**(331)**
Balance at December 31, 2015	**$ 7,594**	**$ 4,904**
2014		
Balance at January 1, 2014	$ 7,562	$ 13,670
Additions	7,064	8,480
Sales	(5,856)	(11,164)
(Impairment)/recovery of value	(1,529)	(1,865)
Balance at December 31, 2014	$ 7,241	$ 9,121

(1) Includes repossessed personal property of $0.2 million at December 31, 2015 and December 31, 2014.
At December 31, 2015, foreclosed residential real estate property included in the table above totaled $0.8 million. At December 31, 2015, consumer mortgage loans collateralized by residential real property that were in the process of foreclosure totaled $7.6 million.

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. We do not expect losses to 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 9 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill by segment for the years ended December 31, 2015 and 2014:

(dollars in thousands)	Banking	Insurance	Total
Balance at January 1, 2015	**$ 490,972**	**$ 39,873**	**$ 530,845**

Acquisitions and divestitures, net	**52,699**	**1,090**	**53,789**
Balance at December 31, 2015	**$ 543,671**	**$ 40,963**	**$ 584,634**
Balance at January 1, 2014	$ 312,856	$ 39,873	$ 352,729
Goodwill acquired during the period	178,116		178,116
Balance at December 31, 2014	$ 490,972	$ 39,873	$ 530,845

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. The Company allocated $3.8 million of the gain on the divestiture of its southern Illinois franchise to goodwill. See Note 2 to the consolidated financial statements for detail regarding goodwill associated with this divestiture.

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During 2015, Old National recorded $56.0 million of goodwill associated with the acquisition of Founders that was allocated to the Banking segment. Also during 2015, Old National recorded a $0.5 million increase to goodwill associated with the acquisition of LSB that was allocated to the Banking segment and an increase of $1.1 million of goodwill associated with the acquisition of Mutual Underwriters that was allocated to the Insurance segment. See Note 2 to the consolidated financial statements for detail regarding goodwill recorded in 2014 associated with acquisitions.

The gross carrying amounts and accumulated amortization of other intangible assets at December 31, 2015 and 2014 was as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
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**
2014			
Amortized intangible assets:			
Core deposit	$ 57,149	$ (36,950)	$ 20,199
Customer business relationships	27,942	(21,438)	6,504
Customer trust relationships	13,986	(3,232)	10,754
Customer loan relationships	4,413	(3,176)	1,237
Total intangible assets	$ 103,490	$ (64,796)	$ 38,694

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 2015, Old National increased core deposit intangibles by $2.9 million and customer trust relationships by $2.6 million related to the Founders acquisition that is included in the Banking segment. Also during the first quarter of 2015, Old National increased customer business relationships intangibles by $2.6 million related to the Mutual Underwriters acquisition that is included in the Insurance segment. During the second quarter of 2015, Old National increased customer business relationships intangibles by $0.2 million related to the purchase of an insurance book of business, which is included in the Insurance segment. See Note 25 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 in 2015, 2014, or 2013. Total amortization expense associated with intangible assets was $11.7 million in 2015, $9.1 million in 2014, and $8.2 million in 2013. Included in expense for the first quarter of 2013 is $0.6 million related to the branch sales that occurred in the first quarter of 2013.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2016	$ 9,913
2017	7,635
2018	5,844
2019	4,353
2020	3,064
Thereafter	4,499
Total	$ 35,308

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NOTE 10 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. See Note 2 to the consolidated financial statements for detail regarding loan servicing rights recorded associated with these acquisitions.

At December 31, 2015, 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 $9.5 million at December 31, 2014. Loans serviced for others are not reported as assets. The principal balance of loans serviced for others was $1.263 billion at December 31, 2015, compared to $1.124 billion at December 31, 2014. Approximately 96% of the loans serviced for others at December 31, 2015 were residential mortgage loans. Custodial escrow balances maintained in connection with serviced loans were $3.0 million at December 31, 2015 and $16.5 million at December 31, 2014.

The following table summarizes the activity related to loan servicing rights and the related valuation allowance in 2015 and 2014:

(dollars in thousands)	2015	2014
Balance at January 1,	**$ 9,584**	$
Additions	**3,187**	10,310
Amortization	**(2,269)**	(726)
Balance before valuation allowance at December 31,	**10,502**	9,584
Valuation allowance:		
Balance at January 1,	**(50)**	
(Additions)/recoveries	**16**	(50)
Balance at December 31,	**(34)**	(50)
Loan servicing rights, net	**$ 10,468**	$ 9,534

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. At December 31, 2014, the fair value of servicing rights was $9.5 million, which was determined using a discount rate of 12% and a weighted average prepayment speed of 192% PSA.

NOTE 11 - DEPOSITS

The aggregate amount of time deposits in denominations of $250,000 or more was $103.8 million at December 31, 2015 and $80.7 million at December 31, 2014. At December 31, 2015, the scheduled maturities of total time deposits were as follows:

(dollars in thousands)	
Due in 2016	$ 580,462

Due in 2017	157,355
Due in 2018	111,585
Due in 2019	54,877
Due in 2020	73,497
Thereafter	22,291
Total	$ 1,000,067

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NOTE 12 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates for each of the years ended December 31:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements / Sweeps	American Financial Exchange Borrowings (1)	Total
2015				
Outstanding at year-end	**$ 241,090**	**$ 337,409**	**$ 50,000**	**$ 628,499**
Average amount outstanding	**125,631**	**356,117**	**493**	**482,241**
Maximum amount outstanding at any month-end	**247,716**	**369,515**	**50,000**	
Weighted average interest rate:				
During year	**0.21%**	**0.06%**	**0.31%**	**0.10%**
End of year	**0.31**	**0.07**	**0.53**	**0.20**
2014				
Outstanding at year-end	$ 195,188	$ 356,121	$	$ 551,309
Average amount outstanding	77,512	327,407		404,919
Maximum amount outstanding at any month-end	195,188	356,121		
Weighted average interest rate:				
During year	0.23%	0.07%	%	0.08%
End of year	0.17	0.05		0.09

(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 December 31, 2015				
	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	**$ 336,840**	**$ 569**	**$**	**$**	**$ 337,409**
Total	**$ 336,840**	**$ 569**	**$**	**$**	**$ 337,409**

The fair value of securities pledged to secure repurchase agreements may decline. The Company has pledged securities valued at 120% of the gross outstanding balance of repurchase agreements at December 31, 2015 to manage this risk.

