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OLD NATIONAL BANCORP /IN/

Form 10-Q

May 02, 2019

false Q1 ONB Old National Bancorp /IN/ 0000707179 --12-31 Large Accelerated Filer false false P120D P10Y P10Y P5Y 2024-08-15 2032-04-22 2037-06-15 2019-04-30 2028-10-31 BBB- 33 44 43 49 2002-04-30 2002-10-31 2004-04-30 2005-03-31 2005-08-31 2005-12-31 2006-09-30 2006-07-31 2006-12-31 2007-03-31 0.036 0.042 0.040 0.068 0.085 0.073 Fair value of collateral Fair value of collateral Fair value of collateral 0.00 0.00 0.00 0.00 0.15 0.90 0.50 0.90 0.50 0.16 0.41 0.35 0.35 0.35 0.15 0000707179 2019-01-01 2019-03-31 xbrli:shares 0000707179 2019-03-31 iso4217:USD 0000707179 2018-12-31 0000707179 2018-03-31 0000707179 us-gaap:USTreasurySecuritiesMember 2019-03-31 0000707179 us-gaap:USTreasurySecuritiesMember 2018-12-31 0000707179 us-gaap:USTreasurySecuritiesMember 2018-03-31 0000707179 us-gaap:USGovernmentSponsoredEnterprisesDebtSecuritiesMember 2019-03-31 0000707179 us-gaap:USGovernmentSponsoredEnterprisesDebtSecuritiesMember 2018-12-31 0000707179 us-gaap:USGovernmentSponsoredEnterprisesDebtSecuritiesMember 2018-03-31 0000707179 us-gaap:MortgageBackedSecuritiesMember 2019-03-31 0000707179 us-gaap:MortgageBackedSecuritiesMember 2018-12-31 0000707179 us-gaap:MortgageBackedSecuritiesMember 2018-03-31 0000707179 us-gaap:USStatesAndPoliticalSubdivisionsMember 2019-03-31 0000707179 us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-12-31 0000707179 us-gaap:USStatesAndPoliticalSubdivisionsMember 2018-03-31 0000707179 onb:OtherDebtSecuritiesIncludingPooledTrustPreferredSecuritiesMember 2019-03-31 0000707179 onb:OtherDebtSecuritiesIncludingPooledTrustPreferredSecuritiesMember 2018-12-31 0000707179 onb:OtherDebtSecuritiesIncludingPooledTrustPreferredSecuritiesMember 2018-03-31 0000707179 us-gaap:SeriesAPreferredStockMember 2019-03-31 0000707179 us-gaap:SeriesAPreferredStockMember 2018-12-31 0000707179 us-gaap:SeriesAPreferredStockMember 2018-03-31 iso4217:USD xbrli:shares 0000707179 2018-01-01 2018-03-31 0000707179 us-gaap:CommonStockMember 2017-12-31 0000707179 us-gaap:AdditionalPaidInCapitalMember 2017-12-31 0000707179 us-gaap:RetainedEarningsMember 2017-12-31 0000707179 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2017-12-31 0000707179 2017-12-31 0000707179 us-gaap:CommonStockMember 2018-01-01 2018-03-31 0000707179 us-gaap:AdditionalPaidInCapitalMember 2018-01-01 2018-03-31 0000707179 us-gaap:RetainedEarningsMember 2018-01-01 2018-03-31 0000707179 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-01-01 2018-03-31 0000707179 us-gaap:CommonStockMember 2018-03-31 0000707179 us-gaap:AdditionalPaidInCapitalMember 2018-03-31 0000707179 us-gaap:RetainedEarningsMember 2018-03-31 0000707179 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-03-31 0000707179 us-gaap:CommonStockMember 2018-12-31 0000707179 us-gaap:AdditionalPaidInCapitalMember 2018-12-31 0000707179 us-gaap:RetainedEarningsMember 2018-12-31 0000707179 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2018-12-31 0000707179 us-gaap:CommonStockMember 2019-01-01 2019-03-31 0000707179 us-gaap:AdditionalPaidInCapitalMember 2019-01-01 2019-03-31 0000707179 us-gaap:RetainedEarningsMember 2019-01-01 2019-03-31 0000707179 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-01-01 2019-03-31 0000707179 us-gaap:CommonStockMember 2019-03-31 0000707179 us-gaap:AdditionalPaidInCapitalMember 2019-03-31 0000707179 us-gaap:RetainedEarningsMember 2019-03-31 0000707179 us-gaap:AccumulatedOtherComprehensiveIncomeMember 2019-03-31 0000707179 onb:KleinFinancialIncMember str:MN 2019-01-01 2019-03-31 0000707179 us-gaap:JuniorSubordinatedDebtMember 2019-01-01 2019-03-31 0000707179 onb:FixedInterestSwapMember 2019-01-01 2019-03-31 0000707179 us-gaap:AccountingStandardsUpdate201602Member 2019-01-01 0000707179 us-gaap:AccountingStandardsUpdate201602Member 2019-01-02 xbrli:pure 0000707179 onb:KleinFinancialIncMember str:MN 2018-11-01 onb:Branch 0000707179 onb:KleinFinancialIncMember str:MN 2018-10-31 2018-11-01 0000707179 onb:KleinFinancialIncMember us-gaap:CoreDepositsMember str:MN 2018-10-31 2018-11-01 0000707179 onb:AcquiredReceivablesSubjectToAscMember onb:KleinFinancialIncMember str:MN 2018-11-01 0000707179 onb:AcquiredReceivablesNotSubjectToAscMember onb:KleinFinancialIncMember str:MN 2018-11-01 0000707179 us-gaap:EmployeeStockOptionMember 2019-01-01 2019-03-31 0000707179

