OLD NATIONAL BANCORP /IN/
Form 10-Q
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

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

For the transition period from __________ to __________

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

INDIANA	**35-1539838**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Main Street Evansville, Indiana	**47708**
(Address of principal executive offices)	**(Zip Code)**

(812) 464-1294

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to the filing requirements for at least the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock. The Registrant has one class of common stock (no par value) with 135,005,000 shares outstanding at June 30, 2016.

OLD NATIONAL BANCORP

FORM 10-Q

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OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	June 30, 2016 (unaudited)	December 31, 2015	June 30, 2015 (unaudited)
Assets			
Cash and due from banks	**$ 205,973**	$ 91,311	$ 178,985
Money market and other interest-earning investments	**61,947**	128,507	16,228
Total cash and cash equivalents	**267,920**	219,818	195,213
Trading securities - at fair value	**4,838**	3,941	3,995
Investment securities - available-for-sale, at fair value:			
U.S. Treasury	**12,269**	12,150	12,171
U.S. government-sponsored entities and agencies	**540,775**	613,550	695,074
Mortgage-backed securities	**1,336,605**	1,066,361	1,104,145
States and political subdivisions	**417,163**	387,296	388,039
Other securities	**342,089**	338,864	373,092
Total investment securities - available-for-sale	**2,648,901**	2,418,221	2,572,521
Investment securities - held-to-maturity, at amortized cost (fair value $939,855; $929,417; and $867,345, respectively)	**865,957**	872,111	823,255
Federal Home Loan Bank/Federal Reserve Bank stock, at cost	**90,742**	86,146	71,669
Loans held for sale ($44,422; $13,810; and $20,287, respectively at fair value)	**44,422**	13,810	217,667
Loans:			
Commercial	**1,893,700**	1,804,615	1,775,954
Commercial real estate	**2,943,525**	1,847,821	1,767,341
Residential real estate	**2,099,770**	1,644,614	1,622,819
Consumer credit, net of unearned income	**1,893,163**	1,543,768	1,464,541
Covered loans, net of discount		107,587	135,407
Total loans	**8,830,158**	6,948,405	6,766,062
Allowance for loan losses	**(51,804)**	(51,296)	(48,479)
Allowance for loan losses - covered loans		(937)	(1,712)
Net loans	**8,778,354**	6,896,172	6,715,871
FDIC indemnification asset		9,030	16,475
Premises and equipment, net	**231,656**	196,676	131,336
Accrued interest receivable	**79,536**	69,098	66,605
Goodwill	**655,523**	584,634	588,464
Other intangible assets	**44,237**	35,308	40,996
Company-owned life insurance	**350,193**	341,294	337,802
Net deferred tax assets	**179,448**	109,984	127,622
Loan servicing rights	**25,756**	10,468	10,027
Assets held for sale	**4,867**	5,679	9,886

Other real estate owned and repossessed personal property	**24,254**	7,594	9,388
Other real estate owned - covered		4,904	4,753
Other assets	**123,658**	106,639	130,859
Total assets	**$ 14,420,262**	$ 11,991,527	$ 12,074,404
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 2,883,917**	$ 2,488,855	$ 2,557,665
Interest-bearing:			
NOW	**2,456,963**	2,133,536	2,213,862
Savings	**2,616,365**	2,201,352	2,352,916
Money market	**1,015,336**	577,050	602,287
Time	**1,479,021**	1,000,067	1,082,840
Total deposits	**10,451,602**	8,400,860	8,809,570
Short-term borrowings	**567,659**	628,499	530,377
Other borrowings	**1,367,896**	1,291,747	1,067,993
Accrued expenses and other liabilities	**221,988**	179,251	209,741
Total liabilities	**12,609,145**	10,500,357	10,617,681
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, $1.00 per share stated value, 300,000 shares authorized, 135,005; 114,297; and 115,205 shares issued and outstanding, respectively	**135,005**	114,297	115,205
Capital surplus	**1,342,393**	1,087,911	1,098,384
Retained earnings	**357,336**	323,759	281,196
Accumulated other comprehensive income (loss), net of tax	**(23,617)**	(34,797)	(38,062)
Total shareholders equity	**1,811,117**	1,491,170	1,456,723
Total liabilities and shareholders equity	**$ 14,420,262**	$ 11,991,527	$ 12,074,404

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	**Three Months Ended June 30, 2016**	**Three Months Ended June 30, 2015**	**Six Months Ended June 30, 2016**	**Six Months Ended June 30, 2015**
Interest Income				
Loans including fees:				
Taxable	**$ 86,527**	$ 76,579	**$ 158,099**	$ 151,538
Nontaxable	**2,991**	2,818	**5,995**	5,761
Investment securities:				
Taxable	**13,585**	14,292	**27,307**	29,018
Nontaxable	**7,119**	6,267	**14,101**	12,227
Money market and other interest-earning investments	**21**	8	**70**	14
Total interest income	**110,243**	99,964	**205,572**	198,558
Interest Expense				
Deposits	**4,254**	3,531	**7,747**	7,094
Short-term borrowings	**410**	112	**592**	208
Other borrowings	**6,239**	4,224	**12,250**	8,166
Total interest expense	**10,903**	7,867	**20,589**	15,468
Net interest income	**99,340**	92,097	**184,983**	183,090
Provision for loan losses	**1,319**	2,271	**1,410**	2,272
Net interest income after provision for loan losses	**98,021**	89,826	**183,573**	180,818
Noninterest Income				
Wealth management fees	**9,355**	9,443	**17,476**	17,963
Service charges on deposit accounts	**10,437**	11,278	**20,076**	22,323
Debit card and ATM fees	**4,471**	7,075	**8,256**	13,807
Mortgage banking revenue	**5,203**	4,262	**8,123**	7,225
Insurance premiums and commissions	**7,122**	10,172	**20,243**	22,285
Investment product fees	**4,724**	4,719	**8,629**	9,122
Company-owned life insurance	**2,080**	2,193	**4,118**	4,345
Net securities gains	**1,856**	512	**2,962**	3,195
Recognition of deferred gain on sale leaseback transactions	**1,038**	1,468	**2,090**	2,992
Gain on sale of ONB Insurance Group, Inc.	**41,864**		**41,864**	
Change in FDIC indemnification asset	**888**	(1,541)	**233**	(2,509)
Other income	**4,347**	5,398	**8,766**	9,526
Total noninterest income	**93,385**	54,979	**142,836**	110,274
Noninterest Expense				
Salaries and employee benefits	**62,715**	59,248	**119,687**	128,942

Occupancy	**13,568**	14,141	**26,412**	28,434
Equipment	**3,316**	3,446	**6,209**	7,350
Marketing	**5,111**	3,678	**7,597**	5,914
Data processing	**8,676**	8,077	**15,799**	14,667
Communication	**2,535**	2,435	**4,399**	5,179
Professional fees	**5,181**	3,381	**8,549**	6,513
Loan expense	**2,123**	1,816	**3,456**	3,142
Supplies	**598**	581	**1,181**	1,265
FDIC assessment	**2,030**	1,972	**3,949**	3,857
Other real estate owned expense	**2,099**	476	**2,523**	1,637
Amortization of intangibles	**3,365**	2,977	**6,012**	6,058
Other expense	**10,155**	7,462	**14,054**	12,888
Total noninterest expense	**121,472**	109,690	**219,827**	225,846
Income before income taxes	**69,934**	35,115	**106,582**	65,246
Income tax expense	**30,812**	8,959	**40,483**	18,184
Net income	**$ 39,122**	$ 26,156	**$ 66,099**	$ 47,062
Net income per common share - basic	**$ 0.31**	$ 0.22	**$ 0.55**	$ 0.40
Net income per common share - diluted	**0.31**	0.22	**0.55**	0.40
Weighted average number of common shares outstanding - basic	**127,508**	115,732	**120,753**	117,128
Weighted average number of common shares outstanding - diluted	**127,973**	116,223	**121,273**	117,634
Dividends per common share	**$ 0.13**	$ 0.12	**$ 0.26**	$ 0.24

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Net income	**$ 39,122**	$ 26,156	**$ 66,099**	$ 47,062
Other comprehensive income (loss):				
Change in securities available-for-sale:				
Unrealized holding gains (losses) for the period	**12,671**	(26,234)	**30,528**	(7,928)
Reclassification adjustment for securities gains realized in income	**(1,856)**	(512)	**(2,962)**	(3,195)
Income tax effect	**(3,809)**	9,716	**(9,977)**	3,920
Unrealized gains (losses) on available-for-sale securities	**7,006**	(17,030)	**17,589**	(7,203)
Change in securities held-to-maturity:				
Amortization of fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**466**	430	**931**	767
Income tax effect	**(159)**	(147)	**(318)**	(81)
Changes from securities held-to-maturity	**307**	283	**613**	686
Cash flow hedges:				
Net unrealized derivative gains (losses) on cash flow hedges	**(4,483)**	3,557	**(15,613)**	(2,071)
Reclassification adjustment for losses realized in net income	**1,585**	439	**2,858**	625
Income tax effect	**1,101**	(1,519)	**4,847**	549
Changes from cash flow hedges	**(1,797)**	2,477	**(7,908)**	(897)
Defined benefit pension plans:				
Amortization of net loss recognized in income	**730**	725	**1,430**	1,463
Income tax effect	**(278)**	(275)	**(544)**	(556)
Changes from defined benefit pension plans	**452**	450	**886**	907
Other comprehensive income (loss), net of tax	**5,968**	(13,820)	**11,180**	(6,507)
Comprehensive income	**$ 45,090**	$ 12,336	**$ 77,279**	$ 40,555

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (unaudited)

(dollars in thousands)	**Common Stock**	**Capital Surplus**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholders Equity**
Balance at December 31, 2014	$ 116,847	$ 1,118,292	$ 262,180	$ (31,555)	$ 1,465,764
Net income			47,062		47,062
Other comprehensive loss				(6,507)	(6,507)
Acquisition - Founders Financial Corporation	3,402	47,224			50,626
Dividends - common stock			(28,065)		(28,065)
Common stock issued	14	178			192
Common stock repurchased	(5,385)	(69,209)			(74,594)
Stock based compensation expense		2,236			2,236
Stock activity under incentive compensation plans	327	(337)	19		9
Balance at June 30, 2015	$ 115,205	$ 1,098,384	$ 281,196	$ (38,062)	$ 1,456,723
Balance at December 31, 2015	**$ 114,297**	**$ 1,087,911**	**$ 323,759**	**$ (34,797)**	**$ 1,491,170**
Net income			**66,099**		**66,099**
Other comprehensive income				**11,180**	**11,180**
Acquisition - Anchor BanCorp Wisconsin, Inc.	**20,415**	**253,150**			**273,565**
Dividends - common stock			**(32,391)**		**(32,391)**
Common stock issued	**17**	**185**			**202**
Common stock repurchased	**(120)**	**(1,426)**			**(1,546)**
Stock based compensation expense		**3,391**			**3,391**
Stock activity under incentive compensation plans	**396**	**(818)**	**(131)**		**(553)**
Balance at June 30, 2016	**$ 135,005**	**$ 1,342,393**	**$ 357,336**	**$ (23,617)**	**$ 1,811,117**

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Six Months Ended June 30, 2016	2015
Cash Flows From Operating Activities		
Net income	**$ 66,099**	$ 47,062
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**7,462**	7,790
Amortization of other intangible assets	**6,012**	6,058
Net premium amortization on investment securities	**9,198**	9,481
Amortization of and net gains on termination of FDIC indemnification asset	**(458)**	2,509
Stock compensation expense	**3,391**	2,236
Provision for loan losses	**1,410**	2,272
Net securities gains	**(2,962)**	(3,195)
Recognition of deferred gain on sale leaseback transactions	**(2,090)**	(2,992)
Gain on sale of ONB Insurance Group, Inc.	**(41,864)**	
Net gains on sales of other assets	**(2,689)**	(4,009)
Increase in cash surrender value of company-owned life insurance	**(1,621)**	(3,888)
Residential real estate loans originated for sale	**(238,184)**	(178,612)
Proceeds from sale of residential real estate loans	**219,854**	180,336
Increase in interest receivable	**(3,130)**	(4,379)
Decrease in other real estate owned	**6,487**	2,895
(Increase) decrease in other assets	**22,266**	(17,320)
Increase (decrease) in accrued expenses and other liabilities	**6,345**	(9,408)
Total adjustments	**(10,573)**	(10,226)
Net cash flows provided by operating activities	**55,526**	36,836
Cash Flows From Investing Activities		
Cash portion of bank purchase price, net of cash acquired	**(62,532)**	(37,098)
Proceeds from sale of ONB Insurance Group, Inc.	**91,771**	
Purchases of investment securities available-for-sale	**(799,597)**	(481,038)
Purchases of investment securities held-to-maturity		(13,406)
Purchases of Federal Home Loan Bank/Federal Reserve Bank stock		(7,394)
Proceeds from maturities, prepayments, and calls of investment securities available-for-sale	**721,414**	401,579
Proceeds from sales of investment securities available-for-sale	**107,451**	196,584
Proceeds from maturities, prepayments, and calls of investment securities held-to-maturity	**2,842**	30,285
Proceeds from sales of investment securities held-to-maturity		855
Proceeds from sales of Federal Home Loan Bank/Federal Reserve Bank stock		8,710
Reimbursements under FDIC loss share agreements	**10,000**	2,231
Net principal collected from (loans made to) loan customers	**(246,987)**	(108,498)

Proceeds from sale of premises and equipment and other assets	**5,707**	7,093
Purchases of premises and equipment and other assets	**(12,317)**	(10,713)
Net cash flows used in investing activities	**(182,248)**	(10,810)
Cash Flows From Financing Activities		
Net increase (decrease) in deposits and short-term borrowings:		
Deposits	**198,029**	(57,750)
Short-term borrowings	**(63,972)**	(33,424)
Payments for maturities on other borrowings	**(575,588)**	(227,433)
Proceeds from issuance of other borrowings	**650,000**	350,000
Cash dividends paid on common stock	**(32,391)**	(28,065)
Common stock repurchased	**(1,546)**	(74,594)
Proceeds from exercise of stock options, including tax benefit	**90**	298
Common stock issued	**202**	192
Net cash flows provided by (used in) financing activities	**174,824**	(70,776)
Net increase (decrease) in cash and cash equivalents	**48,102**	(44,750)
Cash and cash equivalents at beginning of period	**219,818**	239,963
Cash and cash equivalents at end of period	**$ 267,920**	$ 195,213
Supplemental cash flow information:		
Total interest paid	**$ 19,824**	$ 15,384
Total taxes paid (net of refunds)	**$ 8,800**	$ 3,784

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

OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as Old National) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of June 30, 2016 and 2015, and December 31, 2015, and the results of its operations for the three and six months ended June 30, 2016 and 2015. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National s Annual Report for the year ended December 31, 2015.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the 2016 presentation. Such reclassifications had no effect on net income or shareholders equity and were insignificant amounts.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

FASB ASC 606 In May 2014, the FASB issued an update (ASU No. 2014-09, Revenue from Contracts with Customers) creating FASB Topic 606, Revenue from Contracts with Customers. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 718 In June 2014, the FASB issued an update (ASU No. 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period). Generally, an award with a performance target also requires an employee to render service until the performance target is achieved. In some cases, however, the terms of an award may provide that the performance target could be achieved after an employee completes the requisite service period. The amendments in this update require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. An entity should apply guidance in Topic 718 as it relates to awards with performance conditions that affect vesting to account for such awards. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period for which the service has already been rendered. The amendments in this update became effective for interim and annual periods beginning after December 15, 2015 and did not have a material impact on the consolidated financial statements.

FASB ASC 350 In April 2015, the FASB issued an update (ASU No. 2015-05, Customer s Accounting for Fees Paid in a Cloud Computing Arrangement) impacting FASB ASC 350-40, Intangibles: Goodwill and Other: Internal- Use Software. This update is part of the FASB s Simplification Initiative. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service

contract. The guidance will not change generally accepted accounting principles for a customer s accounting for service contracts. The amendments in this update became effective for interim and annual periods beginning after December 15, 2015 and did not have a material impact on the consolidated financial statements.

FASB ASC 944 In May 2015, the FASB issued an update (ASU No. 2015-09, Disclosures about Short-Duration Contracts). This update applies to all insurance entities that issue short-duration contracts as defined in Topic 944, Financial Services Insurance. The amendment requires insurance entities to disclose for annual reporting periods information about the liability for unpaid claims and claim adjustment expenses, and information about significant changes in methodologies and assumptions used to calculate the liability for unpaid claims and claim adjustment expenses, including reasons for the change and the effects on the financial statements. Additionally, the amendments require insurance entities to disclose for annual and interim reporting periods a roll-forward of the liability for unpaid claims and claim adjustment expenses. The amendments in this update become effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 805 In September 2015, the FASB issued an update (ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments). This update applies to all entities that have reported provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period in which the combination occurs and during the measurement period have an adjustment to provisional amounts recognized. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this update require that the acquirer record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this update require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in this update became effective for interim and annual periods beginning after December 15, 2015 and did not have a material impact on the consolidated financial statements.

FASB ASC 825 In January 2016, the FASB issued an update (ASU No. 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities). The amendments in this update impact public business entities as follows: 1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. 3) Eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. 4) Require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 5) Require an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. 6) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. 7) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements,

but it is not expected to have a material impact.

FASB ASC 842 In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. Under the new

guidance, lessor accounting is largely unchanged. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, which is expected to have a material impact.