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NOTE 13 - FINANCING ACTIVITIES

The following table summarizes Old National and its subsidiaries other borrowings at December 31:

(dollars in thousands)	2015	2014
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	**(1,338)**	(1,500)
Junior subordinated debentures (variable rates of 1.85% to 2.28%) maturing March 2035 to June 2037	**45,000**	45,000
ASC 815 fair value hedge and other basis adjustments	**(4,442)**	(4,884)
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 0.35% to 6.76% and variable rates 0.43% to 0.51%) maturing January 2016 to January 2025	**1,022,766**	649,987
Capital lease obligation	**4,036**	4,099
ASC 815 fair value hedge and other basis adjustments	**725**	900
Total other borrowings	**$ 1,291,747**	$ 918,602

Contractual maturities of other borrowings at December 31, 2015, were as follows:

(dollars in thousands)	
Due in 2016	$ 592,355
Due in 2017	95,768
Due in 2018	145,349
Due in 2019	2,919
Due in 2020	50,091
Thereafter	410,320
ASC 815 fair value hedge, unamortized debt issuance costs, and other basis adjustments	(5,055)
Total	$ 1,291,747

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

FHLB advances had weighted-average rates of 0.72% at December 31, 2015 and 0.77% at December 31, 2014. These borrowings are collateralized by investment securities and residential real estate loans up to 140% of outstanding debt.

JUNIOR SUBORDINATED DEBENTURES

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

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

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

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

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

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

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are secured borrowings. The Company pledges investment securities to secure these borrowings.

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.

At December 31, 2015, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2016	$ 410
2017	410
2018	410
2019	430
2020	430
Thereafter	8,406
Total minimum lease payments	10,496
Less amounts representing interest	6,460
Present value of net minimum lease payments	$ 4,036

NOTE 14 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 statement of income for the years ended December 31:

(dollars in thousands)	**2015**	**2014**	**2013**
Provision at statutory rate of 35%	**$ 57,013**	$ 49,688	$ 49,881
Tax-exempt income:			
Tax-exempt interest	**(13,111)**	(11,460)	(10,125)
Section 291/265 interest disallowance	**142**	93	107
Company-owned life insurance income	**(3,011)**	(2,423)	(2,609)
Tax-exempt income	**(15,980)**	(13,790)	(12,627)
Reserve for unrecognized tax benefits	**(5)**	(1,076)	(381)
State income taxes	**4,173**	2,676	3,386
State statutory rate change		904	1,257
Effect of Illinois branch sale	**1,835**		
Other, net	**(859)**	(105)	81
Income tax expense	**$ 46,177**	$ 38,297	$ 41,597
Effective tax rate	**28.3%**	27.0%	29.2%

The higher effective tax rate in 2015 when compared to 2014 is the result of an increase in taxable income, as well as tax differences arising from the sale of Illinois branches in the third quarter of 2015.

The effective tax rate decreased in 2014 when compared to 2013 as a result of higher tax-exempt income in relation to pre-tax book income, as well as lower state taxes due to reduced statutory rates. In 2014, there was income tax expense of $0.9 million related to a statutory rate change during the first quarter. In 2013, there was income tax expense of $1.3 million related to a statutory rate change during the second quarter.

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The provision for income taxes consisted of the following components for the years ended December 31:

(dollars in thousands)	2015	2014	2013
Income taxes currently payable:			
Federal	**$ 17,385**	$ 8,974	$ 13,901
State	**769**	581	(51)
Deferred income taxes related to:			
Federal	**24,664**	27,207	22,983
State	**3,359**	1,535	4,764
Deferred income tax expense	**28,023**	28,742	27,747
Income tax expense	**$ 46,177**	$ 38,297	$ 41,597

Significant components of net deferred tax assets (liabilities) were as follows at December 31:

(dollars in thousands)	2015	2014
Deferred Tax Assets		
Allowance for loan losses, net of recapture	**$ 17,125**	$ 16,348
Benefit plan accruals	**18,066**	16,683
AMT credit	**18,378**	19,808
Unrealized losses on benefit plans	**4,507**	5,648
Net operating loss carryforwards	**2,041**	3,258
Premises and equipment	**12,735**	20,139
Federal tax credits	**422**	1,632
Other-than-temporary impairment	**3,558**	3,573
Acquired loans	**34,870**	49,350
Lease exit obligation	**2,626**	1,747
Unrealized losses on available-for-sale investment securities	**3,002**	1,815
Unrealized losses on held-to-maturity investment securities	**7,724**	8,120
Unrealized losses on hedges	**5,685**	3,638
Other, net	**4,914**	6,324
Total deferred tax assets	**135,653**	158,083
Deferred Tax Liabilities		
Accretion on investment securities	**(599)**	(449)
Other real estate owned	**(284)**	(178)
Purchase accounting	**(16,615)**	(15,112)
FDIC indemnification asset	**(2,565)**	(6,909)
Loan servicing rights	**(3,890)**	(3,558)
Other, net	**(1,716)**	(2,530)
Total deferred tax liabilities	**(25,669)**	(28,736)

Net deferred tax assets	**$ 109,984**	$ 129,347

The net deferred tax assets are included with other assets on the balance sheet. No valuation allowance was recorded at December 31, 2015 or 2014 because, based on current expectations, Old National believes it will generate sufficient income in future years to realize deferred tax assets. Old National has federal net operating loss carryforwards totaling $1.3 million at December 31, 2015 and $4.0 million at December 31, 2014. This federal net operating loss was acquired from the acquisition of IBT in 2012. If not used, the federal net operating loss carryforwards will begin to expire in 2032. Old National has alternative minimum tax credit carryforwards totaling $18.4 million at December 31, 2015 and $19.8 million at December 31, 2014. The alternative minimum tax credit carryforward does not expire. Old National has federal tax credit carryforwards of $0.4 million at December 31, 2015 and $1.6 million at December 31, 2014. The federal tax credits consist mainly of new market tax credits and low income housing credits that, if not used, will begin to expire in 2030. Old National has state net operating loss carryforwards totaling $46.3 million at December 31, 2015 and $53.5 million at December 31, 2014. If not used, the state net operating loss carryforwards will begin to expire in 2022.