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

**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

(State or other jurisdiction of incorporation or organization)

35-1539838

(I.R.S. Employer Identification No.)

One Main Street

Evansville, Indiana

(Address of principal executive offices)

47708

(Zip Code)

(800) 731-2265

(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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 173,979,000 shares outstanding at March 31, 2019.

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

Trading

| Title of each class | Symbol(s) | Name of each exchange on which registered |
|----------------------------|-----------|---|
| Common Stock, No Par Value | ONB | The NASDAQ Stock Market LLC |

OLD NATIONAL BANCORP

FORM 10-Q

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

As used in this report, references to “Old National,” “we,” “our,” “us,” and similar terms refer to the consolidated entity consisting of Old National Bancorp and its wholly-owned affiliates. Old National Bancorp refers solely to the parent holding company, and Old National Bank refers to Old National’s bank subsidiary.

The acronyms and abbreviations identified below are used in the Notes to Consolidated Financial Statements (Unaudited) as well as in the Management’s Discussion and Analysis of Financial Condition and Results of Operations. You may find it helpful to refer to this page as you read this report.

Anchor (MN): Anchor Bancorp, Inc.

Anchor Bank (MN): Anchor Bank, N.A.

Anchor (WI): Anchor BanCorp Wisconsin Inc.

AOCI: accumulated other comprehensive income (loss)

AQR: asset quality rating

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

ATM: automated teller machine

Common Stock: Old National Bancorp common stock, without par value

CRreED: Indiana Community Revitalization Enhancement District Tax Credit

DTI: debt-to-income

EITF: Emerging Issues Task Force

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

FHLB: Federal Home Loan Bank

FHTC: Federal Historic Tax Credit

FICO: Fair Isaac Corporation

GAAP: U.S. generally accepted accounting principles

Klein: Klein Financial, Inc.