FASB ASC 405 In March 2016, the FASB issued ASU No. 2016-04, Liabilities Extinguishments of Liabilities (Subtopic 405-20): Recognition of Breakage for Certain Prepaid Stored-Value Products. The amendments of this ASU narrowly address breakage, which is the monetary amount of the card that ultimately is not redeemed by the cardholder for prepaid stored-value products that are redeemable for monetary values of goods or services but may also be redeemable for cash. Examples of prepaid stored-value products included in this amendment are prepaid gift cards issued by specific payment networks and redeemable at network-accepting merchant locations, prepaid telecommunication cards, and traveler s checks. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 815 In March 2016, the FASB issued ASU No. 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. The amendments apply to all reporting entities for which there is a change in the counterparty to a derivative instrument that has been designated as a hedging instrument. The amendments clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

In March 2016, the FASB issued ASU No. 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. The amendments apply to all entities that are issuers of or investors in debt instruments (or hybrid financial instruments that are determined to have a debt host) with embedded call (put) options. Topic 815, Derivatives and Hedging, requires that embedded derivatives be separated from the host contract and accounted for separately as derivatives if certain criteria are met. One of those criteria is that the economic characteristics and risks of the embedded derivatives are not clearly and closely related to the economic characteristics and risks of the host contract. The amendments clarify what steps are required when assessing clearly and closely related . The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 323 In March 2016, the FASB issued ASU No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments also require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date

the investment becomes qualified for use of the equity method. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 606 In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). The amendments relate

to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606, Revenue from Contracts with Customers, requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). This determination is based upon whether the entity controls the good or the service before it is transferred to the customer. Topic 606 includes indicators to assist in this evaluation. The amendments in this update affect the guidance in ASU No. 2014-09 above, which is not yet effective. The effective date will be the same as the effective date of ASU No. 2014-09. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: identifying performance obligations, and the licensing implementation guidance. Before an entity can identify its performance obligations in a contract with a customer, the entity first identifies the promised goods or services in the contract. The amendments in this update are expected to reduce the cost and complexity of applying the guidance on identifying promised goods or services. To identify performance obligations in a contract, an entity evaluates whether promised goods and services are distinct. Topic 606 includes two criteria for assessing whether promises to transfer goods or services are distinct. One of those criteria is that the promises are separately identifiable. This update will improve the guidance on assessing that criterion. Topic 606 also includes implementation guidance on determining whether as entity s promise to grant a license provides a customer with either a right to use the entity s intellectual property, which is satisfied at a point in time, or a right to access the entity s intellectual property, which is satisfied over time. The amendments in this update are intended to improve the operability and understandability of the licensing implementation guidance. The amendments in this update affect the guidance in ASU No. 2014-09 above, which is not yet effective. The effective date will be the same as the effective date of ASU No. 2014-09. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients.

FASB ASC 718 In March 2016, the FASB issued ASU No. 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Shared-Based Payment Accounting. The amendments are intended to improve the accounting for employee shared-based payments and affects all organizations that issue share-based payment awards to their employees. Several aspects of the accounting for share-based payment award transactions are simplified, including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 326 In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The main objective of this amendment is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to enhance their credit loss estimates. The amendment requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization s portfolio.

In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. Early adoption will be permitted beginning after December 15, 2018. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

NOTE 3 ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

Founders Financial Corporation

On July 28, 2014, Old National announced that it had entered into an agreement to acquire Grand Rapids, Michigan-based Founders Financial Corporation (Founders) through a stock and cash merger. The acquisition was completed effective January 1, 2015 (the Closing Date). Founders was a bank holding company with Founders Bank & Trust as its wholly-owned subsidiary and operated four full-service banking centers in Kent County. Old National believes that it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions after the merger, which will enable Old National to achieve economies of scale in these areas.

The total purchase price for Founders was $91.7 million, consisting of $41.0 million of cash and the issuance of 3.4 million shares of Old National Common Stock valued at $50.6 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. Through December 31, 2015, transaction and integration costs of $4.9 million associated with the acquisition had been expensed.

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

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

The portion of the purchase price allocated to goodwill will not be deductible for tax purposes.

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.

	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 Date	Best Estimate at Acquisition Date of Contractual 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

Anchor BanCorp Wisconsin Inc.

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. The acquisition was completed effective May 1, 2016 (the Closing Date). Anchor was a savings and loan holding company with AnchorBank, fsb (AnchorBank) as its wholly-owned subsidiary. AnchorBank operated 46 banking centers, including 32 banking centers in the Madison, Milwaukee and Fox Valley triangle. 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.

Pursuant to the merger agreement, shareholders of Anchor could elect to receive either 3.5505 shares of Old National common stock or $48.50 in cash for each share of Anchor they held, subject to a maximum of 40% of the purchase price in cash. The total purchase price for Anchor was $459.8 million, consisting of $186.2 million of cash and the issuance of 20.4 million shares of Old National Common Stock valued at $273.6 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. Through June 30, 2016, transaction and integration costs of $8.6 million associated with the acquisition have been expensed and remaining integration costs will be expensed in future periods as incurred.

Under the acquisition method of accounting, the total estimated purchase price is allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Based on management s preliminary valuation of the fair value of tangible and intangible assets acquired and liabilities assumed, which are based on assumptions that are subject to change, the purchase price for the Anchor acquisition is allocated as follows (in thousands):

Cash and cash equivalents	$ 123,657
Investment securities	235,240
Federal Home Loan Bank stock	4,596
Loans held for sale	9,334
Loans	1,636,605
Premises and equipment	35,721
Accrued interest receivable	7,308

Other real estate owned	18,243
Company-owned life insurance	7,278
Other assets	126,013
Deposits	(1,852,713)
Other borrowings	(3,255)
Accrued expenses and other liabilities	(36,958)
Net tangible assets acquired	311,069
Definite-lived intangible assets acquired	21,559
Loan servicing rights	15,274
Goodwill	111,852
Purchase price	$ 459,754

Prior to the end of the one year measurement period for finalizing the purchase price allocation, if information becomes available which would indicate adjustments are required to the purchase price allocation, such adjustments will be included in the purchase price allocation in the reporting period in which the adjustment amounts are determined.

The portion of the purchase price allocated to goodwill will not be deductible for tax purposes.

The estimated fair value of the core deposit intangible is $21.6 million and will be amortized over an estimated useful life of 7 years.

Acquired loan data for Anchor 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	$ 20,174	$ 29,544	$ 6,153
Acquired receivables not subject to ASC 310-30	$ 1,616,431	$ 2,143,532	$ 274,155

Summary of Unaudited Pro-forma Information

The unaudited pro-forma information below for the periods ended June 30, 2016 and 2015 gives effect to the Anchor acquisition as if it had occurred on January 1, 2015. The pro-forma financial information is not necessarily indicative of the results of operations if the acquisition had been effective as of this date.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Revenue (1)	**$ 203,355**	$ 174,238	**$ 370,352**	$ 346,322
Income before income taxes	**$ 82,343**	$ 32,437	**$ 135,958**	$ 67,354

(1) Net interest income plus noninterest income.

2016 supplemental pro-forma earnings were adjusted to exclude $7.2 million and $8.6 million of acquisition-related costs incurred during the three and six months ended June 30, 2016, respectively. 2015 supplemental pro-forma earnings were adjusted to include these charges.

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. The customer business relationship intangibles were originally scheduled to be amortized using an accelerated method over an estimated useful life of 10 years.

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. The customer business relationship intangibles were originally scheduled to be amortized using an accelerated method over an estimated useful life of 10 years.

Divestitures

On August 14, 2015, the Company completed its previously announced branch sales. The Company divested its southern Illinois region (twelve branches) along with four branches in eastern Indiana and one in Ohio. At closing, the purchasers assumed loans of $193.6 million and deposits of $555.8 million. The Company recorded a net pre-tax gain of $15.6 million in connection with the divestitures, which included a deposit premium of $19.3 million, goodwill allocation of $3.8 million, and $0.9 million of other transaction expenses.

In addition, the Company consolidated 23 branches throughout the Old National franchise during 2015 based on an ongoing assessment of our service and delivery network and on our goal to continue to move our franchise into stronger growth markets.

On May 31, 2016 the Company completed its previously announced sale of its insurance operations, ONB Insurance Group, Inc. (ONI). The Company received approximately $91.8 million in cash resulting in a pre-tax gain of $41.9 million and an after-tax gain of $17.6 million. See Note 17 to the consolidated financial statements for further details on the income tax impact of this sale. Goodwill and intangible assets of approximately $47.5 million were eliminated as part of this transaction. ONI was an ancillary business and did not meet the criteria to be treated as a discontinued operation as defined in Accounting Standards Update 2014-08 *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* .

NOTE 4 - NET INCOME PER SHARE

The following table reconciles basic and diluted net income per share for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars and shares in thousands, except per share data)	2016	2015	2016	2015
Basic Earnings Per Share				
Net income	**$ 39,122**	$ 26,156	**$ 66,099**	$ 47,062
Weighted average common shares outstanding	**127,508**	115,732	**120,753**	117,128
Basic Earnings Per Share	**$ 0.31**	$ 0.22	**$ 0.55**	$ 0.40
Diluted Earnings Per Share				
Net income	**$ 39,122**	$ 26,156	**$ 66,099**	$ 47,062
Weighted average common shares outstanding	**127,508**	115,732	**120,753**	117,128
Effect of dilutive securities:				
Restricted stock (1)	**425**	397	**480**	409
Stock options (2)	**40**	94	**40**	97
Weighted average shares outstanding	**127,973**	116,223	**121,273**	117,634
Diluted Earnings Per Share	**$ 0.31**	$ 0.22	**$ 0.55**	$ 0.40

(1) 0.1 million shares of restricted stock and restricted stock units at June 30, 2016 were not included in the computation of net income per diluted share for the three months ended June 30, 2016 because the effect would be antidilutive. 0.2 million shares of restricted stock and restricted stock units at June 30, 2016 were not included in the computation of net income per diluted share for the six months ended June 30, 2016 because the effect would be antidilutive. There were no antidilutive shares excluded from the computation of net income for the three or six months ended June 30, 2015.

(2) Options to purchase 0.8 million shares and 0.9 million shares outstanding at June 30, 2016 and 2015, respectively, were not included in the computation of net income per diluted share for the three months ended June 30, 2016 and 2015, respectively, 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. Options to purchase 0.8 million shares and 0.9 million shares outstanding at June 30, 2016 and 2015, respectively, were not included in the computation of net income per diluted share for the six months ended June 30, 2016 and 2015, respectively, 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.

NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes within each classification of accumulated other comprehensive income (loss) (AOCI) net of tax for the three and six months ended June 30, 2016 and 2015:

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sale Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
Three Months Ended June 30, 2016					
Balance at April 1, 2016	**$ 6,777**	**$ (14,174)**	**$ (15,387)**	**$ (6,801)**	**$ (29,585)**
Other comprehensive income (loss) before reclassifications	**8,208**		**(2,780)**		**5,428**
Amounts reclassified from accumulated other comprehensive income (loss) (a)	**(1,202)**	**307**	**983**	**452**	**540**
Net other comprehensive income (loss)	**7,006**	**307**	**(1,797)**	**452**	**5,968**
Balance at June 30, 2016	**$ 13,783**	**$ (13,867)**	**$ (17,184)**	**$ (6,349)**	**$ (23,617)**
Three Months Ended June 30, 2015					
Balance at April 1, 2015	$ 9,079	$ (15,373)	$ (9,309)	$ (8,639)	$ (24,242)
Other comprehensive income (loss) before reclassifications	(16,704)		2,205		(14,499)
Amounts reclassified from accumulated other comprehensive income (loss) (a)	(326)	283	272	450	679
Net other comprehensive income (loss)	(17,030)	283	2,477	450	(13,820)
Balance at June 30, 2015	$ (7,951)	$ (15,090)	$ (6,832)	$ (8,189)	$ (38,062)
Six Months Ended June 30, 2016					
Balance at January 1, 2016	**$ (3,806)**	**$ (14,480)**	**$ (9,276)**	**$ (7,235)**	**$ (34,797)**
Other comprehensive income (loss) before reclassifications	**19,490**		**(9,680)**		**9,810**
Amounts reclassified from accumulated other comprehensive income (loss) (a)	**(1,901)**	**613**	**1,772**	**886**	**1,370**
Net other comprehensive income (loss)	**17,589**	**613**	**(7,908)**	**886**	**11,180**
Balance at June 30, 2016	**$ 13,783**	**$ (13,867)**	**$ (17,184)**	**$ (6,349)**	**$ (23,617)**
Six Months Ended June 30, 2015					
Balance at January 1, 2015	$ (748)	$ (15,776)	$ (5,935)	$ (9,096)	$ (31,555)
Other comprehensive income (loss) before reclassifications	(5,189)		(1,284)		(6,473)
	(2,014)	686	387	907	(34)

Amounts reclassified from accumulated other comprehensive income (loss) (a)						
Net other comprehensive income (loss)	(7,203)		686	(897)	907	(6,507)
Balance at June 30, 2015	$ (7,951)	$	(15,090)	$ (6,832)	$ (8,189)	$ (38,062)

(a) See table below for details about reclassifications.

The following table summarize the significant amounts reclassified out of each component of AOCI for the three months ended June 30, 2016 and 2015:

Details about AOCI Components	Amount Reclassified from AOCI Three Months Ended June 30,		Affected Line Item in the Statement of Income
(dollars in thousands)	**2016**	**2015**	
Unrealized gains and losses on available-for-sale securities	**$ 1,856**	$ 512	Net securities gains
	(654)	(186)	Income tax (expense) benefit
	$ 1,202	$ 326	Net income
Unrealized gains and losses on held-to-maturity securities	**$ (466)**	$ (430)	Interest income/(expense)
	159	147	Income tax (expense) benefit
	$ (307)	$ (283)	Net income
Gains and losses on cash flow hedges Interest rate contracts	**$ (1,585)**	$ (439)	Interest income/(expense)
	602	167	Income tax (expense) benefit
	$ (983)	$ (272)	Net income
Amortization of defined benefit pension items			
Actuarial gains/(losses)	**$ (730)**	$ (725)	Salaries and employee benefits
	278	275	Income tax (expense) benefit
	$ (452)	$ (450)	Net income
Total reclassifications for the period	**$ (540)**	$ (679)	Net income

The following table summarize the significant amounts reclassified out of each component of AOCI for the six months ended June 30, 2016 and 2015:

Details about AOCI Components	Amount Reclassified from AOCI Six Months Ended June 30,		Affected Line Item in the Statement of Income
(dollars in thousands)	**2016**	**2015**	
Unrealized gains and losses on available-for-sale securities	**$ 2,962**	$ 3,195	Net securities gains
	(1,061)	(1,181)	Income tax (expense) benefit
	$ 1,901	$ 2,014	Net income
Unrealized gains and losses on held-to-maturity securities	**$ (931)**	$ (767)	Interest income/(expense)
	318	81	Income tax (expense) benefit
	$ (613)	$ (686)	Net income
Gains and losses on cash flow hedges			
Interest rate contracts	**$ (2,858)**	$ (625)	Interest income/(expense)
	1,086	238	Income tax (expense) benefit
	$ (1,772)	$ (387)	Net income
Amortization of defined benefit pension items			
Actuarial gains/(losses)	**$ (1,430)**	$ (1,463)	Salaries and employee benefits
	544	556	Income tax (expense) benefit
	$ (886)	$ (907)	Net income
Total reclassifications for the period	**$ (1,370)**	$ 34	Net income

NOTE 6 - INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at June 30, 2016 and December 31, 2015 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2016				
Available-for-Sale				
U.S. Treasury	**$ 11,963**	**$ 306**	**$**	**$ 12,269**
U.S. government-sponsored entities and agencies	**537,728**	**3,264**	**(217)**	**540,775**
Mortgage-backed securities - Agency	**1,323,606**	**15,180**	**(2,181)**	**1,336,605**
States and political subdivisions	**398,727**	**18,579**	**(143)**	**417,163**
Pooled trust preferred securities	**17,059**		**(10,339)**	**6,720**
Other securities	**338,094**	**3,559**	**(6,284)**	**335,369**
Total available-for-sale securities	**$ 2,627,177**	**$ 40,888**	**$ (19,164)**	**$ 2,648,901**
Held-to-Maturity				
U.S. government-sponsored entities and agencies	**$ 141,220**	**$ 1,928**	**$**	**$ 143,148**
Mortgage-backed securities - Agency	**13,200**	**523**		**13,723**
States and political subdivisions	**711,537**	**71,447**		**782,984**
Total held-to-maturity securities	**$ 865,957**	**$ 73,898**	**$**	**$ 939,855**
December 31, 2015				
Available-for-Sale				
U.S. Treasury	$ 11,968	$ 190	$ (8)	$ 12,150
U.S. government-sponsored entities and agencies	615,578	1,495	(3,523)	613,550
Mortgage-backed securities - Agency	1,065,936	10,970	(10,545)	1,066,361
States and political subdivisions	375,671	11,960	(335)	387,296
Pooled trust preferred securities	17,320		(9,420)	7,900
Other securities	337,590	1,151	(7,777)	330,964
Total available-for-sale securities	$ 2,424,063	$ 25,766	$ (31,608)	$ 2,418,221
Held-to-Maturity				
U.S. government-sponsored entities and agencies	$ 142,864	$ 2,899	$	$ 145,763
Mortgage-backed securities - Agency	16,042	562		16,604
States and political subdivisions	713,205	53,848	(3)	767,050
Total held-to-maturity securities	$ 872,111	$ 57,309	$ (3)	$ 929,417

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Proceeds from sales or calls of available-for-sale investment securities, the resulting realized gains and realized losses, and other securities gains or losses were as follows for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Proceeds from sales of available-for-sale securities	**$ 30,801**	$ 26,319	**$ 107,451**	$ 196,584
Proceeds from calls of available-for-sale securities	**239,998**	161,408	**364,309**	213,002
Total	**$ 270,799**	$ 187,727	**$ 471,760**	$ 409,586
Realized gains on sales of available-for-sale securities	**$ 1,491**	$ 316	**$ 3,151**	$ 2,797
Realized gains on calls of available-for-sale securities	**126**	212	**370**	380
Realized losses on sales of available-for-sale securities	**(1)**	(22)	**(447)**	(47)
Realized losses on calls of available-for-sale securities	**(1)**	(12)	**(88)**	(15)
Other securities gains (losses) (1)	**241**	18	**(24)**	80
Net securities gains	**$ 1,856**	$ 512	**$ 2,962**	$ 3,195

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

During the six months ended June 30, 2015, the Company sold a municipal bond that was classified as held-to-maturity due to credit deterioration. Proceeds from the sale were $0.8 million and resulted in a gain of $52 thousand.

Trading securities, which consist of mutual funds held in trusts associated with deferred compensation plans for former directors and executives, are recorded at fair value and totaled $4.8 million at June 30, 2016 and $3.9 million at December 31, 2015.