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Unrecognized Tax Benefits

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)	2015	2014	2013
Balance at January 1,	**$ 77**	$ 3,847	$ 3,953
Additions based on tax positions related to the current year	**51**	37	34
Reductions due to statute of limitations expiring	**(4)**	(3,807)	(140)
Balance at December 31,	**$ 124**	$ 77	$ 3,847

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

It is our policy to recognize interest and penalties accrued relative to unrecognized tax benefits in their respective federal or state income tax accounts. We recorded interest and penalties in the income statement of $(0.4) thousand in 2015, $(1.1) million in 2014, and $(0.2) million in 2013. The amount accrued for interest and penalties in the balance sheet was $11 thousand at December 31, 2015 and $10 thousand at December 31, 2014.

Old National and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. The 2012 through 2015 tax years are open and subject to examination. In February 2014, the Company was notified that their 2011 federal tax return was under examination. This examination was completed in 2015 and no changes were made to the Company s reported tax.

The Company reversed $4 thousand in 2015 related to uncertain tax positions accounted for under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) (ASC Topic 740-10). The positive $4 thousand income tax reversal relates to the 2011 statute of limitations expiring. The statute of limitations expired in the third quarter of 2015. As a result, the Company reversed a total of $4 thousand from its unrecognized tax benefit liability.

The Company reversed $3.8 million in 2014 related to uncertain tax positions accounted for under ASC 740-10. The positive $3.8 million income tax reversal relates to the 2010 statute of limitations expiring. The statute of limitations expired in the third quarter of 2014. As a result, the Company reversed a total of $3.8 million from its unrecognized tax benefit liability.

In the third quarter of 2013, the Company reversed $0.4 million, including interest of $0.2 million not included in the table above, related to uncertain tax positions accounted for under ASC Topic 740-10. The positive $0.4 million income tax reversal relates to the 2009 statute of limitations expiring. The statute of limitations expired in the third quarter of 2013. As a result, we reversed a total of $0.4 million from the Company s unrecognized tax benefit liability, which includes $0.2 million of interest.

NOTE 15 - EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN AND RESTORATION 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.

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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 uses a December 31 measurement date for its defined benefit pension plans. The following table presents the combined activity of our defined benefit plans:

(dollars in thousands)	2015	2014
Change in Projected Benefit Obligation		
Balance at January 1,	**$ 46,446**	$ 41,321
Interest cost	**1,661**	1,754
Benefits paid	**(869)**	(931)
Actuarial loss (gain)	**(1,916)**	6,287
Settlement	**(3,773)**	(1,985)
Projected benefit obligation at December 31,	**41,549**	46,446
Change in Plan Assets		
Fair value at January 1,	**37,693**	37,916
Actual return on plan assets	**(39)**	2,260
Employer contributions	**200**	433
Benefits paid	**(869)**	(931)
Settlement	**(3,773)**	(1,985)
Fair value of plan assets at December 31,	**33,212**	37,693
Funded status at December 31,	**$ (8,337)**	$ (8,753)
Amounts recognized in the statement of financial position at December 31:		
Accrued benefit liability	**$ (8,337)**	$ (8,753)
Net amount recognized	**$ (8,337)**	$ (8,753)
Amounts recognized in accumulated other comprehensive income at December 31:		
Net actuarial loss	**$ 11,860**	$ 14,863
Total	**$ 11,860**	$ 14,863

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $2.0 million.

The accumulated benefit obligation and the projected benefit obligation were equivalent for the defined benefit pension plans and were $41.5 million at December 31, 2015 and $46.4 million at December 31, 2014.

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The net periodic benefit cost and its components were as follows for the years ended December 31:

(dollars in thousands)	2015	2014	2013
Net Periodic Benefit Cost			
Interest cost	**$ 1,661**	$ 1,754	$ 1,740
Expected return on plan assets	**(2,047)**	(2,239)	(2,202)
Recognized actuarial loss	**2,123**	1,316	2,318
Net periodic benefit cost	**$ 1,737**	$ 831	$ 1,856
Settlement loss	**1,050**	617	1,118
Total net periodic benefit cost	**$ 2,787**	$ 1,448	$ 2,974
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income			
Net actuarial (gain)/loss	**$ 171**	$ 6,266	$ (6,901)
Amortization of net actuarial loss	**(2,123)**	(1,316)	(2,318)
Settlement loss	**(1,050)**	(617)	(1,118)
Total recognized in other comprehensive income	**$ (3,002)**	$ 4,333	$ (10,337)
Total recognized in net periodic benefit cost and other comprehensive income	**$ (215)**	$ 5,781	$ (7,363)

The weighted-average assumptions used to determine the benefit obligations as of the end of the years indicated and the net periodic benefit cost for the years indicated are presented in the table below. Because the plans are frozen, increases in compensation are not considered.