LGD: loss given default

LIBOR: London Interbank Offered Rate

LIHTC: Low Income Housing Tax Credit

LTV: loan-to-value

N/A: not applicable

N/M: not meaningful

NASDAQ: The NASDAQ Stock Market LLC

NOW: negotiable order of withdrawal

OTTI: other-than-temporary impairment

PCI: purchased credit impaired

PD: probability of default

PSA: prepayment speed assumptions

Renewable Energy: investment tax credits for solar projects

SAB: Staff Accounting Bulletin

SEC: Securities and Exchange Commission

TBA: to be announced

TDR: troubled debt restructuring

OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

| (dollars and shares in thousands, except per share data) | March 31, 2019 (unaudited) | December 31, 2018 | March 31, 2018 (unaudited) |
|--|----------------------------------|-------------------------|----------------------------------|
| Assets | | | |
| Cash and due from banks | \$211,174 | \$284,003 | \$192,022 |
| Money market and other interest-earning investments | 111,942 | 33,162 | 86,219 |
| Total cash and cash equivalents | 323,116 | 317,165 | 278,241 |
| Equity securities | 6,235 | 5,582 | 5,569 |
| Investment securities - available-for-sale, at fair value: | | | |
| U.S. Treasury | 9,777 | 5,301 | 9,295 |
| U.S. government-sponsored entities and agencies | 698,514 | 628,151 | 572,689 |
| Mortgage-backed securities | 2,560,703 | 2,209,295 | 1,477,896 |
| States and political subdivisions | 965,436 | 940,429 | 843,488 |
| Other securities | 335,342 | 340,240 | 316,495 |
| Total investment securities - available-for-sale | 4,569,772 | 4,123,416 | 3,219,863 |
| Investment securities - held-to-maturity, at amortized cost | | | |
| (fair value \$493,877; \$506,103; and \$536,143, respectively) | 484,834 | 506,334 | 535,153 |
| Federal Home Loan Bank/Federal Reserve Bank stock, at cost | 157,400 | 142,980 | 136,206 |
| Loans held for sale, at fair value | 14,082 | 14,911 | 17,635 |
| Loans: | | | |
| Commercial | 3,042,790 | 3,232,970 | 2,811,629 |
| Commercial real estate | 5,023,620 | 4,958,851 | 4,449,980 |
| Residential real estate | 2,243,885 | 2,248,404 | 2,158,532 |
| Consumer credit, net of unearned income | 1,758,682 | 1,803,667 | 1,818,541 |
| Total loans | 12,068,977 | 12,243,892 | 11,238,682 |
| Allowance for loan losses | (55,559) | (55,461) | (50,381) |
| Net loans | 12,013,418 | 12,188,431 | 11,188,301 |
| Premises and equipment, net | 490,216 | 485,912 | 453,603 |
| Operating lease right-of-use assets | 109,916 | — | — |
| Accrued interest receivable | 86,279 | 89,464 | 81,621 |
| Goodwill | 1,036,258 | 1,036,258 | 828,804 |
| Other intangible assets | 72,544 | 77,016 | 48,833 |
| Company-owned life insurance | 444,551 | 444,224 | 404,561 |
| Net deferred tax assets | 59,430 | 87,048 | 88,773 |
| Loan servicing rights | 24,254 | 24,497 | 24,380 |
| Assets held for sale | 5,068 | 3,253 | 6,331 |
| Other real estate owned and repossessed personal property | 3,279 | 3,232 | 6,735 |
| Other assets | 183,768 | 178,712 | 171,678 |
| Total assets | \$20,084,420 | \$19,728,435 | \$17,496,287 |
| Liabilities | | | |
| Deposits: | | | |
| Noninterest-bearing demand | \$3,903,314 | \$3,965,380 | \$3,655,732 |
| Interest-bearing: | | | |
| Checking and NOW | 3,742,241 | 3,788,339 | 3,135,778 |

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| | | | |
|---|--------------|--------------|--------------|
| Savings | 2,941,361 | 2,944,092 | 3,091,101 |
| Money market | 1,780,756 | 1,627,882 | 1,130,258 |
| Time | 2,061,598 | 2,024,256 | 1,775,731 |
| Total deposits | 14,429,270 | 14,349,949 | 12,788,600 |
| Federal funds purchased and interbank borrowings | 325,030 | 270,135 | 150,026 |
| Securities sold under agreements to repurchase | 342,480 | 362,294 | 308,189 |
| Federal Home Loan Bank advances | 1,719,944 | 1,613,481 | 1,664,179 |
| Other borrowings | 251,584 | 247,883 | 248,898 |
| Operating lease liabilities | 114,040 | — | — |
| Accrued expenses and other liabilities | 150,200 | 195,123 | 157,277 |
| Total liabilities | 17,332,548 | 17,038,865 | 15,317,169 |
| 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, 173,979; 175,141; and 152,172 shares issued and outstanding, respectively | 173,979 | 175,141 | 152,172 |
| Capital surplus | 2,007,962 | 2,031,695 | 1,640,776 |
| Retained earnings | 567,311 | 527,684 | 447,696 |
| Accumulated other comprehensive income (loss), net of tax | 2,620 | (44,950) | (61,526) |
| Total shareholders' equity | 2,751,872 | 2,689,570 | 2,179,118 |
| Total liabilities and shareholders' equity | \$20,084,420 | \$19,728,435 | \$17,496,287 |