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

	At June 30, 2016		
(dollars in thousands) **Maturity**	**Amortized Cost**	**Fair Value**	**Weighted Average Yield**
Available-for-Sale			
Within one year	**$ 36,566**	**$ 36,649**	**1.54%**

One to five years	**400,424**	**405,665**	**2.00**
Five to ten years	**339,108**	**344,653**	**2.68**
Beyond ten years	**1,851,079**	**1,861,934**	**2.34**
Total	**$ 2,627,177**	**$ 2,648,901**	**2.32%**
Held-to-Maturity			
Within one year	**$ 15,011**	**$ 15,075**	**5.57%**
One to five years	**49,934**	**52,935**	**4.53**
Five to ten years	**220,589**	**231,585**	**3.79**
Beyond ten years	**580,423**	**640,260**	**5.49**
Total	**$ 865,957**	**$ 939,855**	**5.00%**

The following table summarizes the investment securities with unrealized losses at June 30, 2016 and December 31, 2015 by aggregated major security type and length of time in a continuous unrealized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2016						
Available-for-Sale						
U.S. government-sponsored entities and agencies	**$ 91,640**	**$ (217)**	**$**	**$**	**$ 91,640**	**$ (217)**
Mortgage-backed securities - Agency	**156,600**	**(281)**	**104,843**	**(1,900)**	**261,443**	**(2,181)**
States and political subdivisions	**1,064**	**(3)**	**5,692**	**(140)**	**6,756**	**(143)**
Pooled trust preferred securities			**6,720**	**(10,339)**	**6,720**	**(10,339)**
Other securities	**54,406**	**(877)**	**118,291**	**(5,407)**	**172,697**	**(6,284)**
Total available-for-sale	**$ 303,710**	**$ (1,378)**	**$ 235,546**	**$ (17,786)**	**$ 539,256**	**$ (19,164)**
December 31, 2015						
Available-for-Sale						
U.S. Treasury	$ 6,505	$ (8)	$	$	$ 6,505	$ (8)
U.S. government-sponsored entities and agencies	160,751	(1,492)	122,581	(2,031)	283,332	(3,523)
Mortgage-backed securities - Agency	256,359	(3,444)	239,047	(7,101)	495,406	(10,545)
States and political subdivisions	38,373	(161)	5,137	(174)	43,510	(335)
Pooled trust preferred securities			7,900	(9,420)	7,900	(9,420)
Other securities	156,604	(2,717)	126,661	(5,060)	283,265	(7,777)
Total available-for-sale	$ 618,592	$ (7,822)	$ 501,326	$ (23,786)	$ 1,119,918	$ (31,608)
Held-to-Maturity						
States and political subdivisions	$ 2,026	$ (3)	$	$	$ 2,026	$ (3)
Total held-to-maturity	$ 2,026	$ (3)	$	$	$ 2,026	$ (3)

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

In determining OTTI under the FASB ASC 320 (SFAS No. 115) model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic

conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. The second segment of the portfolio uses the OTTI guidance provided by FASB ASC 325-10 (EITF 99-20) that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the FASB ASC 325-10 model, we compare the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

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

We did not record other-than-temporary-impairments during the six months ended June 30, 2016 or 2015.

As of June 30, 2016, Old National s securities portfolio consisted of 1,758 securities, 94 of which were in an unrealized loss position. The unrealized losses attributable to our U.S. government-sponsored entities and agencies, our agency mortgage-backed securities, and our other securities are the result of fluctuations in interest rates. Our pooled trust preferred securities are discussed below.

Pooled Trust Preferred Securities

At June 30, 2016, our securities portfolio contained three pooled trust preferred securities with a fair value of $6.7 million and unrealized losses of $10.3 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 $3.0 million at June 30, 2016. This security was rated A3 at inception, but is rated D at June 30, 2016. The issuers in this security are banks. We use the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to determine whether an adverse change in cash flows has occurred during the quarter. The OTTI model considers the structure and term of the collateralized debt obligation (CDO) and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and a limited number of recoveries on current or projected interest payment deferrals. In addition, we use the model to stress this CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of Old National s note class. For the six months ended June 30, 2016 and 2015, our model indicated no other-than-temporary-impairment losses on this security. At June 30, 2016, we had no intent to sell any securities that were in an unrealized loss position nor is it expected that we would be required to sell any securities.

Two of our pooled trust preferred securities with a fair value of $6.5 million and unrealized losses of $7.4 million at June 30, 2016 are not subject to FASB ASC 325-10. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. For the six months ended June 30, 2016 and 2015, our analysis indicated no OTTI on these securities.

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 June 30, 2016 (dollars in thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2016	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a % of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
Pooled trust preferred securities:										
Reg Div Funding 2004	B-2	D	$ 3,168	$ 204	$ (2,964)	$	23/39	33.3%	7.4%	0.0%
Pretsl XXVII LTD	B	B	4,422	2,017	(2,405)		33/43	18.9%	4.2%	49.4%
Trapeza Ser 13A	A2A	BBB	9,469	4,499	(4,970)		50/57	8.9%	4.9%	43.1%
			17,059	6,720	(10,339)					
Single Issuer trust preferred securities:										
Fleet Cap Tr V (BOA)		BB+	3,393	2,835	(558)					
JP Morgan Chase Cap XIII		BBB-	4,762	4,000	(762)					
NB-Global		BB+	777	810	33					
Chase Cap II		BBB-	815	840	25					
			9,747	8,485	(1,262)					
Total			$ 26,806	$ 15,205	$ (11,601)	$				

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

NOTE 7 - LOANS HELD FOR SALE

Mortgage loans held for immediate sale in the secondary market were $44.4 million at June 30, 2016, compared to $13.8 million at December 31, 2015. Residential loans that Old National has originated with the intent to sell are recorded at fair value in accordance with FASB ASC 825-10 (SFAS No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities*). Beginning with the inception of an in-house servicing unit in the third quarter of 2014, conventional mortgage production is sold on a servicing retained basis. Certain loans, such as government guaranteed mortgage loans are sold on servicing released basis.

During the fourth quarter of 2014, $197.9 million of loans were reclassified to loans held for sale at the lower of cost or fair value. When the branch divestitures closed during the third quarter of 2015, these loans were valued at $193.6 million, resulting in a gain of $0.1 million. At June 30, 2016, there were no loans held for sale under this arrangement.

NOTE 8   LOANS AND ALLOWANCE FOR CREDIT LOSSES

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

The composition of loans by lending classification was as follows:

(dollars in thousands)	**June 30, 2016**	December 31, 2015
Commercial (1)	**$ 1,893,700**	$ 1,804,615
Commercial real estate:		
Construction	**263,496**	185,449
Other	**2,680,029**	1,662,372
Residential real estate	**2,099,770**	1,644,614
Consumer credit:		
Heloc	**473,550**	359,954
Auto	**1,145,198**	1,050,336
Other	**274,415**	133,478
Covered loans		107,587
Total loans	**8,830,158**	6,948,405
Allowance for loan losses	**(51,804)**	(51,296)
Allowance for loan losses - covered loans		(937)
Net loans	**$ 8,778,354**	$ 6,896,172

(1) Includes direct finance leases of $12.7 million at June 30, 2016 and $14.4 million at December 31, 2015.

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

Commercial

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

Commercial real estate

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

Included with commercial real estate are construction loans, which are underwritten utilizing independent appraisal reviews, sensitivity analysis of absorption and lease rates, financial analysis of the developers and property owners, and feasibility studies, if available. 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. We assumed student loans in the acquisition of Anchor in May 2016. As of June 30, 2016, student loans totaled $83.3 million and are guaranteed by the government on average from 97% to 100%. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property or other collateral values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Covered loans

Old National entered into an agreement with the FDIC on June 22, 2016 to terminate its loss share agreements. As a result of the termination of the loss share agreements, the remaining loans that were covered by the loss share arrangements were reclassified to noncovered loans effective June 22, 2016. All future gains and losses associated with covered loans will be recognized entirely by Old National.

Prior to the termination of the loss share agreements, certain loans acquired from the FDIC were classified as covered loans. Covered loans were subject to loss share agreements whereby Old National was 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. See Note 9 to the consolidated financial statements for further details on our covered loans.

Allowance for loan losses

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

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

policies or procedures, and economic business conditions are also considered.

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

No allowance was brought forward on any of the acquired loans as any credit deterioration evident in the loans was included in the determination of the fair value of the loans at the acquisition date. An allowance for loan losses will be established for any subsequent credit deterioration or adverse changes in expected cash flows.

Old National s activity in the allowance for loan losses for the three and six months ended June 30, 2016 and 2015 is as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Unallocated	Total
Three Months Ended June 30, 2016						
Balance at April 1, 2016	**$ 25,121**	**$ 15,771**	**$ 1,749**	**$ 8,059**	**$**	**$ 50,700**
Charge-offs	**(432)**	**(783)**	**(80)**	**(1,382)**		**(2,677)**
Recoveries	**876**	**547**	**187**	**852**		**2,462**
Provision	**(1,409)**	**2,673**	**(397)**	**452**		**1,319**
Balance at June 30, 2016	**$ 24,156**	**$ 18,208**	**$ 1,459**	**$ 7,981**	**$**	**$ 51,804**
Three Months Ended June 30, 2015						
Balance at April 1, 2015	$ 24,703	$ 13,807	$ 2,919	$ 7,449	$	$ 48,878
Charge-offs	(1,872)	(514)	(22)	(1,494)		(3,902)
Recoveries	789	1,009	59	1,087		2,944
Provision	(186)	2,023	(375)	809		2,271
Balance at June 30, 2015	$ 23,434	$ 16,325	$ 2,581	$ 7,851	$	$ 50,191
Six Months Ended June 30, 2016						
Balance at January 1, 2016	**$ 26,347**	**$ 15,993**	**$ 2,051**	**$ 7,842**	**$**	**$ 52,233**
Charge-offs	**(1,959)**	**(1,062)**	**(220)**	**(3,378)**		**(6,619)**
Recoveries	**1,694**	**1,387**	**213**	**1,486**		**4,780**
Provision	**(1,926)**	**1,890**	**(585)**	**2,031**		**1,410**
Balance at June 30, 2016	**$ 24,156**	**$ 18,208**	**$ 1,459**	**$ 7,981**	**$**	**$ 51,804**
Six Months Ended June 30, 2015						
Balance at January 1, 2015	$ 20,670	$ 17,348	$ 2,962	$ 6,869	$	$ 47,849
Charge-offs	(2,421)	(101)	(396)	(3,098)		(6,016)
Recoveries	2,564	1,473	87	1,962		6,086
Provision	2,621	(2,395)	(72)	2,118		2,272
Balance at June 30, 2015	$ 23,434	$ 16,325	$ 2,581	$ 7,851	$	$ 50,191

The following table provides Old National s recorded investment in financing receivables by portfolio segment at June 30, 2016 and December 31, 2015 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Unallocated	Total
June 30, 2016						
Allowance for loan losses:						
Individually evaluated for impairment	**$ 7,489**	**$ 3,949**	**$**	**$**	**$**	**$ 11,438**
Collectively evaluated for impairment	**16,374**	**14,082**	**1,446**	**7,781**		**39,683**
Loans acquired with deteriorated credit quality	**293**	**177**	**13**	**200**		**683**
Total allowance for loan losses	**$ 24,156**	**$ 18,208**	**$ 1,459**	**$ 7,981**	**$**	**$ 51,804**
Loans and leases outstanding:						
Individually evaluated for impairment	**$ 52,132**	**$ 60,359**	**$**	**$**	**$**	**$ 112,491**
Collectively evaluated for impairment	**1,839,760**	**2,830,350**	**2,084,652**	**1,882,832**		**8,637,594**
Loans acquired with deteriorated credit quality	**1,808**	**52,816**	**15,118**	**10,331**		**80,073**
Total loans and leases outstanding	**$ 1,893,700**	**$ 2,943,525**	**$ 2,099,770**	**$ 1,893,163**	**$**	**$ 8,830,158**
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
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

Credit Quality

Old National s management monitors the credit quality of its financing receivables in an on-going manner. Internally, management assigns an asset quality rating (AQR) to each non-homogeneous commercial and commercial real estate loan in the portfolio. The primary determinants of the AQR are based upon the reliability of the primary source of repayment and the past, present, and projected financial condition of the borrower. The AQR will also consider current 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 June 30, 2016 and December 31, 2015, the risk category of commercial and commercial real estate loans by class of loans is as follows:

(dollars in thousands) **Corporate Credit Exposure** **Credit Risk Profile by** **Internally Assigned Grade**	**Commercial** **June 30, 2016**	**Commercial** **December 31, 2015 (1)**	**Commercial Real Estate - Construction** **June 30, 2016**	**Commercial Real Estate - Construction** **December 31, 2015 (1)**	**Commercial Real Estate - Other** **June 30, 2016**	**Commercial Real Estate - Other** **December 31, 2015 (1)**
Grade:						
Pass	**$ 1,774,857**	$ 1,672,672	**$ 256,427**	$ 182,701	**$ 2,484,795**	$ 1,508,309
Criticized	**38,867**	55,570	**4,014**	3,300	**64,005**	75,477
Classified - substandard	**25,422**	24,723	**1,572**	1,857	**56,982**	49,091
Classified - nonaccrual	**52,226**	58,469	**1,483**	830	**64,338**	39,521
Classified - doubtful	**2,328**	3,506			**9,909**	7,886
Total	**$ 1,893,700**	$ 1,814,940	**$ 263,496**	$ 188,688	**$ 2,680,029**	$ 1,680,284

(1) Includes loans previously covered by loss share agreements with the FDIC.

Other commercial real estate as of June 30, 2016 in the table above includes loans attributable to the acquisition of Anchor totaling $9.4 million in the criticized category, $3.6 million in the classified substandard category, and $24.8 million in the classified nonaccrual category.

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 June 30, 2016 and December 31, 2015:

(dollars in thousands)	Residential	Consumer Heloc	Consumer Auto	Consumer Other
June 30, 2016				
Performing	**$ 2,082,585**	**$ 469,711**	**$ 1,143,932**	**$ 266,649**
Nonperforming	**17,185**	**3,839**	**1,266**	**7,766**
Total	**$ 2,099,770**	**$ 473,550**	**$ 1,145,198**	**$ 274,415**
December 31, 2015 (1)				
Performing	$ 1,645,293	$ 410,243	$ 1,048,763	$ 138,031
Nonperforming	16,042	3,051	1,573	1,497
Total	$ 1,661,335	$ 413,294	$ 1,050,336	$ 139,528

(1) Includes loans previously covered by loss share agreements with the FDIC.

Other consumer loans as of June 30, 2016 in the table above includes loans attributable to the acquisition of Anchor totaling $6.1 million in the nonperforming category, the majority of which are student loans that are guaranteed by the government on average from 97% to 100%.

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.

The following table shows Old National s impaired loans as of June 30, 2016 and December 31, 2015, respectively. Only purchased loans 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
June 30, 2016			
With no related allowance recorded:			
Commercial	**$ 36,975**	**$ 34,584**	**$**
Commercial Real Estate - Other	**41,334**	**45,139**	
Residential	**1,353**	**1,374**	
Consumer	**904**	**1,041**	
With an allowance recorded:			
Commercial	**18,903**	**18,905**	**7,489**
Commercial Real Estate - Other	**15,279**	**15,353**	**3,949**
Residential	**1,105**	**1,105**	**55**
Consumer	**2,785**	**2,785**	**139**
Total	**$ 118,638**	**$ 120,286**	**$ 11,632**
December 31, 2015 (1)			
With no related allowance recorded:			
Commercial	$ 40,414	$ 41,212	$
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

(1) Does not include $4.2 million of loans that were previously covered by loss share agreements with the FDIC.

The average balance of impaired loans and interest income recognized on impaired loans during the three months ended June 30, 2016 and 2015 are included in the table below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
Three Months Ended June 30, 2016		
With no related allowance recorded:		
Commercial	**$ 32,951**	**$ 33**
Commercial Real Estate - Other	**34,344**	**162**
Residential	**1,348**	**2**
Consumer	**871**	**1**
With an allowance recorded:		
Commercial	**19,546**	**79**
Commercial Real Estate - Construction	**116**	
Commercial Real Estate - Other	**12,230**	**134**
Residential	**1,060**	
Consumer	**2,781**	
Total	**$ 105,247**	**$ 411**
Three Months Ended June 30, 2015 (2)		
With no related allowance recorded:		
Commercial	$ 30,769	$ 85
Commercial Real Estate - Construction	2,107	1
Commercial Real Estate - Other	38,758	189
Residential	920	1
Consumer	869	1
With an allowance recorded:		
Commercial	25,069	355
Commercial Real Estate - Construction	117	
Commercial Real Estate - Other	10,274	121
Residential	1,469	2
Consumer	1,518	29
Total	$ 111,870	$ 784

(1) The Company does not record interest on nonaccrual loans until principal is recovered.
(2) Does not include $4.7 million of loans that were previously covered by loss share agreements with the FDIC.

The average balance of impaired loans and interest income recognized on impaired loans during the six months ended June 30, 2016 and 2015 are included in the table below.

(dollars in thousands)	Average Recorded Investment	Interest Income Recognized (1)
Six Months Ended June 30, 2016		
With no related allowance recorded:		
Commercial	**$ 38,029**	**$ 61**
Commercial Real Estate - Other	**38,197**	**257**
Residential	**1,359**	**2**
Consumer	**981**	**2**
With an allowance recorded:		
Commercial	**17,641**	**92**
Commercial Real Estate - Construction	**119**	
Commercial Real Estate - Other	**15,016**	**182**
Residential	**1,035**	**38**
Consumer	**2,695**	**37**
Total	**$ 115,072**	**$ 671**
Six Months Ended June 30, 2015 (2)		
With no related allowance recorded:		
Commercial	$ 31,505	$ 127
Commercial Real Estate - Construction	2,025	4
Commercial Real Estate - Other	32,402	274
Residential	761	1
Consumer	824	2
With an allowance recorded:		
Commercial	21,359	403
Commercial Real Estate - Construction	49	
Commercial Real Estate - Other	13,980	122
Residential	1,469	64
Consumer	1,568	49
Total	$ 105,942	$ 1,046

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

(2) Does not include $4.7 million of loans that were previously covered by loss share agreements with the FDIC.

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 a prescribed period, 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 loan loss provision or prospective yield adjustments.

Old National s past due financing receivables as of June 30, 2016 and December 31, 2015 are as follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Recorded Investment > 90 Days and Accruing	Nonaccrual	Total Past Due	Current
June 30, 2016						
Commercial	**$ 496**	**$ 227**	**$ 175**	**$ 54,554**	**$ 55,452**	**$ 1,838,248**
Commercial Real Estate:						
Construction				**1,483**	**1,483**	**262,013**
Other	**1,779**			**74,247**	**76,026**	**2,604,003**
Residential	**14,221**	**1,726**	**101**	**17,185**	**33,233**	**2,066,537**
Consumer:						
Heloc	**1,286**	**220**	**240**	**3,839**	**5,585**	**467,965**
Auto	**2,962**	**684**	**104**	**1,266**	**5,016**	**1,140,182**
Other	**7,251**	**3,119**	**50**	**7,766**	**18,186**	**256,229**
Total loans	**$ 27,995**	**$ 5,976**	**$ 670**	**$ 160,340**	**$ 194,981**	**$ 8,635,177**
December 31, 2015						
Commercial	$ 802	$ 100	$ 565	$ 57,536	$ 59,003	$ 1,745,612
Commercial Real Estate:						
Construction				749	749	184,700
Other	438	135		46,601	47,174	1,615,198
Residential	9,300	2,246	114	14,953	26,613	1,618,001
Consumer:						
Heloc	283	402		2,369	3,054	356,900
Auto	3,804	730	202	1,573	6,309	1,044,027
Other	830	165	25	1,256	2,276	131,202
Covered loans	809	312	10	7,336	8,467	99,120
Total loans	$ 16,266	$ 4,090	$ 916	$ 132,373	$ 153,645	$ 6,794,760

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At June 30, 2016, these loans totaled $392.2 million, of which $209.6 million had been sold to other financial institutions and $182.6 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder, involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder, all cash flows are divided among the participating interest holders in proportion to each holder s share of ownership, and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Troubled Debt Restructurings

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

probability of collection.