	2015	2014	2013
Benefit obligations:			
Discount rate at the end of the period	**4.50%**	4.00%	4.75%
Net periodic benefit cost:			
Discount rate at the beginning of the period	**4.00%**	4.75%	4.00%
Expected return on plan assets	**7.00**	7.50	7.50
Rate of compensation increase	**N/A**	N/A	N/A

N/A = not applicable

The expected long-term rate of return for each asset class was developed by combining a long-term inflation component, the risk-free real rate of return, and the associated risk premium. A weighted average rate was developed based on those overall rates and the target asset allocation of the plan. The discount rate used reflects the expected future cash flow based on Old National s funding valuation assumptions and participant data as of the beginning of the plan year. The expected future cash flow is discounted by the Principal Pension Discount yield curve as of

December 31, 2015.

Old National s asset allocation of the Retirement Plan as of year-end is presented in the following table. Old National s Restoration Plan is unfunded.

	Expected				
	Long-Term	2015 Target			
Asset Category	Rate of Return	Allocation	2015	2014	2013
Equity securities	9.00% - 9.50%	40 - 70%	**60%**	61%	64%
Debt securities	4.00% - 5.85%	30 - 60%	**39**	38	35
Cash equivalents		0 - 15%	**1**	1	1
Total			**100%**	100%	100%

Our overall investment strategy is to achieve a mix of approximately 40% to 70% of equity securities, 30% to 60% of debt securities, and 0% to 15% of cash equivalents. Fixed income securities and cash equivalents must meet

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minimum rating standards. Exposure to any particular company or industry is also limited. The investment policy is reviewed annually. There was no Old National stock in the plan as of December 31, 2015, 2014, or 2013.

The fair value of our plan assets are determined based on observable Level 1 or 2 pricing inputs, including quoted prices for similar assets in active or non-active markets. The holdings of the plan are comprised of pooled separate accounts, except for one mutual fund in the Fixed Income category. As of December 31, 2015, the fair value of plan assets, by asset category, is as follows:

		Fair Value Measurements at December 31, 2015 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan Assets				
Large U.S. equity	**$ 13,333**	**$**	**$ 13,333**	**$**
International equity	**6,667**		**6,667**	
Short-term fixed income	**431**		**431**	
Fixed income	**12,781**	**12,781**		
Total plan assets	**$ 33,212**	**$ 12,781**	**$ 20,431**	**$**

As of December 31, 2014, the fair value of plan assets, by asset category, was as follows:

		Fair Value Measurements at December 31, 2014 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Plan Assets				
Large U.S. equity	$ 15,877	$	$ 15,877	$
International equity	7,103		7,103	
Short-term fixed income	468		468	
Fixed income	14,245	14,245		
Total plan assets	$ 37,693	$ 14,245	$ 23,448	$

As of December 31, 2015, expected future benefit payments related to Old National s defined benefit plans were as follows:

(dollars in thousands)

2016	$ 4,890
2017	3,324
2018	2,326
2019	3,480
2020	3,001
Years 2021 - 2025	14,610

Old National expects to contribute cash of $0.2 million to the pension plans in 2016.

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EMPLOYEE STOCK OWNERSHIP PLAN

The Employee Stock Ownership and Savings Plan (401k) (the 401(k) Plan) permits employees to participate the first month following one month of service. Effective as of April 1, 2010, we suspended safe harbor matching contributions to the 401(k) Plan. However, we may make discretionary matching contributions to the 401(k) Plan. For 2015, 2014, and 2013, we matched 50% of employee compensation deferral contributions, up to 6% of compensation. In addition to matching contributions, Old National may contribute to the 401(k) Plan an amount designated as a profit sharing contribution in the form of Old National stock or cash. Our Board of Directors designated no discretionary profit sharing contributions in 2015, 2014, or 2013. All contributions vest immediately and plan participants may elect to redirect funds among any of the investment options provided under the 401(k) plan. The number of Old National shares in the 401(k) plan were 1.0 million at December 31, 2015 and 1.2 million at December 31, 2014. All shares owned through the 401(k) plan are included in the calculation of weighted-average shares outstanding for purposes of calculating diluted and basic earnings per share. Contribution expense under the 401(k) plan was $4.6 million in 2015, $4.3 million in 2014, and $3.8 million in 2013.

NOTE 16 STOCK-BASED COMPENSATION

STOCK-BASED COMPENSATION

Our Amended and Restated 2008 Incentive Compensation Plan (the ICP), which was shareholder-approved, permits the grant of share-based awards to its employees. At December 31, 2015, 4.9 million shares were available for issuance. Since 2010, the granting of awards to key employees is typically in the form of restricted stock. We believe that such awards better align the interests of our employees with those of our shareholders. Total compensation cost that has been charged against income for the ICPs was $4.3 million in 2015, $4.2 million in 2014, and $4.0 million in 2013. The total income tax benefit was $1.6 million in 2015, 2014, and 2013.

Restricted Stock Awards

Restricted stock awards require certain service-based or performance requirements and commonly have vesting periods of 3 years. 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.

A summary of changes in our nonvested shares for the year follows:

(shares in thousands)	**Shares**	**Weighted Average Grant-Date Fair Value**
Nonvested balance at January 1, 2015	**276**	**$ 13.74**
Granted during the year	**195**	**13.86**
Vested during the year	**(115)**	**13.47**
Forfeited during the year	**(10)**	**13.92**
Nonvested balance at December 31, 2015	**346**	**$ 13.90**

As of December 31, 2015, there was $3.1 million of total unrecognized compensation cost related to nonvested shares granted under the ICP. The cost is expected to be recognized over a weighted-average period of 2.0 years. The total fair value of the shares vested was $1.6 million in 2015, $1.3 million in 2014, and $1.4 million in 2013.

Restricted Stock Units

Restricted stock units require certain performance requirements and have vesting periods of 3 years. 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.

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A summary of changes in our nonvested shares for the year follows:

(shares in thousands)	Shares	Weighted Average Grant-Date Fair Value
Nonvested balance at January 1, 2015	**819**	**$ 12.02**
Granted during the year	**279**	**13.41**
Vested during the year	**(77)**	**10.93**
Forfeited during the year	**(150)**	**12.15**
Dividend equivalents adjustment	**(31)**	**12.00**
Nonvested balance at December 31, 2015	**840**	**$ 12.56**

As of December 31, 2015, there was $3.3 million of total unrecognized compensation cost related to nonvested shares granted under the ICP. The cost is expected to be recognized over a weighted-average period of 1.8 years.