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

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

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

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

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

The following table presents activity in TDRs for the six months ended June 30, 2016 and 2015:

(dollars in thousands)	**Commercial**	**Commercial Real Estate**	**Residential**	**Consumer**	**Total**
Six Months Ended June 30, 2016					
Balance at January 1, 2016	**$ 23,354**	**$ 14,602**	**$ 2,693**	**$ 3,602**	**$ 44,251**
(Charge-offs)/recoveries	**(742)**	**108**	**42**	**(23)**	**(615)**
Payments	**(10,819)**	**(4,035)**	**(462)**	**(425)**	**(15,741)**
Additions	**11,233**	**10,581**	**335**	**385**	**22,534**
Other	**1,251**	**173**			**1,424**
Balance at June 30, 2016	**$ 24,277**	**$ 21,429**	**$ 2,608**	**$ 3,539**	**$ 51,853**
Six Months Ended June 30, 2015					
Balance at January 1, 2015	$ 15,205	$ 15,226	$ 2,063	$ 2,459	$ 34,953
(Charge-offs)/recoveries	574	648	(15)	(27)	1,180
Payments	(3,505)	(3,135)	(85)	(320)	(7,045)
Additions	5,573	3,321	419	681	9,994
Balance at June 30, 2015	$ 17,847	$ 16,060	$ 2,382	$ 2,793	$ 39,082

Approximately $38.1 million of the TDRs at June 30, 2016 were included with nonaccrual loans, compared to $30.0 million at December 31, 2015. Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling $5.6 million at June 30, 2016 and $2.3 million at December 31, 2015. As of June 30, 2016,

Old National had committed to lend an additional $4.2 million to customers with outstanding loans that are classified as TDRs.

The pre-modification and post-modification outstanding recorded investments of loans modified as TDRs during the six months ended June 30, 2016 and 2015 are the same except for when the loan modifications involve the forgiveness of principal. The following table presents loans by class modified as TDRs that occurred during the six months ended June 30, 2016 and 2015:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Six Months Ended June 30, 2016			
Troubled Debt Restructuring:			
Commercial	**16**	**$ 11,233**	**$ 10,681**
Commercial Real Estate - Other	**9**	**10,581**	**10,581**
Residential	**3**	**335**	**335**
Consumer	**8**	**385**	**385**
Total	**36**	**$ 22,534**	**$ 21,982**
Six Months Ended June 30, 2015			
Troubled Debt Restructuring:			
Commercial	18	$ 5,573	$ 5,573
Commercial Real Estate - Construction	5	1,162	1,162
Commercial Real Estate - Other	14	2,159	2,159
Residential	3	419	419
Consumer	18	681	681
Total	58	$ 9,994	$ 9,994

The TDRs that occurred during the six months ended June 30, 2016 decreased the allowance for loan losses by $1.2 million due to an improvement in specific reserves on a large commercial loan and resulted in $0.6 million of charge-offs during the six months ended June 30, 2016. The TDRs that occurred during the six months ended June 30, 2015 resulted in immaterial changes in the allowance for loan losses and charge-offs during the six months ended June 30, 2015.

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

There were 10 commercial loans and 3 commercial real estate loans totaling $0.8 million that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the six months ended June 30, 2016.

There were three commercial loans and four commercial real estate loans totaling $0.5 million that were modified as TDRs within the preceding twelve months, and for which there was a payment default during the six months ended June 30, 2015.

The terms of certain other loans were modified during the six months ended June 30, 2016 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an

evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or the delay in a payment.

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 June 30, 2016, it has not been necessary to remove any loans from PCI accounting.

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

Purchased Credit Impaired Loans (PCI)

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

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

(dollars in thousands)	**June 30, 2016**	**December 31, 2015 (1)**
Commercial	**$ 1,808**	$ 3,584
Commercial real estate	**52,816**	47,923
Residential	**15,118**	16,704
Consumer	**10,331**	12,870
Carrying amount	**80,073**	81,081
Allowance for loan losses	**(683)**	(1,359)
Carrying amount, net of allowance	**$ 79,390**	$ 79,722

(1) Includes loans previously covered by loss share agreements with the FDIC.

The outstanding balance of loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $323.4 million at June 30, 2016 and $321.5 million at December 31, 2015.

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 $13.0 million during the six months ended June 30, 2016 and $15.5 million during the six months ended June 30, 2015. Improvement in cash flow expectations has resulted in a reclassification from nonaccretable difference to accretable yield as shown in the table below.

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

(dollars in thousands)	Acquisitions Prior to 2015 (1)	Founders (2)	Anchor (2)	Total
Balance at January 1, 2016	$ 42,498	$ 2,812	$	$ 45,310
New loans purchased			3,217	3,217
Accretion of income	(12,137)	(505)	(348)	(12,990)
Reclassifications from (to) nonaccretable difference	5,191	428		5,619
Disposals/other adjustments	487		43	530
Balance at June 30, 2016	$ 36,039	$ 2,735	$ 2,912	$ 41,686

(1) Includes loans previously covered by loss share agreements with the FDIC.
(2) Old National acquired Founders effective January 1, 2015 and Anchor effective May 1, 2016.

Included in Old National s allowance for loan losses is $0.7 million related to the purchased loans disclosed above at June 30, 2016, compared to $1.4 million at December 31, 2015.

PCI loans purchased during the six months ended June 30, 2016 and 2015 for which it was probable at acquisition that all contractually required payments would not be collected were as follows:

(dollars in thousands)	Founders	Anchor
Contractually required payments	$ 11,103	$ 29,544
Nonaccretable difference	(2,684)	(6,153)
Cash flows expected to be collected at acquisition	8,419	23,391
Accretable yield	(1,812)	(3,217)
Fair value of acquired loans at acquisition	$ 6,607	$ 20,174

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

NOTE 9 COVERED LOANS

Old National entered into an agreement with the FDIC on June 22, 2016 to terminate its loss share agreements. As a result of the termination of the loss share agreements, the remaining loans that were covered by the loss share arrangements were reclassified to noncovered loans effective June 22, 2016. All future gains and losses associated with covered loans will be recognized entirely by Old National.

Prior to the termination of the loss share agreements, certain loans acquired from the FDIC were classified as covered loans. Covered loans were subject to loss share agreements. Under the early termination agreement, the FDIC made a

final payment of $8.7 million to Old National as consideration for the early termination. After the elimination of the remaining FDIC indemnification asset and the payment of settlement charges, Old National realized a pre-tax gain of $0.2 million during the three months ended June 30, 2016. The carrying amount of covered loans was $95.4 million at March 31, 2016.

The following table is a roll-forward of covered acquired impaired loans accounted for under ASC 310-30 for the six months ended June 30, 2016 and 2015. As a result of the termination of the loss share agreements, the remaining loans that were covered by the loss share arrangements were reclassified to noncovered loans effective June 22, 2016.

(dollars in thousands)	Contractual Cash Flows (1)	Nonaccretable Difference	Accretable Yield	Carrying Amount (2)
Six Months Ended June 30, 2016				
Balance at January 1, 2016	**$ 69,857**	**$ (4,729)**	**$ (17,785)**	**$ 47,343**
Principal reductions and interest payments	**(18,195)**	**(347)**		**(18,542)**
Accretion of loan discount			**7,196**	**7,196**
Changes in contractual and expected cash flows due to remeasurement	**4,431**	**631**	**(4,927)**	**135**
Removals due to foreclosure or sale	**(1,948)**	**136**	**263**	**(1,549)**
Loans removed from loss share coverage	**(54,145)**	**4,309**	**15,253**	**(34,583)**
Balance at June 30, 2016	**$**	**$**	**$**	**$**
Six Months Ended June 30, 2015				
Balance at January 1, 2015	$ 124,809	$ (12,014)	$ (35,742)	$ 77,053
Principal reductions and interest payments	(18,178)	(814)		(18,992)
Accretion of loan discount			7,259	7,259
Changes in contractual and expected cash flows due to remeasurement	(3,633)	4,412	(733)	46
Removals due to foreclosure or sale	(506)	162	(143)	(487)
Balance at June 30, 2015	$ 102,492	$ (8,254)	$ (29,359)	$ 64,879

(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.

Prior to the termination of the loss share agreements, we estimated the 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 evaluated at each balance sheet date whether the present value of loans determined using the effective interest rates had decreased and if so, recognized a provision for loan losses. For any increases in cash flows expected to be collected, we adjusted 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 were offset as Old National would recognize a corresponding change in cash flows expected from the indemnification asset prospectively in a similar manner. The indemnification asset was adjusted over the shorter of the life of the underlying investment or the indemnification agreement.

The loss share receivable represented actual incurred losses where reimbursement had not yet been received from the FDIC. The indemnification asset represented future cash flows we expected to collect from the FDIC under the loss sharing agreements and the amount related to the estimated improvements in cash flow expectations that were being amortized over the same period for which those improved cash flows were being accreted into income.

The following table shows a detailed analysis of the FDIC loss sharing asset for the six months ended June 30, 2016 and 2015. As a result of the termination of the loss share agreements on June 22, 2016, the table below reflects the write-off of the remaining FDIC loss sharing asset.

(dollars in thousands)	**2016**	**2015**
Balance at January 1,	**$ 9,030**	$ 20,603
Adjustments not reflected in income:		
Cash received from the FDIC	**(10,000)**	(2,231)
Other	**512**	612
Adjustments reflected in income:		
(Amortization) accretion	**(816)**	(3,830)
Higher (lower) loan loss expectations	**(13)**	109
Impairment/(recovery) of value and net (gain)/loss on sales of other real estate	**1,062**	1,212
Gain as a result of the early termination agreement with the FDIC, effective June 22, 2016	**225**	
Balance at June 30,	**$**	$ 16,475

As a result of the termination of the loss share agreements, all future gains and losses associated with covered assets will be recognized entirely by Old National since the FDIC will no longer be sharing in these gains and losses.

NOTE 10 OTHER REAL ESTATE OWNED

The following table presents activity in other real estate owned for the six months ended June 30, 2016 and 2015:

(dollars in thousands)	**Other Real Estate Owned (1)**	**Other Real Estate Owned, Covered**
Six Months Ended June 30, 2016		
Balance at January 1, 2016	**$ 7,594**	**$ 4,904**
Additions (2)	**20,251**	**2,093**
Sales	**(7,060)**	**(1,454)**
(Impairment)/recovery of value	**(202)**	**(1,872)**
Reclassification due to termination of the loss share agreements, effective June 22, 2016	**3,671**	**(3,671)**
Balance at June 30, 2016	**$ 24,254**	**$**
Six Months Ended June 30, 2015		
Balance at January 1, 2015	$ 7,241	$ 9,121
Additions	4,579	429
Sales	(2,153)	(4,580)
(Impairment)/recovery of value	(279)	(217)
Balance at June 30, 2015	$ 9,388	$ 4,753

(1) Includes repossessed personal property of $0.2 million at June 30, 2016 and $0.3 million at June 30, 2015.
(2) Includes other real estate owned of $18.2 million acquired from Anchor in May 2016.

At June 30, 2016, foreclosed residential real estate property included in the table above totaled $1.0 million. At June 30, 2016, consumer mortgage loans collateralized by residential real property that were in the process of foreclosure totaled $4.0 million.

Old National entered into an agreement with the FDIC on June 22, 2016 to terminate its loss share agreements. As a result of the termination of the loss share agreements, the remaining other real estate owned that was covered by the loss share arrangements were reclassified to noncovered other real estate owned effective June 22, 2016.

Prior to the termination of the loss share agreements, covered OREO expenses and valuation write-downs were recorded in the noninterest expense section of the consolidated statements of income. Under the loss sharing agreements, the FDIC reimbursed 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. The reimbursable portion of these expenses was recorded in the FDIC indemnification asset. Changes in the FDIC indemnification asset were recorded in the noninterest income section of the consolidated statements of income. As a result of the termination of the loss share agreements, all future gains and losses associated with covered assets will be recognized entirely by Old National since the FDIC will no longer be sharing in these gains and losses.

NOTE 11 - GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill for the six months ended June 30, 2016 and 2015:

(dollars in thousands)	2016	2015
Balance at January 1,	**$ 584,634**	$ 530,845
Acquisitions	**111,852**	57,619
Divestitures	**(40,963)**	
Balance at June 30,	**$ 655,523**	$ 588,464

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

During the six months ended June 30, 2016, Old National recorded $111.9 million of goodwill associated with the acquisition of Anchor. Also during the six months ended June 30, 2016, Old National eliminated $41.0 million of goodwill associated with the sale of its insurance operations. See Note 3 to the consolidated financial statements for detail regarding goodwill recorded in 2015 associated with prior acquisitions.

The gross carrying amount and accumulated amortization of other intangible assets at June 30, 2016 and December 31, 2015 were as follows:

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
June 30, 2016			
Amortized intangible assets:			
Core deposit	**$ 81,663**	**$ (47,839)**	**$ 33,824**
Customer trust relationships	**16,547**	**(6,769)**	**9,778**
Customer loan relationships	**4,413**	**(3,778)**	**635**
Total intangible assets	**$ 102,623**	**$ (58,386)**	**$ 44,237**

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

Other intangible assets consist of core deposit intangibles and customer relationship intangibles and are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 5 to 15 years.

During the first quarter of 2016, Old National decreased customer business relationships by $0.2 million. These adjustments related to final contingency payments on acquired insurance books of business that occurred in prior years. During the second quarter of 2016, Old National increased core deposit intangibles by $21.6 million related to the Anchor acquisition. Also during the second quarter of 2016, Old National eliminated $6.5 million of customer business relationships intangibles associated with the sale of its insurance operations.

Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. No impairment charges were recorded during the six months ended June 30, 2016 or 2015. Total amortization expense associated with intangible assets was $6.0 million for the six months ended June 30, 2016 and $6.1 million for the six months ended June 30, 2015.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2016 remaining	$ 6,560
2017	11,015
2018	8,687
2019	6,737
2020	4,883
Thereafter	6,355
Total	$ 44,237

NOTE 12 LOAN SERVICING RIGHTS

Loan servicing rights were assumed in Old National s acquisitions of United and LSB in 2014, Founders in 2015, and Anchor in May, 2016.

At June 30, 2016, loan servicing rights derived from loans sold with servicing retained totaled $25.8 million and were included in other assets in the consolidated balance sheet, compared to $10.5 million at December 31, 2015. Loans serviced for others are not reported as assets. The principal balance of loans serviced for others was $3.483 billion at June 30, 2016, compared to $1.263 billion at December 31, 2015. Approximately 99% of the loans serviced for others at June 30, 2016 were residential mortgage loans. Custodial escrow balances maintained in connection with serviced loans were $32.7 million at June 30, 2016 and $3.0 million at December 31, 2015.

The following table summarizes the carrying values and activity related to loan servicing rights and the related valuation allowance for the six months ended June 30, 2016 and 2015:

(dollars in thousands)	**2016**	**2015**
Balance at January 1,	**$ 10,502**	$ 9,584
Additions (1)	**17,126**	1,754
Amortization	**(1,866)**	(1,271)
Balance before valuation allowance at June 30,	**25,762**	10,067
Valuation allowance:		

Balance at January 1,	**(34)**	(50)
(Additions)/recoveries	**28**	10
Balance at June 30,	**(6)**	(40)
Loan servicing rights, net	**$ 25,756**	$ 10,027

(1) In May 2016, the Company assumed $15.3 million of loan servicing rights related to the Anchor acquisition. At June 30, 2016, the fair value of servicing rights was $28.4 million, which was determined using a discount rate of 8.07% and a weighted average prepayment speed of 210% PSA. At December 31, 2015, the fair value of servicing rights was $11.3 million, which was determined using a discount rate of 11% and a weighted average prepayment speed of 166% PSA.

NOTE 13 SHORT-TERM BORROWINGS

The following table presents the distribution of Old National s short-term borrowings and related weighted-average interest rates as of June 30, 2016:

(dollars in thousands)	Federal Funds Purchased	Repurchase Agreements / Sweeps	Financial Exchange Borrowings (1)	Revolving Loan	Total
2016					
Outstanding at June 30, 2016	**$ 263,536**	**$ 304,123**	**$**	**$**	**$ 567,659**
Average amount outstanding	**141,664**	**332,441**	**5,083**	**8,242**	**487,430**
Maximum amount outstanding at any month-end	**263,536**	**346,695**	**25,000**	**50,000**	
Weighted average interest rate:					
During the six months ended June 30, 2016	**0.46%**	**0.08%**	**0.71%**	**3.00%**	**0.24%**
At June 30, 2016	**0.42**	**0.07**			**0.23**

(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 June 30, 2016				
	Remaining Contractual Maturity of the Agreements				
(dollars in thousands)	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 days	Total
Repurchase Agreements:					
U.S. Treasury and agency securities	**$ 304,123**	**$**	**$**	**$**	**$ 304,123**
Total	**$ 304,123**	**$**	**$**	**$**	**$ 304,123**

The fair value of securities pledged to secure repurchase agreements may decline. The Company has pledged securities valued at 111% of the gross outstanding balance of repurchase agreements at June 30, 2016 to manage this risk.

REVOLVING LOAN

In May 2016, the Company entered into a $75.0 million revolving line of credit agreement. The 364 day revolving loan has a variable rate of interest priced at the one-month LIBOR plus 200 basis points. As of June 30, 2016, no amount was outstanding on the loan.

NOTE 14 - FINANCING ACTIVITIES

The following table summarizes Old National s and its subsidiaries other borrowings at June 30, 2016 and December 31, 2015:

(dollars in thousands)	June 30, 2016	December 31, 2015
Old National Bancorp:		
Senior unsecured bank notes (fixed rate 4.125%) maturing August 2024	**$ 175,000**	$ 175,000
Unamortized debt issuance costs related to Senior unsecured bank notes	**(1,260)**	(1,338)
Junior subordinated debentures (variable rates of 1.99% to 2.41%) maturing March 2035 to June 2037	**45,000**	45,000
ASC 815 fair value hedge and other basis adjustments	**(4,210)**	(4,442)
Old National Bank:		
Securities sold under agreements to repurchase (fixed rates 2.47% to 2.50%) maturing January 2017 to January 2018	**50,000**	50,000
Federal Home Loan Bank advances (fixed rates 0.44% to 6.76% and variable rates 0.74% to 0.78%) maturing July 2016 to January 2025	**1,097,212**	1,022,766
Capital lease obligation	**4,126**	4,036
ASC 815 fair value hedge and other basis adjustments	**2,028**	725
Total other borrowings	**$ 1,367,896**	$ 1,291,747

Contractual maturities of other borrowings at June 30, 2016 were as follows:

(dollars in thousands)	
Due in 2016	$ 617,384
Due in 2017	95,806
Due in 2018	195,224
Due in 2019	2,517
Due in 2020	50,091
Thereafter	410,316
ASC 815 fair value hedge, unamortized debt issuance costs, and other basis adjustments	(3,442)
Total	$ 1,367,896

SENIOR NOTES

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

FEDERAL HOME LOAN BANK

Federal Home Loan Bank (FHLB) advances had weighted-average rates of 0.83% at June 30, 2016 and 0.72% at December 31, 2015. These borrowings are collateralized by investment securities and residential real estate loans up to 140% of outstanding debt.