Stock Options

Option awards are generally granted with an exercise price equal to the market price of our common stock at the date of grant; these option awards have vesting periods ranging from 3 to 5 years and have 10-year contractual terms.

Old National has not granted stock options since 2009. However, in connection with the acquisition of Tower in April 2014, 22 thousand options for shares of Tower were converted to 37 thousand options for shares of Old National Bancorp stock. In connection with the acquisition of United in July 2014, 0.3 million options for shares of United were converted to 0.2 million options for shares of Old National Bancorp stock. In connection with the acquisition of IBT in September 2012, 0.2 million options for shares of IBT stock were converted to 0.3 million options for shares of Old National stock. Old National recorded no incremental expense associated with the conversion of these options.

A summary of the activity in the stock option plan in 2015 follows:

(shares in thousands)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	**1,462**	**$ 16.30**		
Granted				
Acquired				
Exercised	**(112)**	**9.98**		
Forfeited/expired	**(307)**	**19.08**		
Outstanding at December 31, 2015	**1,043**	**$ 16.16**	**2.12**	**$ 1,222.2**

Options exercisable at end of year	**1,043**	**$ 16.16**	**2.12**	**$ 1,222.2**

Information related to the stock option plan during each year follows:

(dollars in thousands)	**2015**	**2014**	**2013**
Intrinsic value of options exercised	**$ 458**	$ 432	$ 282
Cash received from option exercises	**997**	1,002	1,159
Tax benefit realized from option exercises	**159**	97	45

As of December 31, 2015, all options were fully vested and all compensation costs had been expensed.

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Stock Appreciation Rights

Old National has never granted stock appreciation rights. However, in connection with the acquisition of United in July 2014, 0.2 million stock appreciation rights for shares of United were converted to 0.2 million stock appreciation rights for shares of Old National Bancorp stock. Old National recorded no incremental expense associated with the conversion of these stock appreciation rights. At December 31, 2015 and 2014, 0.1 million stock appreciation rights remained outstanding.

NOTE 17 OUTSIDE DIRECTOR STOCK COMPENSATION PROGRAM

Old National maintains a director stock compensation program covering all outside directors. Compensation shares are earned semi-annually. A maximum of 165,375 shares of common stock is available for issuance under this program. As of December 31, 2015, Old National had issued 144,138 shares under this program.

NOTE 18 SHAREHOLDERS EQUITY

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

Old National has a dividend reinvestment and stock purchase plan under which common shares issued may be either repurchased shares or authorized and previously unissued shares. A new plan became effective on August 16, 2012, with total authorized and unissued common shares reserved for issuance of 3.3 million. No shares were issued related to these plans in 2015, 2014, or 2013. As of December 31, 2015, 3.3 million authorized and unissued common shares were reserved for issuance under these plans.

EMPLOYEE STOCK PURCHASE PLAN

Old National has an employee stock purchase plan under which eligible employees can purchase common shares at a price not less than 95% of the fair market value of the common shares on the purchase date. The amount of common shares purchased cannot exceed ten percent of the employee s compensation. The maximum number of shares that may be purchased under this plan is 500,000 shares. In 2015, 29,000 shares were issued related to this plan with proceeds of approximately $391,000. In 2014, 24,000 shares were issued related to this plan with proceeds of approximately $326,000.

NOTE 19 - FAIR VALUE

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

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

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

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

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

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

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

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

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

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

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(dollars in thousands)	Carrying Value	Fair Value Measurements at December 31, 2014 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Trading securities	$ 3,881	$ 3,881	$	$
Investment securities available-for-sale:				
U.S. Treasury	15,166	15,166		
U.S. government-sponsored entities and agencies	685,951		685,951	
Mortgage-backed securities - Agency	1,241,662		1,241,662	
States and political subdivisions	314,541		314,216	325
Pooled trust preferred securities	6,607			6,607
Other securities	363,904	31,648	332,256	
Residential loans held for sale	15,562		15,562	
Derivative assets	18,572		18,572	
Financial Liabilities				
Derivative liabilities	23,868		23,868	

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

(dollars in thousands)	Pooled Trust Preferred Securities Available-for-Sale	State and Political Subdivisions
Balance at January 1, 2015	**$ 6,607**	**$ 325**
Accretion/(amortization) of discount or premium	**18**	
Sales/payments received	**(663)**	
Matured securities		**(325)**
Increase/(decrease) in fair value of securities	**1,938**	
Balance at December 31, 2015	**$ 7,900**	**$**

Included in the income statement in 2015 is $18 thousand of income included in interest income from the accretion of discounts on securities. The $1.9 million increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for-sale, an increase in accumulated other comprehensive income, which is included in shareholders equity, and a decrease in other assets related to the tax impact.

The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2014:

(dollars in thousands)	Pooled Trust Preferred Securities Available-for-Sale	State and Political Subdivisions
Balance at January 1, 2014	$ 8,037	$ 669
Accretion/(amortization) of discount or premium	18	2
Payments received	(1,118)	(11)
Matured securities		(335)
Increase/(decrease) in fair value of securities	(330)	
Balance at December 31, 2014	$ 6,607	$ 325

Included in the income statement in 2014 is $20 thousand of income included in interest income from the accretion of discounts on securities. The decrease in fair value is reflected in the balance sheet as a decrease in the fair value of investment securities available-for sale, a decrease in accumulated other comprehensive income, which is included in shareholders equity, and an increase in other assets related to the tax impact.