JUNIOR SUBORDINATED DEBENTURES

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

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

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

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

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

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

SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are secured borrowings. The Company pledges investment securities to secure these borrowings. The fair value of securities pledged to secure repurchase agreements may decline. The Company has pledged securities valued at 118% of the gross outstanding balance of repurchase agreements at June 30, 2016 to manage this risk.

CAPITAL LEASE OBLIGATION

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

At June 30, 2016, the future minimum lease payments under the capital lease were as follows:

(dollars in thousands)	
2016 remaining	$ 267
2017	472
2018	410
2019	430
2020	430
Thereafter	8,406
Total minimum lease payments	10,415
Less amounts representing interest	6,289
Present value of net minimum lease payments	$ 4,126

NOTE 15 - EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

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

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

Old National contributed $19 thousand to cover benefit payments from the Restoration Plan during the six months ended June 30, 2016. Old National expects to contribute an additional $19 thousand to cover benefit payments from the Restoration Plan during the remainder of 2016.

The net periodic benefit cost and its components were as follows for the three and six months ended June 30:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Interest cost	**$ 440**	$ 415	**$ 880**	$ 830
Expected return on plan assets	**(442)**	(511)	**(885)**	(1,023)
Recognized actuarial loss	**494**	531	**988**	1,062
Settlement loss	**235**	196	**441**	402
Net periodic benefit cost	**$ 727**	$ 631	**$ 1,424**	$ 1,271

In March 2016, we sent to participants and beneficiaries a Notice of Intent to Terminate the Employee Retirement Plan effective May 15, 2016. The complete distribution of the trust fund during the fourth quarter of 2016 is expected to result in a pre-tax charge of $11 million to $13 million and relieve Old National of all future obligations and expense.

NOTE 16 - STOCK-BASED COMPENSATION

At June 30, 2016, Old National had 4.9 million shares remaining available for issuance under the Company s Amended and Restated 2008 Incentive Compensation Plan. The granting of awards to key employees is typically in the form of restricted stock awards or units.

Restricted Stock Awards

The Company granted 172 thousand time-based restricted stock awards to certain key officers and assumed 173 thousand time-based restricted stock awards in conjunction with the acquisition of Anchor during the six months ended June 30, 2016, with shares vesting over a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of June 30, 2016, unrecognized compensation expense was estimated to be $6.0 million for unvested restricted stock awards.

Old National recorded expense of $0.9 million, net of tax, during the six months ended June 30, 2016, compared to $0.5 million, net of tax, during the six months ended June 30, 2015 related to the vesting of restricted stock awards.

Restricted Stock Units

The Company granted 276 thousand shares of performance based restricted stock units to certain key officers during the six months ended June 30, 2016, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. For certain awards, the level of performance could increase or decrease the percentage of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. As of June 30, 2016, unrecognized compensation expense was estimated to be $4.4 million.

Old National recorded stock based compensation expense, net of tax, related to restricted stock units of $1.2 million during the six months ended June 30, 2016, compared to $0.8 million during the six months ended June 30, 2015.

Stock Options

Old National has not granted stock options since 2009. However, Old National did acquire stock options through prior year acquisitions. Old National did not record any stock based compensation expense related to these stock options during the six months ended June 30, 2016 or 2015.

Stock Appreciation Rights

Old National has never granted stock appreciation rights. However, Old National did acquire stock appreciation rights through a prior year acquisition. Old National did not record any incremental expense associated with the conversion of these stock appreciation rights during the six months ended June 30, 2016 or 2015. At June 30, 2016, 81 thousand stock appreciation rights remained outstanding.

NOTE 17 - INCOME TAXES

Following is a summary of the major items comprising the differences in taxes from continuing operations computed at the federal statutory rate and as recorded in the consolidated statements of income for the three and six months ended June 30:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Provision at statutory rate of 35%	**$ 24,477**	$ 12,290	**$ 37,304**	$ 22,836
Tax-exempt income	**(4,233)**	(3,930)	**(8,401)**	(7,783)

State income taxes	**2,064**	520	**2,647**	1,796
Interim period effective rate adjustment	**(37)**	314	**(185)**	1,821
ONB Insurance Group, Inc. nondeductible goodwill	**8,305**		**8,305**	
Other, net	**236**	(235)	**813**	(486)
Income tax expense	**$ 30,812**	$ 8,959	**$ 40,483**	$ 18,184
Effective tax rate	**44.1%**	25.5%	**38.0%**	27.9%

In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at June 30, 2016 and 2015 based on the current estimate of the effective annual rate.

The higher effective tax rate during the three and six months ended June 30, 2016 when compared to the three and six months ended June 30, 2015 is the result of an increase in pretax book income, primarily due to the sale of ONB Insurance Group, Inc. in May 2016, as well as additional tax expense of $8.3 million to record a deferred tax liability relating to ONB Insurance Group, Inc. s nondeductible goodwill.

Unrecognized Tax Benefits

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

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

(dollars in thousands)	**2016**	**2015**
Balance at January 1,	**$ 124**	$ 77
Additions based on tax positions related to the current year	**58**	27
Additions based on tax positions related to prior years	**584**	
Balance at June 30,	**$ 766**	$ 104

If recognized, approximately $0.8 million of unrecognized tax benefits, net of interest, would favorably affect the effective income tax rate in future periods.

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Net Deferred Tax Assets

Significant components of net deferred tax assets (liabilities) were as follows at June 30, 2016 and December 31, 2015:

(dollars in thousands)	June 30, 2016	December 31, 2015
Deferred Tax Assets		
Allowance for loan losses, net of recapture	**$ 17,838**	$ 17,125
Benefit plan accruals	**19,418**	18,066
AMT credit	**17,152**	18,378
Unrealized losses on benefit plans	**3,964**	4,507
Net operating loss carryforwards	**66,923**	2,041
Premises and equipment	**7,301**	12,735
Federal tax credits	**35**	422
Other-than-temporary impairment	**3,620**	3,558
Acquired loans	**54,000**	34,870
Lease exit obligation	**2,818**	2,626
Unrealized losses on available-for-sale investment securities		3,002
Unrealized losses on held-to-maturity investment securities	**7,406**	7,724
Unrealized losses on hedges	**10,532**	5,685
Other real estate owned	**3,272**	
Other, net	**2,550**	4,914
Total deferred tax assets	**216,829**	135,653
Deferred Tax Liabilities		
Accretion on investment securities	**(649)**	(599)
Other real estate owned		(284)
Purchase accounting	**(18,291)**	(16,615)
FDIC indemnification asset		(2,565)
Loan servicing rights	**(9,674)**	(3,890)
Unrealized losses on available-for-sale investment securities	**(7,052)**	
Other, net	**(1,715)**	(1,716)
Total deferred tax liabilities	**(37,381)**	(25,669)
Net deferred tax assets	**$ 179,448**	$ 109,984

Net deferred tax assets increased $69.5 million since December 31, 2015 primarily due to the acquisition of Anchor. Net deferred tax assets acquired from Anchor totaled $98.2 million, consisting primarily of deferred tax assets related to federal and state net operating loss carryforwards and acquired loans. Offsetting the increases in net deferred tax assets were reversals of $28.8 million since December 31, 2015, comprised primarily of pre-acquisition book and tax differences.

Through the acquisition of Anchor in the second quarter of 2016 and Lafayette Savings Bank in the fourth quarter of 2014, both former thrifts, Old National Bank s retained earnings at June 30, 2016 include base-year bad debt reserves, created for tax purposes prior to 1988, totaling $52.8 million. Of this total, $50.9 million was acquired from Anchor, and $1.9 million was acquired from Lafayette Savings Bank. Base-year reserves are subject to recapture in the unlikely event that Old National Bank (1) makes distributions in excess of current and accumulated earnings and profits, as calculated for federal income tax purposes, (2) redeems its stock, or (3) liquidates. Old National Bank has no intention of making such a nondividend distribution. Accordingly, under current accounting principles, a related deferred income tax liability of $19.8 million has not been recognized.

No valuation allowance was recorded at June 30, 2016 or 2015 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 $162.9 million at June 30, 2016 and $1.3 million at December 31, 2015. This federal net operating loss was acquired from the acquisitions of IBT in 2012 and Anchor in 2016. If not used, the federal net operating loss carryforwards will begin to expire in 2027. Old National has alternative minimum tax credit carryforwards totaling $17.2 million at June 30, 2016 and $18.4 million at December 31, 2015. The

alternative minimum tax credit carryforward does not expire. Old National has state net operating loss carryforwards totaling $206.5 million at June 30, 2016 and $46.3 million at December 31, 2015. If not used, the state net operating loss carryforwards will begin to expire in 2023.

NOTE 18 - DERIVATIVE FINANCIAL INSTRUMENTS

As part of our overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, caps and floors. The notional amount of these derivative instruments was $661.5 million at June 30, 2016 and $761.5 million at December 31, 2015. The June 30, 2016 balances consist of $36.5 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances and $625.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances. During the first quarter of 2016, $50.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain commercial loans was terminated resulting in an immaterial gain. During the second quarter of 2016, $100.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances matured. The December 31, 2015 balances consist of consist of $36.5 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, $675.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances and $50.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its commercial loans. These hedges were entered into to manage interest rate risk. Derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

In addition, commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. At June 30, 2016, the notional amount of the interest rate lock commitments was $106.3 million and forward commitments were $123.6 million. At December 31, 2015, the notional amount of the interest rate lock commitments was $30.4 million and forward commitments were $33.3 million. It is our practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitment to fund the loans.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $569.3 million and $569.3 million, respectively, at June 30, 2016. At December 31, 2015, the notional amounts of the customer derivative instruments and the offsetting counterparty derivative instruments were $428.4 million and $428.4 million, respectively. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps and collars. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

Amounts reported in AOCI related to cash flow hedges will be reclassified to interest income or interest expense as interest payments are received or paid on the Company s derivative instruments. During the next 12 months, the Company estimates that $0.3 million will be reclassified to interest income and $8.6 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:

	June 30, 2016		December 31, 2015	
(dollars in thousands)	Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Derivatives designated as hedging instruments				
Interest rate contracts	**$ 5,134**	**$ 28,540**	$ 3,794	$ 15,554
Total derivatives designated as hedging instruments	**$ 5,134**	**$ 28,540**	$ 3,794	$ 15,554
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 28,169**	**$ 28,371**	$ 11,296	$ 11,414
Mortgage contracts	**2,906**	**1,129**	835	
Total derivatives not designated as hedging instruments	**$ 31,075**	**$ 29,500**	$ 12,131	$ 11,414
Total	**$ 36,209**	**$ 58,040**	$ 15,925	$ 26,968

The effect of derivative instruments on the consolidated statements of income for the three and six months ended June 30, 2016 and 2015 are as follows:

(dollars in thousands)		Three Months Ended June 30, 2016	2015
Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
Interest rate contracts (1)	Interest income / (expense)	**$ (1,310)**	$ (212)
Interest rate contracts (2)	Other income / (expense)	**50**	23
Total		**$ (1,260)**	$ (189)
Derivatives in Cash Flow Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ 81**	$ 167
Total		**$ 81**	$ 167
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)	**$ (81)**	$ 19
Mortgage contracts	Mortgage banking revenue	**(35)**	362
Total		**$ (116)**	$ 381

(dollars in thousands)		Six Months Ended June 30, 2016	2015
Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
Interest rate contracts (1)	Interest income / (expense)	**$ (2,352)**	$ (189)

Interest rate contracts (2)	Other income / (expense)	**101**	82
Total		**$ (2,251)**	$ (107)

Derivatives in Cash Flow Hedging Relationships	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Amount of Gain or (Loss) Recognized in Income on Derivative**	
Interest rate contracts (1)	Interest income / (expense)	**$ 167**	$ 333
Total		**$ 167**	$ 333

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)	**$ (84)**	$ 19
Mortgage contracts	Mortgage banking revenue	**425**	1,150
Total		**$ 341**	$ 1,169

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

NOTE 19 - COMMITMENTS AND CONTINGENCIES

LITIGATION

In the normal course of business, Old National Bancorp and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions may 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. On April 5, 2016, Old National entered into a settlement agreement with plaintiffs providing for a cash payment from Old National in the amount of $4,750,000 in exchange for a full release and dismissal of plaintiffs complaint. By entering into the settlement agreement, Old National did not admit any liability with respect to the lawsuit. The settlement amount was accrued for in the December 31, 2015 financial statements.

On April 14, 2016, the Circuit Court preliminarily approved the settlement agreement, entered an order authorizing notice of the settlement to the class participants. On June 13, 2016, the Circuit Court entered its Final Judgment and Final Order approving the class action settlement and dismissed, in its entirety, the class action lawsuit against Old National with prejudice. No other material litigation is currently pending.

LEASES

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

Old National had deferred gains remaining associated with prior sale leaseback transactions totaling $35.8 million as of June 30, 2016 and $40.7 million as of December 31, 2015. The gains are being recognized over the remaining term of the leases. The leases had original terms ranging from five to twenty-four years. New accounting guidance has been issued for leases, and it is probable that this accounting treatment will change in the future.

CREDIT-RELATED FINANCIAL INSTRUMENTS

In the normal course of business, Old National s banking affiliates have entered into various agreements to extend credit, including loan commitments of $2.251 billion and standby letters of credit of $61.6 million at June 30, 2016. At June 30, 2016, approximately $2.136 billion of the loan commitments had fixed rates and $115.8 million had

floating rates, with the floating interest rates ranging from 0% to 25%. At December 31, 2015, loan commitments totaled $1.746 billion and standby letters of credit totaled $62.6 million. These commitments are not reflected in the consolidated financial statements. The allowance for unfunded loan commitments totaled $4.4 million at June 30, 2016 and $3.6 million at December 31, 2015.

Old National had credit extensions with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National s clients totaling $13.8 million at June 30, 2016 and $14.5 million at December 31, 2015. Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $12.9 million at June 30, 2016 and $13.6 million December 31, 2015. Old National did not provide collateral for the remaining credit extensions.

NOTE 20 - FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires the Company to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At June 30, 2016, the notional amount of standby letters of credit was $61.6 million, which represented the maximum amount of future funding requirements, and the carrying value was $0.4 million. At December 31, 2015, the notional amount of standby letters of credit was $62.6 million, which represented the maximum amount of future funding requirements, and the carrying value was $0.4 million.

Old National entered into a risk participation in an interest rate swap during the second quarter of 2007, which had a notional amount of $7.2 million at June 30, 2016. Old National entered into an additional risk participation in an interest rate swap during the third quarter of 2014, which had a notional amount of $10.9 million at June 30, 2016.

NOTE 21 SEGMENT INFORMATION

During the second quarter of 2016, Old National sold its insurance operations, ONB Insurance Group, Inc. During the year ended December 31, 2015, the insurance segment s net income was $2.1 million and its assets totaled $61.8 million at December 31, 2015. In conjunction with the divestiture, Old National re-evaluated its business segments.

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Old National Bank, Old National s bank subsidiary, is the only significant subsidiary upon which management makes decisions regarding how to allocate resources and assess performance. Each of the branches of Old National Bank provide a group of similar community banking services, including such products and services as commercial, real estate and consumer loans, time deposits, checking and savings accounts, cash management, brokerage, trust, and investment advisory services. The individual bank branches located throughout our Midwest footprint have similar operating and economic characteristics. While the chief decision maker monitors the revenue streams of the various products, services, and regional locations, operations are managed and financial performance is evaluated on a Company-wide basis. Accordingly, all of the community banking services and branch locations are considered by management to be aggregated into one reportable operating segment, community banking.

NOTE 22 FAIR VALUE

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

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

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

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

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 June 30, 2016 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Trading securities	**$ 4,838**	**$ 4,838**	**$**	**$**
Investment securities available-for-sale:				
U.S. Treasury	**12,269**	**12,269**		
U.S. government-sponsored entities and agencies	**540,775**		**540,775**	
Mortgage-backed securities - Agency	**1,336,605**		**1,336,605**	
States and political subdivisions	**417,163**		**417,163**	
Pooled trust preferred securities	**6,720**			**6,720**
Other securities	**335,369**	**32,139**	**303,230**	
Residential loans held for sale	**44,422**		**44,422**	
Derivative assets	**36,209**		**36,209**	
Financial Liabilities				
Derivative liabilities	**58,040**		**58,040**	

		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

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 six months ended June 30, 2016:

(dollars in thousands)	**Pooled Trust Preferred Securities Available-for-Sale**
Balance at January 1, 2016	**$ 7,900**
Accretion of discount	**9**
Sales/payments received	**(270)**
Decrease in fair value of securities	**(919)**
Balance at June 30, 2016	**$ 6,720**

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The accretion of discounts on securities totaling $9 thousand for the six months ended June 30, 2016 is included in interest income. 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 (included in shareholders equity), and an increase 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 six months ended June 30, 2015:

(dollars in thousands)	Pooled Trust Preferred Securities Available-for-Sale	State and Political Subdivisions
Balance at January 1, 2015	$ 6,607	$ 325
Accretion of discount	9	
Sales/payments received	(514)	
Matured securities		(325)
Increase in fair value of securities	994	
Balance at June 30, 2015	$ 7,096	$

The accretion of discounts on securities totaling $9 thousand for the six months ended June 30, 2015 is included in interest income. The increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for-sale, an increase in accumulated other comprehensive income (included in shareholders equity), and a decrease in other assets related to the tax impact.