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

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

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

(dollars in thousands)	Fair Value at Dec. 31, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Pooled trust preferred securities	$ 6,607	Discounted cash flow	Constant prepayment rate (a)	0.00%
			Additional asset defaults (b)	4.4% - 11.2% (8.2%)
			Expected asset recoveries (c)	0.7% - 7.0% (1.8%)
State and political subdivision securities	325	Discounted cash flow	No unobservable inputs	N/A
			Illiquid local municipality issuance	
			Old National owns 100% Carried at par	

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

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

Assets measured at fair value on a non-recurring basis are summarized below:

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

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Impaired commercial and commercial real estate loans that are deemed collateral dependent are valued based on the fair value of the underlying collateral. These estimates are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property, and other related factors to estimate the current value of the collateral. These impaired commercial and commercial real estate loans had a principal amount of $36.8 million, with a valuation allowance of $11.5 million at December 31, 2015. Old National recorded provision expense associated with these loans totaling $5.4 million in 2015.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of $2.7 million at December 31, 2015. The estimates of fair value are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property, and other related factors to estimate the current value of the collateral. There were write-downs of other real estate owned of $2.2 million in 2015.

		Fair Value Measurements at December 31, 2014 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans				
Commercial loans	$ 6,816	$	$	$ 6,816
Commercial real estate loans	13,011			13,011
Foreclosed Assets				
Commercial real estate	6,146			6,146
Residential	254			254

As of December 31, 2014, impaired commercial and commercial real estate loans had a principal amount of $30.0 million, with a valuation allowance of $10.2 million. Old National recorded $5.4 million of provision expense associated with these loans in 2014.

Other real estate owned and other repossessed property had a net carrying amount of $6.4 million at December 31, 2014. There were write-downs of other real estate owned of $2.6 million in 2014.

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

(dollars in thousands)	Fair Value at Dec. 31, 2015	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Collateral Dependent Impaired Loans				
Commercial loans	$ 13,332	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 86% (28%)

Commercial real estate loans	11,857	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 61% (33%)
Foreclosed Assets				
Commercial real estate	2,526	Fair value of collateral	Discount for type of property, age of appraisal and current status	3% -80% (26%)
Residential	203	Fair value of collateral	Discount for type of property, age of appraisal and current status	7% - 53% (29%)

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(dollars in thousands)	Fair Value at Dec. 31, 2014	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Collateral Dependent Impaired Loans				
Commercial loans	$ 6,816	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 94% (24%)
Commercial real estate loans	13,011	Fair value of collateral	Discount for type of property, age of appraisal and current status	0% - 50% (29%)
Foreclosed Assets				
Commercial real estate	6,146	Fair value of collateral	Discount for type of property, age of appraisal and current status	2% - 93% (30%)
Residential	254	Fair value of collateral	Discount for type of property, age of appraisal and current status	8% - 81% (45%)

Financial instruments recorded using fair value option

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

We have elected the fair value option for residential loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement is interest income for loans held for sale totaling $0.1 million in 2015 and $0.4 million in 2014.

Residential loans held for sale

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

The difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected as of December 31, 2015 and 2014 is as follows:

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
2015			
Residential loans held for sale	**$ 13,810**	**$ 236**	**$ 13,574**
2014			
Residential loans held for sale	$ 15,562	$ 375	$ 15,187

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

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

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
2015				
Residential loans held for sale	**$ (140)**	**$**	**$**	**$ (140)**
2014				
Residential loans held for sale	$ 247	$	$	$ 247

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The carrying amounts and estimated fair values of financial instruments, not previously presented in this note, at December 31, 2015 and 2014 are as follows:

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

Off-Balance Sheet Financial Instruments					
Commitments to extend credit	**$**	**$**	**$**	**$**	**2,364**

N/A = not applicable

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		Fair Value Measurements at December 31, 2014 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash, due from banks, federal funds sold, and money market investments	$ 239,963	$ 239,963	$	$
Investment securities held-to-maturity:				
U.S. government-sponsored entities and agencies	167,207		173,486	
Mortgage-backed securities - Agency	23,648		24,574	
State and political subdivisions	653,199		705,875	
Federal Home Loan Bank/Federal Reserve Bank stock	71,175	N/A	N/A	N/A
Loans held for sale (a)	197,928		197,928	
Loans, net (including covered loans):				
Commercial	1,626,097			1,646,144
Commercial real estate	1,734,559			1,744,126
Residential real estate	1,537,448			1,615,588
Consumer credit	1,372,248			1,380,835
FDIC indemnification asset	20,603			11,358
Accrued interest receivable	60,966	29	21,633	39,304
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,427,748	$ 2,427,748	$	$
NOW, savings, and money market deposits	4,973,898	4,973,898		
Time deposits	1,089,018		1,092,969	
Short-term borrowings:				
Federal funds purchased	195,188	195,188		
Repurchase agreements	356,121	356,120		
Other borrowings:				
Senior unsecured bank notes	173,500		179,792	
Junior subordinated debentures	40,116		32,754	
Repurchase agreements	50,000		51,994	
Federal Home Loan Bank advances	650,887			658,506
Capital lease obligation	4,099		5,515	
Accrued interest payable	4,564		4,564	
Standby letters of credit	358			358
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$	$	$	$ 2,030

(a) Includes loans held for sale associated with branch sales. Excludes $15.6 million of residential loans held for sale measured at fair value on a recurring basis.
N/A = not applicable

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

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

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

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

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

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

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

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

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

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

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

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

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

Off-balance sheet financial instruments: Fair values for off-balance sheet credit-related financial instruments are based on fees currently charged to enter into similar agreements (Level 3). For further information regarding the amounts of these financial instruments, see Notes 21 and 22.

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NOTE 20 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 December 31, 2015 and $608.0 million at December 31, 2014. The December 31, 2015 balances 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. The December 31, 2014 balances consist of $38.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, $525.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances and $45.0 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 December 31, 2015, the notional amount of the interest rate lock commitments was $30.4 million and forward commitments were $33.3 million. At December 31, 2014, the notional amount of the interest rate lock commitments was $19.7 million and forward commitments were $29.1 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 $428.4 million and $428.4 million, respectively, at December 31, 2015. At December 31, 2014, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $435.6 million and $435.6 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 $0.2 million will be reclassified to interest income and $5.9 million will be reclassified to interest expense.

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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:

(dollars in thousands)	December 31, 2015 Asset Derivatives	December 31, 2015 Liability Derivatives	December 31, 2014 Asset Derivatives	December 31, 2014 Liability Derivatives
Derivatives designated as hedging instruments				
Interest rate contracts	**$ 3,794**	**$ 15,554**	$ 4,278	$ 9,951
Total derivatives designated as hedging instruments	**$ 3,794**	**$ 15,554**	$ 4,278	$ 9,951
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 11,296**	**$ 11,414**	$ 13,780	$ 13,917
Mortgage contracts	**835**		514	
Total derivatives not designated as hedging instruments	**$ 12,131**	**$ 11,414**	$ 14,294	$ 13,917
Total	**$ 15,925**	**$ 26,968**	$ 18,572	$ 23,868

The effect of derivative instruments on the consolidated statements of income for the years ended December 31 were as follows:

(dollars in thousands)		2015	2014	2013
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)	**$ (1,729)**	$ 1,002	$ 1,748
Interest rate contracts (2)	Other income / (expense)	**189**	275	(33)
Total		**$ (1,540)**	$ 1,277	$ 1,715

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)	**$ 511**	$ 246	$

Total		**$ 511**	$ 246	$

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)	**$ 18**	$ 88	$ 209
Mortgage contracts	Mortgage banking revenue	**168**	252	(215)
Total		**$ 186**	$ 340	$ (6)

(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 21 - 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. Though Old National continues to expressly deny any wrongdoing, it is anticipated that during the first quarter of 2016, Old National will enter 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 has been accrued for in the December 31, 2015 financial statements.

Following notice of the settlement to the class participants, the settlement agreement will be subject to Circuit Court approval which is expected to be sought in either the second or third quarter of 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 it is likely that the bench trial currently set for May 9, 2016 through May 13, 2016 will be reset by the Circuit Court for a later date.

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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. As of December 31, 2015, 93 of Old National s 160 banking centers were subject to operating leases while 67 were owned. 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.

Total rental expense was $29.1 million in 2015, $29.0 million in 2014, and $29.1 million in 2013. The following is a summary of future minimum lease commitments as of December 31, 2015:

(dollars in thousands)	
2016	$ 28,445
2017	28,408
2018	26,834
2019	25,995
2020	25,516
Thereafter	209,897
Total	$ 345,095

Old National had deferred gains remaining associated with prior sale leaseback transactions totaling $40.7 million as of December 31, 2015 and $68.3 million as of December 31, 2014. The gains will be recognized over the remaining term of the leases. The leases had original terms ranging from five to twenty-four years. During the fourth quarter of 2015, the Company purchased fourteen branches that it previously leased, resulting in the recognition of $10.8 million of pre-tax deferred gains.

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 $1.746 billion and standby letters of credit of $62.6 million at December 31, 2015. At December 31, 2015, approximately $1.667 billion of the loan commitments had fixed rates and $79.3 million had floating rates, with the floating interest rates ranging from 0% to 25%. At December 31, 2014, loan commitments were $1.584 billion and standby letters of credit were $65.3 million. These commitments are not reflected in the consolidated financial statements. The allowance for unfunded loan commitments totaled $3.6 million at December 31, 2015 and $4.4 million at December 31, 2014.

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 December 31, 2015 and $13.0 million at December 31, 2014. Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $13.6 million at December 31, 2015 and $11.5 million December 31, 2014. Old National did not provide collateral for the remaining credit extensions.

NOTE 22 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 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. At December 31, 2014, the notional amount of standby letters of credit was $65.3 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 December 31, 2015. 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 $12.0 million at December 31, 2015.

NOTE 23 - REGULATORY RESTRICTIONS

RESTRICTIONS ON CASH AND DUE FROM BANKS

Old National s affiliate bank is required to maintain reserve balances on hand and with the Federal Reserve Bank which are interest bearing and unavailable for investment purposes. The reserve balances were $68.4 million at December 31, 2015 and $67.9 million at December 31, 2014. In addition, Old National had cash and due from banks which was held as collateral for collateralized swap positions of $0.2 million at December 31, 2015 and $0.2 million at December 31, 2014.

RESTRICTIONS ON TRANSFERS FROM AFFILIATE BANK

Regulations limit the amount of dividends an affiliate bank can declare in any year without obtaining prior regulatory approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. Prior regulatory approval to pay dividends was not required in 2013, 2014, or 2015 and is not currently required.

RESTRICTIONS ON THE PAYMENT OF DIVIDENDS

Old National has traditionally paid a quarterly dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on Old National s earnings, capital requirements, financial condition, and other factors considered relevant by our Board of Directors.

CAPITAL ADEQUACY

Old National and Old National Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can elicit certain mandatory actions by regulators that, if undertaken, could have a direct material effect on Old National s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Old National and Old National Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulation to ensure capital adequacy require Old National and Old National Bank to maintain minimum amounts and ratios as set forth in the following tables.

At December 31, 2015, Old National and Old National Bank exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory notification.