The tables below provides quantitative information about significant unobservable inputs used in fair value measurements within Level 3 of the fair value hierarchy as of June 30, 2016 and December 31, 2015:

(dollars in thousands)	Fair Value at June 30, 2016	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Pooled trust preferred securities	$ 6,720	Discounted cash flow	Constant prepayment rate (a)	0.00%
			Additional asset defaults (b)	3.3% - 4.4%(4.1%)
			Expected asset recoveries (c)	0.0% - 9.8%(2.7%)

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

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

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

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

Assets measured at fair value on a non-recurring basis at June 30, 2016 are summarized below:

		Fair Value Measurements at June 30, 2016 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans				
Commercial loans	**$ 11,218**	$	$	**$ 11,218**
Commercial real estate loans	**15,064**			**15,064**
Foreclosed Assets				
Commercial real estate	**1,263**			**1,263**
Residential	**296**			**296**

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 $37.7 million, with a valuation allowance of $11.4 million at June 30, 2016. Old National recorded provision expense associated with these loans totaling $1.5 million for the three months ended June 30, 2016 and $3.7 million for the six months ended June 30, 2016. Old National recorded provision expense associated with impaired commercial and commercial real estate loans that were deemed collateral dependent totaling $2.8 million for the three months ended June 30, 2015 and $7.6 million for the six months ended June 30, 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 $1.6 million at June 30, 2016. The estimates of fair value are based on the most recently available appraisals with certain adjustments made based on the type of property, age of appraisal, current status of the property, and other related factors to estimate the current value of the collateral. There were write-downs of other real estate owned of $1.8 million for the three months ended June 30, 2016 and $2.2 for the six months ended June 30, 2016. There were write-downs of other real estate owned of $0.4 million for the three months ended June 30, 2015 and $1.5 for the six months ended June 30, 2015.

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

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

Commercial real estate loans	11,857	11,857
Foreclosed Assets		
Commercial real estate	2,526	2,526
Residential	203	203

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

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

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

(dollars in thousands)	Fair Value at June 30, 2016	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Collateral Dependent Impaired Loans				
Commercial loans	$ 11,218	Fair value of collateral	Discount for type of property, age of appraisal, and current status	0% - 98% (47%)
Commercial real estate loans	15,064	Fair value of collateral	Discount for type of property, age of appraisal and current status	10% - 51% (35%)
Foreclosed Assets				
Commercial real estate	1,263	Fair value of collateral	Discount for type of property, age of appraisal, and current status	0% - 58% (23%)
Residential	296	Fair value of collateral	Discount for type of property, age of appraisal, and current status	7% - 47% (31%)

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

Financial instruments recorded using fair value option

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

We have elected the fair value option for residential loans held for sale. For these loans, interest income is recorded in the consolidated statements of income based on the contractual amount of interest income earned on the financial assets (except any that are on nonaccrual status). None of these loans are 90 days or more past due, nor are any on nonaccrual status. Included in the income statement is interest income for loans held for sale totaling $26 thousand for the three months ended June 30, 2016 and $48 thousand for the six months ended June 30, 2016. Included in the income statement is interest income for loans held for sale totaling $45 thousand for the three months ended June 30, 2015 and $84 thousand for the six months ended June 30, 2015.

Residential loans held for sale

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

The difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected as of June 30, 2016 and December 31, 2015 is as follows:

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
June 30, 2016			
Residential loans held for sale	**$ 44,422**	**$ 1,453**	**$ 42,969**
December 31, 2015			
Residential loans held for sale	$ 13,810	$ 236	$ 13,574

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

The following table presents the amount of gains and losses from fair value changes included in income before income taxes for financial assets carried at fair value for the three and six months ended June 30:

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Three months ended June 30, 2016				
Residential loans held for sale	**$ 846**	**$ 1**	**$**	**$ 847**
Three months ended June 30, 2015				
Residential loans held for sale	$ (430)	$ 1	$	$ (429)
Six months ended June 30, 2016				
Residential loans held for sale	**$ 1,218**	**$**	**$**	**$ 1,218**
Six months ended June 30, 2015				
Residential loans held for sale	$ (213)	$ 1	$	$ (212)

The carrying amounts and estimated fair values of financial instruments, not previously presented in this note, at June 30, 2016 and December 31, 2015 are as follows:

		Fair Value Measurements at June 30, 2016 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash, due from banks, federal funds sold, and money market investments	$ 267,920	$ 267,920	$	$
Investment securities held-to-maturity:				
U.S. government-sponsored entities and agencies	141,220		143,148	
Mortgage-backed securities - Agency	13,200		13,723	
State and political subdivisions	711,537		782,984	
Federal Home Loan Bank/Federal Reserve Bank stock	90,742	N/A	N/A	N/A
Loans, net:				
Commercial	1,869,544			1,978,864
Commercial real estate	2,925,317			3,215,841
Residential real estate	2,098,311			2,354,067
Consumer credit	1,885,182			2,062,010
Accrued interest receivable	79,536	29	23,155	56,352
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 2,883,917	$ 2,883,917	$	$
NOW, savings, and money market deposits	6,088,664	6,088,664		
Time deposits	1,479,021		1,484,973	
Short-term borrowings:				
Federal funds purchased	263,536	263,536		
Repurchase agreements	304,123	304,123		
Other borrowings:				
Senior unsecured bank notes	173,740		186,383	
Junior subordinated debentures	40,790		32,984	
Repurchase agreements	50,000		51,203	
Federal Home Loan Bank advances	1,099,240			1,110,405
Capital lease obligation	4,126		4,963	
Accrued interest payable	6		6	
Standby letters of credit	361			361
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$	$	$	$ 4,507

N/A = not applicable

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

N/A = not applicable

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

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

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

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

Loans: 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 was not contractually embedded in the assets and was not transferable with the assets should we have chosen 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 were updated with the cash flow estimates on covered assets. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursement from the FDIC (Level 3).

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

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

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

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

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

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

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

The following discussion is an analysis of our results of operations for the three and six months ended June 30, 2016 and 2015, and financial condition as of June 30, 2016, compared to June 30, 2015 and December 31, 2015. This discussion and analysis should be read in conjunction with the consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business that are based on estimates and involves certain risks and uncertainties. Therefore, future results could differ significantly from our current expectations and the related forward-looking statements.

EXECUTIVE SUMMARY

During the second quarter of 2016, net income was $39.1 million, or $0.31 per diluted share. This compares to $26.2 million, or $0.22 per diluted share reported in the second quarter of 2015.

We completed our previously announced acquisition of Anchor BanCorp Wisconsin Inc. (Anchor) during the second quarter of 2016, increasing our asset size by $2.166 billion and representing our entry into the demographically attractive Wisconsin markets of Madison, Fox Valley, and Milwaukee. Acquisition and integration charges of $7.2 million were recorded during the quarter.

In addition, we finalized the sale of Old National Insurance (ONI) to Prime Risk Partners receiving $91.8 million in cash and recognizing an after-tax gain of $17.6 million. The second quarter of 2016 also marked the end of our loss share agreements with the FDIC, resulting in a nominal gain.

Management s primary focus, however, remains basic banking loan growth, fee income, and expense management:

Loan Growth: Our loan balances, excluding loans held for sale, grew $1.823 billion to $8.830 billion at June 30, 2016 compared to $7.007 billion at the end of the first quarter. This loan growth was attributable to the $1.637 billion loans acquired from Anchor in addition to $186.5 million of organic loan growth during the quarter. Our new Wisconsin region produced $38.9 million of new loans from the May 1, 2016, acquisition date to the end of the quarter, representing annualized growth of 14.2%. We are encouraged by the level of loan demand experienced in the first half of 2016, and our sales teams remain energized and committed to building new relationships throughout our entire footprint.

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

Expenses: Consistent with our expense management strategy, Old National notified participants and beneficiaries of our intent to terminate the Employee Retirement Plan, which has been frozen since 2005. The complete distribution of the trust fund during the fourth quarter of 2016 is expected to result in a pre-tax charge of $11 million to $13 million and relieve Old National of all future obligations and expense. In addition, the first half of 2016 benefitted from the early retirement program and branch rationalization projects completed during 2015. We will continue to monitor our service and delivery network.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		%	Six Months Ended June 30,		%
(dollars in thousands)	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Income Statement Summary:						
Net interest income	**$ 99,340**	$ 92,097	7.9%	**$ 184,983**	$ 183,090	1.0%
Provision for loan losses	**1,319**	2,271	(41.9)	**1,410**	2,272	(37.9)
Noninterest income	**93,385**	54,979	69.9	**142,836**	110,274	29.5
Noninterest expense	**121,472**	109,690	10.7	**219,827**	225,846	(2.7)
Other Data:						
Return on average common equity	**9.22%**	7.11%		**8.26%**	6.33%	
Efficiency ratio (1)	**60.22**	70.52		**63.76**	73.36	
Tier 1 leverage ratio	**8.86**	8.20		**8.86**	8.20	
Net charge-offs/(recoveries) to average loans	**0.01**	0.06		**0.05**	0.00	

(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.

Net Interest Income

Net interest income is the most significant component of our earnings, comprising 56% of revenues for the six months ended June 30, 2016. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources, and interest rate fluctuations. Other factors include the level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets, and the composition and maturity of earning assets and interest-bearing liabilities. Loans typically generate more interest income than investment securities with similar maturities. Funding from client deposits generally costs less than wholesale funding sources. Factors such as general economic activity, Federal Reserve Board monetary policy, and price volatility of competing alternative investments, can also exert significant influence on our ability to optimize the mix of assets and funding and the net interest income and margin.

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

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(dollars in thousands)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Net interest income	**$ 99,340**	$ 92,097	**$ 184,983**	$ 183,090
Conversion to fully taxable equivalent	**5,267**	4,757	**10,467**	9,415
Net interest income - taxable equivalent basis	**$ 104,607**	$ 96,854	**$ 195,450**	$ 192,505
Average earning assets	**$ 11,726,383**	$ 10,325,938	**$ 11,028,706**	$ 10,335,997
Net interest margin	**3.39%**	3.57%	**3.35%**	3.54%
Net interest margin - taxable equivalent basis	**3.57%**	3.75%	**3.54%**	3.72%

Net interest income for the three and six months ended June 30, 2016 and 2015 includes accretion income (interest income in excess of contractual interest income) associated with acquired loans. Excluding this accretion income, net interest income on a fully taxable equivalent basis would have been $90.4 million for the three months ended June 30, 2016 and $170.0 million for the six months ended June 30, 2016, compared to $81.3 million for the three months ended June 30, 2015 and $162.4 million for the six months ended June 30, 2016; and the net interest margin on a fully taxable equivalent basis would have been 3.08% for the three and six months ended June 30, 2016, compared to 3.15% for the three months ended June 30, 2015 and 3.14% for the six months ended June 30, 2015.

The increase in net interest income for the three and six months ended June 30, 2016 when compared to the same periods in 2015 was primarily due to increases in average earning assets of $1.400 billion in the three months ended June 30, 2016 and $692.7 million in the six months ended June 30, 2016 when compared to the same periods in 2015. Partially offsetting the higher average earning assets were decreases in accretion income of $1.4 million in the three months ended June 30, 2016 and $4.7 million in the six months ended June 30, 2016 when compared to the same periods in 2015 reflecting higher payoffs of purchased credit impaired loans in 2015 when compared to the six months ended June 30, 2016. We expect accretion income on these purchased credit impaired loans to decrease over time, but this may be offset by future acquisitions.

The decrease in the net interest margin for the three and six months ended June 30, 2016 when compared to the same periods in 2015 was primarily due to lower yields associated with decreased accretion income on acquired loans, lower interest rates on interest earning assets, higher costs of interest bearing liabilities, and a change in the mix of average interest earning assets and interest bearing liabilities. The yield on interest earning assets decreased 10 basis points and the cost of interest-bearing liabilities increased 8 basis points in the quarterly year-over-year comparison. The yield on interest earning assets is calculated by dividing annualized taxable equivalent net interest income by average interest earning assets while the cost of interest-bearing liabilities is calculated by dividing annualized interest expense by average interest-bearing liabilities. The yield on interest earning assets decreased 11 basis points and the cost of interest-bearing liabilities increased 10 basis points in the six months ended June 30, 2016 when compared to the six months ended June 30, 2015.

Average earning assets were $11.726 billion for the three months ended June 30, 2016, compared to $10.326 billion for the three months ended June 30, 2015, an increase of $1.400 billion, or 14%. Average earning assets were $11.029 billion for the six months ended June 30, 2016, compared to $10.336 billion for the six months ended June 30, 2015, an increase of $692.7 million, or 7%. The increases in average earning assets for the three and six months ended June 30, 2016 were primarily due to the acquisition of Anchor in May 2016. The loan portfolio including loans held for sale, which generally has an average yield higher than the investment portfolio, was approximately 69% of average interest earning assets for the six months ended June 30, 2016, compared to 67% for the six months ended June 30,

2015.

Average loans including loans held for sale increased $1.303 billion for the three months ended June 30, 2016 and $715.5 million for the six months ended June 30, 2016 when compared to the same periods in 2015 reflecting the Anchor acquisition, along with organic loan growth. These increases were partially offset by the sale of $193.6 million of loans associated with our branch divestitures during the third quarter of 2015.

Average investments increased $97.4 million for the three months ended June 30, 2016 and decreased $22.8 million for the six months ended June 30, 2016 when compared to the same periods in 2015. Average investments resulting from the Anchor acquisition totaled $158.3 million for the three months ended June 30, 2016 and $79.1 million for the six months ended June 30, 2016.

Average non-interest bearing deposits increased $209.7 million for the three months ended June 30, 2016 and $89.8 million for the six months ended June 30, 2016 when compared to the same periods in 2015 reflecting the Anchor acquisition. Average interest bearing deposits increased $762.0 million for the three months ended June 30, 2016 and $169.1 million for the six months ended June 30, 2016 when compared to the same periods in 2015 reflecting the Anchor acquisition. These increases were partially offset by a $555.8 million reduction associated with our branch divestitures during the third quarter of 2015.

Average borrowed funds increased $416.4 million for the three months ended June 30, 2016 and $432.7 million for the six months ended June 30, 2016 when compared to the same periods in 2015.

Provision for Loan Losses

The provision for loan losses was $1.3 million for the three months ended June 30, 2016, compared to $2.3 million for the three months ended June 30, 2015. Net charge-offs totaled $0.2 million during the three months ended June 30, 2016, compared to $1.0 million during the three months ended June 30, 2015. The provision for loan losses was $1.4 million for the six months ended June 30, 2016, compared to $2.3 million for the six months ended June 30, 2015. Net charge-offs totaled $1.8 million during the six months ended June 30, 2016, compared to net recoveries of $0.1 million during the six months ended June 30, 2015. Continued loan growth in future periods, increases in net charge-offs, or credit quality deterioration would result in additional provision expense.

Noninterest Income

We generate revenues in the form of noninterest income through client fees and sales commissions from our core banking franchise and other related businesses, such as wealth management, investment consulting, and investment products. Noninterest income for the three months ended June 30, 2016 was $93.4 million, an increase of $38.4 million, or 70%, compared to $55.0 million for the three months ended June 30, 2015. Noninterest income for the six months ended June 30, 2016 was $142.8 million, an increase of $32.6 million, or 30%, compared to $110.3 million for the six months ended June 30, 2015. The increases were primarily due to a pre-tax gain of $41.9 million resulting from the sale of ONB Insurance Group, Inc. (ONI) in May 2016 and noninterest income attributable to the Anchor acquisition. The increases in noninterest income were partially offset by lower debit card and ATM fees, service charges and overdraft fees, and insurance premiums and commissions.

Wealth management fees decreased $0.5 million for the six months ended June 30, 2016 when compared to the same period in 2015 reflecting lower personal trust fees and fiduciary account fees. Wealth management fees fluctuate in tandem with the fixed income and equities markets.

Service charges and overdraft fees were $10.4 million for the three months ended June 30, 2016, a $0.9 million decrease from $11.3 million for the three months ended June 30, 2015. Service charges and overdraft fees were $20.1 million for the six months ended June 30, 2016, a $2.2 million decrease from $22.3 million for the six months ended June 30, 2015. The decreases were primarily due to our divestiture of the southern Illinois region during the third quarter of 2015, partially offset by service charges and overdraft fees attributable to the Anchor acquisition.

Debit card and ATM fees decreased $2.6 million for the three months ended June 30, 2016 and $5.6 million for the six months ended June 30, 2016 when compared to the same periods in 2015 as the Durbin Amendment, which limits interchange fees on debit card transactions for banks with $10 billion or more in assets, became effective for us on

July 1, 2015. The decreases in debit card and ATM fees were partially offset by debit card and ATM fees attributable to the Anchor acquisition.

Insurance premiums and commissions decreased $3.1 million for the three months ended June 30, 2016 and $2.0 million for the six months ended June 30, 2016 when compared to the same periods in 2015 reflecting the sale of ONI in May 2016.

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In the second quarter of 2016, we recorded a $41.9 million pre-tax gain resulting from the sale of ONB Insurance Group, Inc. in May 2016. The after-tax gain related to the sale totaled $17.6 million.

Noninterest Income Related to Covered Assets

In 2011, Old National acquired the banking operations of Integra Bank N.A. in an FDIC-assisted transaction. The FDIC had 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 increased the basis of the indemnification asset. The offset for both OREO and loans was 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) decreased 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 was shorter.

Old National entered into an agreement with the FDIC on June 22, 2016 to terminate its loss share agreements. Under the early termination agreement, the FDIC made a final payment of $8.7 million to Old National as consideration for the early termination. After the elimination of the remaining FDIC indemnification asset and the payment of settlement charges, Old National realized a pre-tax gain of $0.2 million during the three months ended June 30, 2016. All remaining assets that were covered by the loss share arrangements were reclassified to noncovered assets effective June 22, 2016. All future gains and losses associated with covered assets will be recognized entirely by Old National.

Changes in the FDIC indemnification asset resulted in a positive adjustment to noninterest income of $0.9 million for the three months ended June 30, 2016, compared to a negative adjustment to noninterest income of $1.5 million for the three months ended June 30, 2015. Changes in the FDIC indemnification asset resulted in a positive adjustment to noninterest income of $0.2 million for the six months ended June 30, 2016, compared to a negative adjustment to noninterest income of $2.5 million for the six months ended June 30, 2015.

Noninterest Expense

Noninterest expense for the three months ended June 30, 2016 totaled $121.5 million, an increase of $11.8 million, or 11%, from $109.7 million for the three months ended June 30, 2015. The increase was primarily due to higher salaries and benefits, charitable contributions, professional fees, other real estate owned expenses, and marketing expenses. Operating expenses associated with the acquisition of Anchor totaled $11.4 million for the three months ended June 30, 2016. In addition, noninterest expense also included acquisition and integration costs associated with Anchor totaling $7.2 million. Noninterest expense for the three months ended June 30, 2015 included $1.5 million of acquisition and integration costs associated with prior acquisitions and $4.0 million of costs associated with branch divestitures, closures and consolidations.