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We are reflecting the new Basel III requirements for Old National and Old National Bank in the table below as of December 31, 2015:

	Actual		Fully Phased-In Regulatory Guidelines Minimum		Well Capitalized Guidelines	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
2015						
Total capital to risk-weighted assets						
Old National Bancorp	**$ 1,024,586**	**13.28%**	**$ 810,397**	**10.50%**	**$ N/A**	**N/A%**
Old National Bank	**1,079,652**	**14.11**	**803,490**	**10.50**	**765,229**	**10.00**
Common equity Tier 1 capital to risk-weighted assets						
Old National Bancorp	**934,497**	**12.11**	**540,265**	**7.00**	**N/A**	**N/A**
Old National Bank	**1,023,839**	**13.38**	**535,660**	**7.00**	**497,399**	**6.50**
Tier 1 capital to risk-weighted assets						
Old National Bancorp	**968,772**	**12.55**	**656,036**	**8.50**	**N/A**	**N/A**
Old National Bank	**1,023,839**	**13.38**	**650,445**	**8.50**	**612,183**	**8.00**
Tier 1 capital to average assets						
Old National Bancorp	**968,772**	**8.54**	**454,005**	**4.00**	**N/A**	**N/A**
Old National Bank	**1,023,839**	**9.11**	**449,791**	**4.00**	**562,239**	**5.00**

N/A = not applicable

The following table summarizes capital ratios for Old National and Old National Bank as of December 31, 2014:

	Actual		Regulatory Guidelines Minimum		Well Capitalized Guidelines	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
2014						
Total capital to risk- weighted assets						
Old National Bancorp	$ 996,929	13.59%	$ 586,722	8.00%	$ N/A	N/A%
Old National Bank	949,596	13.02	583,266	8.00	729,082	10.00
Tier 1 capital to risk- weighted assets						
Old National Bancorp	944,649	12.88	293,361	4.00	N/A	N/A
Old National Bank	897,316	12.31	291,633	4.00	437,449	6.00
Tier 1 capital to average assets						
Old National Bancorp	944,649	8.79	429,935	4.00	N/A	N/A
Old National Bank	897,316	8.41	426,873	4.00	533,591	5.00

N/A = not applicable

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NOTE 24 - PARENT COMPANY FINANCIAL STATEMENTS

The following are the condensed parent company only financial statements of Old National:

OLD NATIONAL BANCORP (PARENT COMPANY ONLY)

CONDENSED BALANCE SHEETS

	December 31,	
(dollars in thousands)	**2015**	**2014**
Assets		
Deposits in affiliate bank	**$ 48,000**	$ 168,467
Trading securities - at fair value	**3,941**	3,881
Investment securities - available-for-sale	**1,452**	1,338
Investment in affiliates:		
Banking subsidiaries	**1,551,924**	1,398,835
Non-banks	**49,083**	49,284
Other assets	**84,598**	89,564
Total assets	**$ 1,738,998**	$ 1,711,369
Liabilities and Shareholders Equity		
Other liabilities	**$ 33,608**	$ 31,989
Other borrowings	**214,220**	213,616
Shareholders equity	**1,491,170**	1,465,764
Total liabilities and shareholders equity	**$ 1,738,998**	$ 1,711,369

OLD NATIONAL BANCORP (PARENT COMPANY ONLY)

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,		
(dollars in thousands)	**2015**	**2014**	**2013**
Income			
Dividends from affiliates	**$ 67,717**	$ 65,292	$ 116,073
Net securities gains	**6**	170	416
Other income	**1,892**	1,554	1,864
Other income from affiliates	**51**	79	138
Total income	**69,666**	67,095	118,491
Expense			
Interest on borrowings	**8,684**	3,837	624
Other expenses	**13,957**	11,357	11,228

Total expense	**22,641**	15,194	11,852
Income before income taxes and equity in undistributed earnings of affiliates	**47,025**	51,901	106,639
Income tax benefit	**(5,473)**	(4,020)	(4,044)
Income before equity in undistributed earnings of affiliates	**52,498**	55,921	110,683
Equity in undistributed earnings of affiliates	**64,218**	47,746	(9,763)
Net income	**$ 116,716**	$ 103,667	$ 100,920

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OLD NATIONAL BANCORP (PARENT COMPANY ONLY)

CONDENSED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
(dollars in thousands)	**2015**	**2014**	**2013**
Cash Flows From Operating Activities			
Net income	**$ 116,716**	$ 103,667	$ 100,920
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**20**	11	8
Net securities gains	**(6)**	(270)	(416)
Stock compensation expense	**4,255**	4,162	3,958
(Increase) decrease in other assets	**6,307**	20,040	(17,972)
Increase in other liabilities	**1,441**	286	3,095
Equity in undistributed earnings of affiliates	**(64,218)**	(47,746)	9,763
Total adjustments	**(52,201)**	(23,517)	(1,564)
Net cash flows provided by operating activities	**64,515**	80,150	99,356
Cash Flows From Investing Activities			
Net cash and cash equivalents of acquisitions	**(41,070)**	(82,975)	
Purchases of investment securities	**(1,053)**	(45)	(53)
Net advances to affiliates		(3,832)	
Purchases of premises and equipment		(1,032)	(60)
Net cash flows used in investing activities	**(42,123)**	(87,884)	(113)
Cash Flows From Financing Activities			
Proceeds from issuance of other borrowings		173,500	
Cash dividends paid on common stock	**(55,552)**	(48,181)	(40,278)
Common stock repurchased	**(88,695)**	(25,830)	(24,292)
Proceeds from exercise of stock options, including tax benefit	**997**	749	1,412
Common stock issued	**391**	326	290
Net cash flows provided by (used in) financing activities	**(142,859)**	100,564	(62,868)
Net increase (decrease) in cash and cash equivalents	**(120,467)**	92,830	36,375
Cash and cash equivalents at beginning of period	**168,467**	75,637	39,262
Cash and cash equivalents at end of period	**$ 48,000**	$ 168,467	$ 75,637

NOTE 25 SEGMENT INFORMATION

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

Banking

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

Insurance

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

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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 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 as of and for the years ended December 31, 2015, 2014, and 2013 were as follows:

(dollars in thousands)	Banking	Insurance	Other	Total
2015				
Net interest income	**$ 374,733**	**$ 8**	**$ (8,625)**	**$ 366,116**
Noninterest income	**185,723**	**42,663**	**2,246**	**230,632**
Noncash items:				
Depreciation and software amortization	**16,243**	**150**	**635**	**17,028**