Noninterest expense for the six months ended June 30, 2016 totaled $219.8 million, a decrease of $6.0 million, or 3%, from $225.8 million for the six months ended June 30, 2015. The decrease was primarily due to lower salaries and benefits, occupancy expenses, and equipment expenses. The decreases in noninterest expense were partially offset by higher charitable contributions, professional fees, and marketing expenses. Operating expenses associated with the acquisition of Anchor totaled $11.3 million for the six months ended June 30, 2016. In addition, noninterest expense also included acquisition and integration costs associated with Anchor totaling $8.7 million. Noninterest expense for the six months ended June 30, 2015 included $5.5 million of acquisition and integration costs associated with prior acquisitions and $6.6 million of costs associated with branch divestitures, closures and consolidations.

Salaries and benefits is the largest component of noninterest expense. For the three months ended June 30, 2016, salaries and benefits increased $3.5 million to $62.7 million when compared to $59.2 million for the three months

ended June 30, 2015. Salaries and benefits associated with the acquisition of Anchor totaled $9.5 million for the three months ended June 30, 2016. The increase in salaries and benefits for the three months ended June 30, 2016 was partially offset by lower salaries and benefits expenses resulting from the sale of ONI in May 2016, branch divestures and consolidations in the third quarter of 2015, and lower hospitalization expense of $0.2 million. Salaries and benefits for the six months ended June 30, 2016 totaled $119.7 million, a decrease of $9.2 million from

$128.9 million for the six months ended June 30, 2015. The decrease in salaries and benefits for the six months ended June 30, 2016 was primarily due to lower salaries and benefits expenses resulting from the sale of ONI in May 2016, branch divestures and consolidations in the third quarter of 2015, and lower hospitalization expense of $1.6 million. In addition, severance expense related to early retirement offers and other workforce reductions totaling $4.4 million were included in the six months ended June 30, 2015. The decrease in salaries and benefits for the six months ended June 30, 2016 was partially offset by salaries and benefits associated with the acquisition of Anchor totaling $9.5 million. In March 2016, we sent to participants and beneficiaries a Notice of Intent to Terminate the Employee Retirement Plan, which has been frozen since December 31, 2005. We expect to record an estimated settlement loss of approximately $11 million to $13 million in the fourth quarter of 2016.

Occupancy expenses decreased $0.6 million for the three months ended June 30, 2016 and $2.0 million for the six months ended June 30, 2016 when compared to the same periods in 2015 primarily due to branch divestures and consolidations in the third quarter of 2015. The decreases were partially offset by occupancy expenses attributable to the Anchor acquisition.

Professional fees increased $1.8 million for the three months ended June 30, 2016 and $2.0 million for the six months ended June 30, 2016 when compared to the same periods in 2015 primarily due additional expenses recorded in 2016 associated with the Anchor acquisition.

Other expense was $10.2 million for the three months ended June 30, 2016, compared to $7.5 million for the three months ended June 30, 2015. Other expense was $14.1 million for the six months ended June 30, 2016, compared to $12.9 million for the six months ended June 30, 2015. The increases reflected higher charitable contributions of $3.6 million for the three months ended June 30, 2016 and $2.9 million for the six months ended June 30, 2016, higher provision for unfunded commitments of $2.2 million for the six months ended June 30, 2016, and other expenses associated with the Anchor acquisition of $1.5 million for the three and six months ended June 30, 2016. Offsetting these increases were decreases in costs associated with branch divestitures, closures, and consolidations primarily due to asset impairments and lease termination settlements totaling $3.4 million for the three months ended June 30, 2015 and $5.3 million for the six months ended June 30, 2015.

Provision for Income Taxes

We record a provision for income taxes currently payable and for income taxes payable or benefits to be received in the future, which arise due to timing differences in the recognition of certain items for financial statement and income tax purposes. The major difference between the effective tax rate applied to our financial statement income and the federal statutory tax rate is caused by interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 44.1% for the three months ended June 30, 2016, compared to 25.5% for the three months ended June 30, 2015. The provision for income taxes, as a percentage of pre-tax income, was 38.0% for the six months ended June 30, 2016, compared to 27.9% for the six months ended June 30, 2015. In accordance with ASC 740-270, Accounting for Interim Reporting, the provision for income taxes was recorded at June 30, 2016 based on the current estimate of the effective annual rate. The higher effective tax rate during the three and six months ended June 30, 2016 when compared to the three and six months ended June 30, 2015 is the result of an increase in pretax book income, primarily due to the sale of ONB Insurance Group, Inc. in May 2016, as well as additional tax expense of $8.3 million to record a deferred tax liability relating to ONB Insurance Group, Inc. s nondeductible goodwill. See Note 17 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

Overview

At June 30, 2016, our assets were $14.420 billion, a $2.346 billion increase compared to assets of $12.074 billion at June 30, 2015, and a $2.429 billion increase compared to assets of $11.992 billion at December 31, 2015. The increases were primarily due to the acquisition of Anchor in May 2016, which had $2.166 billion in assets as of the closing date of the acquisition.

Earning Assets

Our earning assets are comprised of investment securities, portfolio loans, loans held for sale, money market investments, interest earning accounts with the Federal Reserve, and trading securities. Earning assets were $12.547 billion at June 30, 2016, a $2.076 billion increase compared to earning assets of $10.471 billion at June 30, 2015, and a $2.076 billion increase compared to earning assets of $10.471 billion at December 31, 2015.

Investment Securities

We classify the majority of our investment securities as available-for-sale to give management the flexibility to sell the securities prior to maturity if needed, based on fluctuating interest rates or changes in our funding requirements. However, we also have $13.2 million of 15- and 20-year fixed-rate mortgage-backed securities, $141.2 million of U.S. government-sponsored entity and agency securities, and $711.5 million of state and political subdivision securities in our held-to-maturity investment portfolio at June 30, 2016.

Trading securities, which consist of mutual funds held in trusts associated with deferred compensation plans for former directors and executives, are recorded at fair value and totaled $4.8 million at June 30, 2016 compared to $4.0 million at June 30, 2015.

At June 30, 2016, the investment securities portfolio was $3.610 billion compared to $3.471 billion at June 30, 2015, an increase of $139.0 million, or 4.0%. Investment securities increased $230.0 million, or 7%, compared to December 31, 2015. Investment securities represented 29% of earning assets at June 30, 2016, compared to 33% at June 30, 2015, and 32% at December 31, 2015. Investment securities attributable to the Anchor acquisition totaled $239.8 million as of the closing date of the acquisition. 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 June 30, 2016, Old National does not intend to sell any securities in an unrealized loss position and does not believe it will be required to sell such securities.

The investment securities available-for-sale portfolio had net unrealized gains of $21.7 million at June 30, 2016, compared to net unrealized losses of $12.4 million at June 30, 2015, and net unrealized losses of $5.8 million at December 31, 2015. Net unrealized gains (losses) improved from December 31, 2015 to June 30, 2016 due to a decline in interest rates and a change in the mix of investment securities.

The investment portfolio had an effective duration of 3.59 at June 30, 2016, compared to 4.23 at June 30, 2015, and 3.99 at December 31, 2015. Effective duration measures the percentage change in value of the portfolio in response to a change in interest rates. Generally, there is more uncertainty in interest rates over a longer average maturity, resulting in a higher duration percentage. The annualized average yields on investment securities, on a taxable equivalent basis, were 2.80% for the three months ended June 30, 2016 and 2015, and 2.87% for the three months ended December 31, 2015. The annualized average yields on investment securities, on a taxable equivalent basis, were 2.87% for the six months ended June 30, 2016, compared to 2.77% for the six months ended June 30, 2015, and 2.82% for the year ended December 31, 2015.

Loans Held for Sale

Loans held for sale were $44.4 million at June 30, 2016, compared to $217.7 million at June 30, 2015 and $13.8 million at December 31, 2015. Included in loans held for sale at June 30, 2016 were $44.4 million of mortgage loans held for immediate sale in the secondary market. Included in loans held for sale at June 30, 2015 were $197.4 million of loans identified to be sold in connection with the southern Illinois and eastern Indiana branch divestitures, and $20.3 million of mortgage loans held for immediate sale in the secondary market. The mortgage loans are sold at or

prior to origination at a contracted price to an outside investor on a best efforts basis and remain on the Company s balance sheet for a short period of time (typically 30 to 60 days). These loans are sold without recourse and Old National has experienced no material losses. Mortgage originations are subject to volatility due to interest rates and home sales.

We have elected the fair value option under FASB ASC 825-10 (SFAS No. 159) for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balance by $1.5 million as of June 30, 2016 and $0.2 million as of June 30, 2015. The aggregate fair value exceeded the unpaid principal balance by $0.2 million as of December 31, 2015.

During the fourth quarter of 2014, $197.9 million of loans were reclassified to loans held for sale at the lower of cost or fair value. When the branch divestitures closed during the third quarter of 2015, these loans were valued at $193.6 million, resulting in a gain of $0.1 million. At June 30, 2016, there were no loans held for sale under this arrangement. See Note 3 to the consolidated financial statements for additional information.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans are the largest classification within earning assets, representing 39% of earning assets at June 30, 2016, compared to 34% at June 30, 2015, and 35% at December 31, 2015. At June 30, 2016, commercial and commercial real estate loans were $4.837 billion, an increase of $1.242 billion, or 35%, compared to June 30, 2015, and an increase of $1.153 billion, or 31%, compared to December 31, 2015. Commercial and commercial real estate loans attributable to the Anchor acquisition totaled $967.4 million as of the closing date of the acquisition.

Residential Real Estate Loans

At June 30, 2016, residential real estate loans held in our loan portfolio were $2.100 billion, an increase of $457.7 million, or 28%, compared to June 30, 2015, and an increase of $438.4 million, or 26%, compared to December 31, 2015. Residential real estate loans attributable to the Anchor acquisition totaled $456.1 million as of the closing date of the acquisition.

Consumer Loans

At June 30, 2016, consumer loans, including automobile loans and personal and home equity loans and lines of credit, increased $364.4 million, or 24%, compared to June 30, 2015, and increased $290.0 million, or 18%, from December 31, 2015. Consumer loans attributable to the Anchor acquisition totaled $213.0 million as of the closing date of the acquisition.

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 comprised the majority of the assets acquired and were subject to loss share agreements with the FDIC whereby Old National was 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.

Old National entered into an agreement with the FDIC on June 22, 2016 to terminate its loss share agreements. Under the early termination agreement, the FDIC made a final payment of $8.7 million to Old National as consideration for the early termination. After the elimination of the remaining FDIC indemnification asset and the payment of settlement charges, Old National realized a pre-tax gain of $0.2 million during the three months ended June 30, 2016. All remaining assets that were covered by the loss share arrangements were reclassified to noncovered assets effective June 22, 2016. All future gains and losses associated with covered assets will be recognized entirely by Old National.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at June 30, 2016 totaled $699.8 million, an increase of $70.3 million compared to $629.5 million at June 30, 2015, and an increase of $79.8 million compared to $619.9 million at December 31, 2015. During the six months ended June 30, 2016, we recorded $133.5 million of goodwill and other intangible assets associated with the acquisition of Anchor. Also during the six months ended June 30, 2016, Old National eliminated

$47.5 million of goodwill and intangible assets associated with the sale of its insurance operations.

Net Deferred Tax Assets

Net deferred tax assets increased $51.8 million since June 30, 2015 and $69.5 million since December 31, 2015 primarily due to the acquisition of Anchor. Net deferred tax assets acquired from Anchor totaled $98.2 million, consisting primarily of deferred tax assets related to federal and state net operating loss carryforwards and acquired loans. Offsetting the increases in net deferred tax assets were reversals of $46.4 million and $28.8 million since June 30, 2015 and December 31, 2015, respectively, comprised primarily of pre-acquisition book and tax differences. See Note 17 to the consolidated financial statements for additional information.

Other Assets

Other assets increased $17.0 million, or 16%, since December 31, 2015 primarily due to fluctuations in the value of our derivative assets.

Funding

Total funding, comprised of deposits and wholesale borrowings, was $12.387 billion at June 30, 2016, an increase of $1.979 billion from $10.408 billion at June 30, 2015, and an increase of $2.066 million from $10.321 billion at December 31, 2015. Included in total funding were deposits of $10.452 billion at June 30, 2016, an increase of $1.642 billion, or 19%, compared to June 30, 2015, and an increase of $2.051 billion, or 24%, compared to December 31, 2015. Deposits attributable to the Anchor acquisition totaled $1.853 billion as of the closing date of the acquisition. Offsetting the increase in total deposits from June 30, 2015 to June 30, 2016 was a $555.8 million reduction associated with our branch divestitures during the third quarter of 2015. Noninterest-bearing deposits increased $326.3 million from June 30, 2015 to June 30, 2016. NOW deposits increased $243.1 million from June 30, 2015 to June 30, 2016, while savings deposits increased $263.4 million. Money market deposits increased $413.0 million from June 30, 2015 to June 30, 2016, while time deposits increased $396.2 million.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At June 30, 2016, wholesale borrowings, including short-term borrowings and other borrowings, totaled $1.936 billion, an increase of $337.2 million, or 21%, from June 30, 2015, and an increase of $15.3 million, or 1%, from December 31, 2015. Wholesale funding as a percentage of total funding was 16% at June 30, 2016, 15% at June 30, 2015, and 19% at December 31, 2015. The increase in wholesale funding from June 30, 2015 to June 30, 2016 was primarily due to an increase in Federal Home Loan Bank advances, which is reported in other borrowings.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities increased $42.7 million, or 24%, from December 31, 2015 primarily due to an increase in derivative liabilities and other liabilities attributable to the acquisition of Anchor.

Capital

Shareholders equity totaled $1.811 billion at June 30, 2016, compared to $1.457 billion at June 30, 2015 and $1.491 billion at December 31, 2015. Shareholders equity at June 30, 2016 included $273.6 million from the 20.4 million shares of common stock that were issued in conjunction with the acquisition of Anchor. The change in unrealized gains (losses) on investment securities increased equity by $17.6 million during the six months ended June 30, 2016. We paid cash dividends of $0.26 per share for the six months ended June 30, 2016, which reduced equity by $32.4 million.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. Beginning in 2015, we are reflecting the new Basel III requirements in the tables below. At June 30, 2016, Old National and its bank subsidiary exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory definition.

As of June 30, 2016, Old National s consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

	Fully Phased-In Regulatory Guidelines Minimum	June 30, 2016	June 30, 2015	December 31, 2015
Risk-based capital:				
Tier 1 capital to total average assets (leverage ratio)	4.00%	**8.86%**	8.20%	8.54%
Common equity Tier 1 capital to risk-adjusted total assets	7.00	**11.64**	11.16	12.11
Tier 1 capital to risk-adjusted total assets	8.50	**11.79**	11.56	12.55
Total capital to risk-adjusted total assets	10.50	**12.38**	12.21	13.28
Shareholders equity to assets	N/A	**12.56**	12.06	12.44

N/A = not applicable

As of June 30, 2016, Old National Bank, Old National s bank subsidiary, maintained a strong capital position as evidenced by the following comparisons of key industry ratios.

	Fully Phased-In Regulatory Guidelines Minimum	Well Capitalized Guidelines	June 30, 2016	June 30, 2015	December 31, 2015
Risk-based capital:					
Tier 1 capital to total average assets (leverage ratio)	4.00%	5.00%	**8.98%**	8.52%	9.11%
Common equity Tier 1 capital to risk-adjusted total assets	7.00	6.50	**11.89**	11.99	13.38
Tier 1 capital to risk-adjusted total assets	8.50	8.00	**11.89**	11.99	13.38
Total capital to risk-adjusted total assets	10.50	10.00	**12.48**	12.65	14.11

RISK MANAGEMENT

Overview

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

Credit Risk

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

Investment Activities

We carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At June 30, 2016, we had pooled trust preferred securities with a fair value of $6.7 million, or less than 1% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and at June 30, 2016, the unrealized loss on our pooled trust preferred securities was approximately $10.3 million. The fair value of these securities should improve as we get closer to maturity. There was no other-than-temporary-impairment recorded during the six months ended June 30, 2016 or 2015.

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

Counterparty Exposure

Counterparty exposure is the risk that the other party in a financial transaction will not fulfill its obligation. We define counterparty exposure as nonperformance risk in transactions involving federal funds sold and purchased, repurchase agreements, correspondent bank relationships, and derivative contracts with companies in the financial services industry. Old National manages exposure to counterparty risk in connection with its derivatives transactions by generally engaging in transactions with counterparties having ratings of at least A by Standard & Poor s Rating Service or A2 by Moody s Investors Service. Total credit exposure is monitored by counterparty, and managed within limits that management believes to be prudent. Old National s net counterparty exposure was an asset of $111.3 million at June 30, 2016.

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, Michigan, and Wisconsin. 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. In most cases, we require title insurance insuring the priority of our lien, fire, and extended coverage casualty insurance, and flood insurance, if appropriate, in order to protect our security interest in the underlying property. In addition, business interruption insurance or other insurance may be required.

Construction loans are underwritten against projected cash flows derived from rental income, business income from an owner-occupant, or the sale of the property to an end-user. We may mitigate the risks associated with these types of

loans by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements.

Consumer

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

We assumed student loans in the acquisition of Anchor in May 2016. As of June 30, 2016, student loans totaled $83.3 million and are guaranteed by the government on average from 97% to 100%.

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 June 30, 2016, we had no concentration of loans in any single industry exceeding 10% of our portfolio and had minimal exposure to foreign borrowers and no sovereign debt. Our policy is to concentrate our lending activity in the geographic market areas we serve, primarily Indiana, Kentucky, Michigan, and Wisconsin. 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. 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. Under the terms of the loss sharing agreements, the FDIC reimbursed Old National for 80% of losses up to $275.0 million. On June 22, 2016, Old National entered into an agreement with the FDIC that terminated its loss share agreements. As a result of the termination of the loss share agreements, the remaining assets that were covered by the loss share arrangements were reclassified to noncovered assets effective June 22, 2016.

On May 1, 2016, Old National closed on its acquisition of Anchor. As of the closing date of the acquisition, loans totaled $1.637 billion and other real estate owned totaled $18.2 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 June 30, 2016, $9.4 million met the definition of criticized and $39.3 million were considered classified (of which $35.0 million are reported with nonaccrual loans). Our current preference would be to work these loans and avoid foreclosure actions unless additional credit deterioration becomes apparent. These acquired impaired loans, along with $14.9 million of other real estate owned, are included in our summary of under-performing, criticized, and classified assets found below.

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

(dollars in thousands)	June 30, 2016	June 30, 2015	December 31, 2015
Nonaccrual loans:			
Commercial	**$ 54,554**	$ 70,665	$ 57,536
Commercial real estate	**75,730**	66,250	47,350
Residential real estate	**17,185**	14,058	14,953
Consumer	**12,871**	5,389	5,198
Covered loans (1)		11,440	7,336
Total nonaccrual loans (2)	**160,340**	167,802	132,373
Renegotiated loans not on nonaccrual:			
Noncovered loans	**13,904**	13,398	14,147
Covered loans (1)		165	138
Past due loans (90 days or more and still accruing):			
Commercial	**175**	325	565
Commercial real estate			
Residential real estate	**101**	88	114
Consumer	**394**	185	227
Covered loans (1)			10
Total past due loans	**670**	598	916
Other real estate owned	**24,254**	9,388	7,594
Other real estate owned, covered (1)		4,753	4,904
Total under-performing assets	**$ 199,168**	$ 196,104	$ 160,072
Classified loans (includes nonaccrual, renegotiated, past due 90 days, and other problem loans)	**$ 250,214**	$ 242,681	$ 204,710
Classified loans, covered (1)		14,425	8,584
Other classified assets (3)	**6,392**	11,371	6,857
Criticized loans	**106,886**	163,660	132,898
Criticized loans, covered (1)		10,261	1,449
Total criticized and classified assets	**$ 363,492**	$ 442,398	$ 354,498
Asset Quality Ratios including covered assets:			
Non-performing loans/total loans (4) (5)	**1.97%**	2.68%	2.11
Under-performing assets/total loans and other real estate owned (4)	**2.25**	2.89	2.30
Under-performing assets/total assets	**1.38**	1.62	1.33
Allowance for loan losses/under-performing assets (6)	**26.01**	25.59	32.63
Allowance for loan losses/nonaccrual loans (2)	**32.31**	29.91	39.46

(1) The Company entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned. On June 22, 2016, Old National entered into an early termination agreement with the FDIC that terminated all loss share agreements. The Company reclassifed all covered assets to noncovered assets effective June 22, 2016.
(2) Includes purchased credit impaired loans of approximately $28.4 million at June 30, 2016, $31.7 million at June 30, 2015, and $15.9 million at December 31, 2015 that are categorized as nonaccrual because the collection of principal or interest is doubtful. These loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.
(3) Includes 2 pooled trust preferred securities, 2 corporate securities, and 1 insurance policy at June 30, 2016.
(4) Loans exclude loans held for sale.
(5) Non-performing loans include nonaccrual and renegotiated loans.
(6) Because the acquired loans were recorded at fair value in accordance with ASC 805 at the date of acquisition, the credit risk is incorporated in the fair value recorded. No allowance for loan losses is recorded on the acquisition date.

Under-performing assets totaled $199.2 million at June 30, 2016, compared to $196.1 million at June 30, 2015 and $160.1 million at December 31, 2015. Under-performing assets as a percentage of total loans and other real estate owned at June 30, 2016 were 2.25%, a decrease of 64 basis points from 2.89% at June 30, 2015 and a decrease of 5 basis points from 2.30% at December 31, 2015.

Nonaccrual loans were $160.3 million at June 30, 2016, compared to $167.8 million at June 30, 2015 and $132.4 million at December 31, 2015. Nonaccrual loans decreased from June 30, 2015 primarily due to a decrease in nonaccrual commercial loans. Nonaccrual loans at June 30, 2016 included $35.0 million of loans related to the Anchor acquisition. As a percentage of nonaccrual loans, the allowance for loan losses was 32.31% at June 30, 2016, compared to 29.91% at June 30, 2015 and 39.46% at December 31, 2015. Purchased credit impaired loans that were included in the nonaccrual category because the collection of principal or interest is doubtful totaled $28.4 million at June 30, 2016, compared to $31.7 million at June 30, 2015 and $15.9 million at December 31, 2015. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets. We would expect our nonaccrual loans to remain at elevated levels until management can work through and resolve these purchased credit impaired loans.

Total criticized and classified assets were $363.5 million at June 30, 2016, a decrease of $78.9 million from June 30, 2015, and an increase of $9.0 million from December 31, 2015. Other classified assets include investment securities that fell below investment grade rating totaling $6.4 million at June 30, 2016, compared to $11.4 million at June 30, 2015 and $6.9 million at December 31, 2015.

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

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

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

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

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

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

At June 30, 2016, our TDRs consisted of $24.3 million of commercial loans, $21.4 million of commercial real estate loans, $2.6 million of residential loans, and $3.6 million of consumer loans totaling $51.9 million. Approximately $38.1 million of the TDRs at June 30, 2016 were included with nonaccrual loans. At December 31, 2015, our TDRs consisted of $23.4 million of commercial loans, $14.6 million of commercial real estate loans, $2.7 million of residential loans, and $3.6 million of consumer loans totaling $44.3 million. Approximately $30.0 million of the TDRs at December 31, 2015 were included with nonaccrual loans.

Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling $5.6 million as of June 30, 2016 and $2.3 million of December 31, 2015. As of June 30, 2016, Old National had committed to lend an additional $4.2 million to customers with outstanding loans that are classified as TDRs.

The terms of certain other loans were modified during the six months ended June 30, 2016 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral, or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or the delay in a payment.

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 June 30, 2016, it has not been necessary to remove any loans from PCI accounting.

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

Allowance for Loan Losses and Reserve for Unfunded Commitments

Loan charge-offs, net of recoveries, totaled $0.2 million for the three months ended June 30, 2016, compared to $1.0 million for the three months ended June 30, 2015. Annualized, net charge-offs (recoveries) to average loans were 0.01% for the three months ended June 30, 2016 compared to 0.06% for the three months ended June 30, 2015. Loan charge-offs, net of recoveries, totaled $1.8 million for the six months ended June 30, 2016, compared to $(1.0) million for the six months ended June 30, 2015. Annualized, net charge-offs (recoveries) to average loans were 0.05% for the six months ended June 30, 2016 compared to 0.00% for the six months ended June 30, 2015. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

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

economic conditions on the portfolio, and historical loss experience.

At June 30, 2016, the allowance for loan losses was $51.8 million, an increase of $1.6 million compared to $50.2 million at June 30, 2015, and a decrease of $0.4 million compared to $52.2 million 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.

As a percentage of total loans excluding loans held for sale, the allowance was 0.59% at June 30, 2016, compared to 0.74% at June 30, 2015, and 0.75% at December 31, 2015. Our ratio of allowance for loan losses to total loans declined as of June 30, 2016 compared to June 30, 2015 and December 31, 2015 with the addition of Anchor s $1.637 billion loan portfolio. In accordance with ASC 805, no allowance for loan losses is recorded at the date of acquisition and a reserve is only established to absorb any subsequent credit deterioration or adverse changes in expected cash flows. At June 30, 2016, $0.7 million had been reserved for previously purchased credits.

The following table provides additional details of the following components of the allowance for loan losses at June 30, 2016, including FAS 5/ASC 450 (Accounting for Contingencies), FAS 114/ASC 310-35 (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):

(dollars in thousands)	FAS 5	FAS 114	SOP 03-3	Total
Loan balance	$ 8,637,594	$ 112,491	$ 80,073	$ 8,830,158
Remaining purchase discount	108,791	9,706	40,919	159,416
Allowance, January 1, 2016	$ 39,386	$ 11,488	$ 1,359	$ 52,233
Charge-offs	(2,972)	(2,746)	(901)	(6,619)
Recoveries	734	3,398	648	4,780
Provision expense	2,535	(702)	(423)	1,410
Allowance, June 30, 2016	$ 39,683	$ 11,438	$ 683	$ 51,804

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. The reserve for unfunded loan commitments is classified as a liability account on the balance sheet and totaled $4.4 million at June 30, 2016, compared to $3.6 million at December 31, 2015.

Market Risk

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

Interest rates have remained low for an extended period of time. The yield curve has flattened as the 10 year Treasury reached a low of 1.439% during the second quarter of 2016. These factors continue to put pressure on our net interest income and margin.

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.

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 June 30, 2016 and 2015:

	Immediate Rate Decrease		Immediate Rate Increase		
(dollars in thousands)	-50 Basis Points	Base	+100 Basis Points	+200 Basis Points	+300 Basis Points
June 30, 2016					
Projected interest income:					
Money market, other interest earning investments, and investment securities	**$ 207,606**	**$ 219,294**	**$ 235,172**	**$ 248,160**	**$ 259,314**
Loans	**591,557**	**633,419**	**719,172**	**802,883**	**885,833**
Total interest income	**799,163**	**852,713**	**954,344**	**1,051,043**	**1,145,147**
Projected interest expense:					
Deposits	**18,803**	**35,488**	**93,291**	**151,090**	**208,883**
Borrowings	**46,190**	**56,843**	**80,733**	**104,540**	**128,325**
Total interest expense	**64,993**	**92,331**	**174,024**	**255,630**	**337,208**
Net interest income	**$ 734,170**	**$ 760,382**	**$ 780,320**	**$ 795,413**	**$ 807,939**

Change from base	**$ (26,212)**		**$ 19,938**	**$ 35,031**	**$ 47,557**
% change from base	**-3.45%**		**2.62%**	**4.61%**	**6.25%**
June 30, 2015					
Projected interest income:					
Money market, other interest earning investments, and investment securities	$ 199,066	$ 209,848	$ 225,069	$ 237,314	$ 248,185
Loans	490,430	509,859	573,990	638,279	701,302
Total interest income	689,496	719,707	799,059	875,593	949,487
Projected interest expense:					
Deposits	18,810	29,199	77,705	126,211	174,716
Borrowings	43,597	47,180	64,046	80,912	97,778
Total interest expense	62,407	76,379	141,751	207,123	272,494
Net interest income	$ 627,089	$ 643,328	$ 657,308	$ 668,470	$ 676,993
Change from base	$ (16,239)		$ 13,980	$ 25,142	$ 33,665
% change from base	-2.52%		2.17%	3.91%	5.23%

Our asset sensitivity increased slightly year over year primarily due to the Anchor acquisition in May 2016 and the resulting changes in our balance sheet mix. We use derivative instruments to mitigate interest rate risk, including certain cash flow hedges on variable-rate debt with a notional amount of $625 million at June 30, 2016.

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 June 30, 2016, our projected net interest income sensitivity based on the asset/liability models we utilize was within the limits of the Company s interest rate risk policy for the scenarios tested.

We use derivatives, primarily interest rate swaps, as one method to manage interest rate risk in the ordinary course of business. We also provide derivatives to our commercial customers in connection with managing interest rate risk. Our derivatives had an estimated fair value loss of $21.8 million at June 30, 2016, compared to an estimated fair value loss of $11.0 million at December 31, 2015. See Note 18 to the consolidated financial statements for further discussion of derivative financial instruments.

Liquidity Risk

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

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

A time deposit maturity schedule for Old National Bank is shown in the following table for June 30, 2016.

(dollars in thousands)

Maturity Bucket	Amount	Rate
2016	$ 540,337	1.01%
2017	526,060	0.61
2018	191,582	0.99
2019	88,771	1.35
2020	86,161	1.72

2021 and beyond	46,110	1.32
Total	$ 1,479,021	0.94%

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

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

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

The credit ratings of Old National and Old National Bank at June 30, 2016, are shown in the following table.

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

N/A = not applicable

Old National Bank maintains relationships in capital markets with brokers and dealers to issue certificates of deposit and short-term and medium-term bank notes as well. As of June 30, 2016, Old National Bancorp and its subsidiaries had the following availability of liquid funds and borrowings:

(dollars in thousands)	Parent Company	Subsidiaries
Available liquid funds:		
Cash and due from banks	$ 129,858	$ 138,062
Unencumbered government-issued debt securities		1,278,411
Unencumbered investment grade municipal securities		498,329
Unencumbered corporate securities		88,021
Availability of borrowings:		
Amount available from Federal Reserve discount window*		465,558
Amount available from Federal Home Loan Bank Indianapolis*		317,428
Total available funds	$ 129,858	$ 2,785,809

* 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 June 30, 2016, the Parent Company s other borrowings outstanding were $214.5 million.

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

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 $2.251 billion and standby letters of credit of $61.6 million at June 30, 2016. At June 30, 2016, approximately $2.136 billion of the loan

commitments had fixed rates and $115.8 million had floating rates, with the floating rates ranging from 0% to 25%. At December 31, 2015, loan commitments were $1.746 billion and standby letters of credit were $62.6 million. The term of these off-balance sheet arrangements is typically one year or less.

Old National entered into a risk participation in an interest rate swap during the second quarter of 2007, which had a notional amount of $7.2 million at June 30, 2016. Old National entered into an additional risk participation in an interest rate swap during the third quarter of 2014, which had a notional amount of $10.9 million at June 30, 2016.

CONTRACTUAL OBLIGATIONS

The following table presents our significant fixed and determinable contractual obligations at June 30, 2016:

	Payments Due In				
(dollars in thousands)	**One Year or Less (1)**	**One to Three Years**	**Three to Five Years**	**Over Five Years**	**Total**
Deposits without stated maturity	$ 8,972,581	$	$	$	$ 8,972,581
IRAs, consumer, and brokered certificates of deposit	540,337	717,642	174,932	46,110	1,479,021
Short-term borrowings	567,659				567,659
Other borrowings	617,384	291,030	52,608	406,874	1,367,896
Fixed interest payments (2)	8,159	27,495	23,742	54,399	113,795
Operating leases	14,650	56,804	52,490	205,555	329,499
Other long-term liabilities (3)	19				19

(1) For the remaining six months of fiscal 2016.
(2) Our senior notes, subordinated notes, certain trust preferred securities, and certain Federal Home Loan Bank advances have fixed-rates ranging from 0.44% to 6.76%. All of our other long-term debt is at LIBOR based variable-rates at June 30, 2016. The projected variable interest assumes no increase in LIBOR rates from June 30, 2016.
(3) Amount expected to be contributed to the pension plans in 2016. Amounts for 2017 and beyond are unknown at this time.

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

We are party to various derivative contracts as a means to manage the balance sheet and our related exposure to changes in interest rates, to manage our residential real estate loan origination and sale activity, and to provide derivative contracts to our clients. Since the derivative liabilities recorded on the balance sheet change frequently and do not represent the amounts that may ultimately be paid under these contracts, these liabilities are not included in the table of contractual obligations presented above. Further discussion of derivative instruments is included in Note 18 to the consolidated financial statements.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Goodwill and Intangibles

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

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

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

Acquired Impaired Loans

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

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

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.

Allowance for Loan Losses

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

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

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

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

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

significant impact on results of operations.

Management s analysis of probable losses in the portfolio at June 30, 2016, resulted in a range for allowance for loan losses of $15.2 million. The range pertains to general (FASB ASC 450, Contingencies/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 $7.9 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and are not intended to represent actual results.

Derivative Financial Instruments

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

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

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

Income Taxes

Description. We are subject to the income tax laws of the U.S., its states, and the municipalities in which we operate. These tax laws are complex and subject to different interpretations by the taxpayer and the relevant government taxing authorities. We review income tax expense and the carrying value of deferred tax assets quarterly; and as new information becomes available, the balances are adjusted as appropriate. FASB ASC 740-10 (FIN 48) prescribes a recognition threshold of more-likely-than-not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those tax positions to be recognized in the financial statements. See Note 14 to the consolidated financial statements of our Annual Report on Form 10-K for the year ended December 31, 2015 for a further description of our provision and related income tax assets and liabilities.

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

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.

FORWARD-LOOKING STATEMENTS

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

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

- economic, market, operational, liquidity, credit and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry;
- expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss and revenue loss following completed acquisitions may be greater than expected;
- failure to properly understand risk characteristics of newly entered markets;
- increased competition in the financial services industry either nationally or regionally, resulting in, among other things, credit quality deterioration;
- our ability to achieve loan and deposit growth;
- volatility and direction of market interest rates;
- governmental legislation and regulation, including changes in accounting regulation or standards;

- our ability to execute our business plan;
- a weakening of the economy which could materially impact credit quality trends and the ability to generate loans;
- changes in the securities markets; and
- changes in fiscal, monetary, and tax policies.

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

ITEM 3. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures. Old National s principal executive officer and principal financial officer have concluded that Old National s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended), based on their evaluation of these controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, are effective at the reasonable assurance level as discussed below to ensure that information required to be disclosed by Old National in the reports it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and that such information is accumulated and communicated to Old National s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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

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

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

PART II

OTHER INFORMATION

ITEM 1A. RISK FACTORS

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

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

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

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
04/01/16 - 04/30/16	2,917	$ 12.69		
05/01/16 - 05/31/16	32,836	13.32		
06/01/16 - 06/30/16				

Quarter-to-date 06/30/16	35,753	$ 13.27

The Board of Directors did not authorize a new stock repurchase plan for 2016. During the three months ended June 30, 2016, Old National repurchased a limited number of shares associated with employee share-based incentive programs.

ITEM 5. OTHER INFORMATION

(a) None

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

ITEM 6. EXHIBITS

Exhibit No.	Description
2.1*	Stock Purchase Agreement dated as of April 30, 2016 by and among Prime Risk Partners Inc., ONB Insurance Group, Inc., and Old National Bancorp.
3.1	Fourth Amended and Restated Articles of Incorporation of Old National, amended May 13, 2016 (incorporated by reference to Exhibit 3.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 16, 2016).
3.2	Amended and Restated By-Laws of Old National Bancorp, amended July 28, 2016 (incorporated by reference to Exhibit 3.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 1, 2016).
4.1	Senior Indenture between Old National and The Bank of New York Trust Company (as successor to J.P. Morgan Trust Company, National Association (as successor to Bank One, NA)), as trustee, dated as of July 23, 1997 (incorporated by reference to Exhibit 4.3 to Old National s Registration Statement on Form S-3, Registration No. 333-118374, filed with the Securities and Exchange Commission on December 2, 2004).
4.2	Second Indenture Supplement, dated as of August 15, 2014, between Old National and The Bank of New York Mellon Trust Company, N.A., as trustee, providing for the issuance of its 4.125% Senior Notes due 2024 (incorporated by reference to Exhibit 4.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on August 15, 2014).
10.1	Employment Agreement dated as of March 18, 2014, as amended and effective as of May 12, 2016, between Old National Bancorp and James A. Sandgren (incorporated by reference to Exhibit 10.1 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 12, 2016).
10.2	Employment Agreement dated as of May 12, 2016 between Old National Bancorp and James C. Ryan, III (incorporated by reference to Exhibit 10.2 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 12, 2016).
10.3	Employment Agreement dated as of January 1, 2008, as amended and effective as of January 1, 2009, January 1, 2011, and May 12, 2016, between Old National Bancorp and Christopher A. Wolking (incorporated by reference to Exhibit 10.3 of Old National s Current Report on Form 8-K filed with the Securities and Exchange Commission on May 12, 2016).
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Old National Bancorp s Form 10-Q Report for the quarterly period ended June 30, 2016, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

* Certain schedules or similar attachments to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K and Old National agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedule upon request.

SIGNATURE

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

OLD NATIONAL BANCORP
(Registrant)

By: /s/ James C. Ryan, III
James C. Ryan, III

Senior Executive Vice President and Chief Financial Officer Duly Authorized Officer and Principal Financial Officer

Date: August 5, 2016