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 | |
|--|--------------------|------------|
| | March 31, | |
| | 2019 | 2018 |
| Interest Income | | |
| Loans including fees: | | |
| Taxable | \$ 138,972 | \$ 118,389 |
| Nontaxable | 4,223 | 3,874 |
| Investment securities: | | |
| Taxable | 28,037 | 18,804 |
| Nontaxable | 7,408 | 6,549 |
| Money market and other interest-earning investments | 278 | 90 |
| Total interest income | 178,918 | 147,706 |
| Interest Expense | | |
| Deposits | 16,444 | 7,255 |
| Federal funds purchased and interbank borrowings | 1,918 | 1,017 |
| Securities sold under agreements to repurchase | 662 | 359 |
| Federal Home Loan Bank advances | 9,931 | 7,780 |
| Other borrowings | 2,915 | 2,723 |
| Total interest expense | 31,870 | 19,134 |
| Net interest income | 147,048 | 128,572 |
| Provision for loan losses | 1,043 | 380 |
| Net interest income after provision for loan losses | 146,005 | 128,192 |
| Noninterest Income | | |
| Wealth management fees | 8,535 | 9,026 |
| Service charges on deposit accounts | 10,826 | 10,759 |
| Debit card and ATM fees | 5,503 | 4,865 |
| Mortgage banking revenue | 5,011 | 4,192 |
| Investment product fees | 5,271 | 5,031 |
| Capital markets income | 2,517 | 498 |
| Company-owned life insurance | 3,188 | 2,605 |
| Net debt securities gains (losses) | (103) | 788 |
| Other income | 5,668 | 4,141 |
| Total noninterest income | 46,416 | 41,905 |
| Noninterest Expense | | |
| Salaries and employee benefits | 71,183 | 64,179 |
| Occupancy | 14,578 | 13,280 |
| Equipment | 4,474 | 3,565 |
| Marketing | 3,723 | 3,697 |
| Data processing | 9,341 | 8,400 |
| Communication | 3,054 | 3,064 |
| Professional fees | 2,910 | 2,730 |
| Loan expenses | 1,912 | 1,744 |
| Supplies | 755 | 722 |
| FDIC assessment | 2,087 | 2,645 |
| Other real estate owned expense | 36 | 349 |
| Amortization of intangibles | 4,472 | 3,609 |
| Amortization of tax credit investments | 260 | 716 |

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| | | |
|--|----------|----------|
| Other expense | 4,256 | 8,457 |
| Total noninterest expense | 123,041 | 117,157 |
| Income before income taxes | 69,380 | 52,940 |
| Income tax expense | 13,104 | 4,957 |
| Net income | \$56,276 | \$47,983 |
| Net income per common share - basic | \$0.32 | \$0.32 |
| Net income per common share - diluted | 0.32 | 0.31 |
| Weighted average number of common shares outstanding - basic | 174,734 | 151,721 |
| Weighted average number of common shares outstanding - diluted | 175,368 | 152,370 |
| Dividends per common share | \$0.13 | \$0.13 |

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

| (dollars in thousands) | Three Months Ended March 31, | |
|--|---------------------------------|-----------|
| | 2019 | 2018 |
| Net income | \$56,276 | \$47,983 |
| Other comprehensive income (loss): | | |
| Change in debt securities available-for-sale: | | |
| Unrealized holding gains (losses) for the period | 62,265 | (25,794) |
| Reclassification for securities transferred to held-to-maturity | — | 14,007 |
| Reclassification adjustment for securities (gains) losses realized in income | 103 | (788) |
| Income tax effect | (14,578) | 3,110 |
| Unrealized gains (losses) on available-for-sale debt securities | 47,790 | (9,465) |
| Change in securities held-to-maturity: | | |
| Adjustment for securities transferred to available-for-sale | — | 19,412 |
| Adjustment for securities transferred from available-for-sale | — | (14,007) |
| Amortization of unrealized losses on securities transferred | | |
| from available-for-sale | 457 | 591 |
| Income tax effect | (106) | (1,026) |
| Changes from securities held-to-maturity | 351 | 4,970 |
| Cash flow hedges: | | |
| Net unrealized derivative gains (losses) on cash flow hedges | (392) | 4,563 |
| Reclassification adjustment for (gains) losses realized in net income | (385) | 769 |
| Income tax effect | 191 | (1,308) |
| Changes from cash flow hedges | (586) | 4,024 |
| Defined benefit pension plans: | | |
| Amortization of net loss recognized in income | 20 | 51 |
| Income tax effect | (5) | (31) |
| Changes from defined benefit pension plans | 15 | 20 |
| Other comprehensive income (loss), net of tax | 47,570 | (451) |
| Comprehensive income | \$103,846 | \$47,532 |

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, 2017 | \$152,040 | \$1,639,499 | \$413,130 | \$ (50,272) | \$ 2,154,397 |
| Cumulative effect of change in accounting principles | — | — | (4,127) | (52) | (4,179) |
| Balance, January 1, 2018 | 152,040 | 1,639,499 | 409,003 | (50,324) | 2,150,218 |
| Reclassification of certain tax effects related to the Tax Cuts and Jobs Act of 2017 | — | — | 10,751 | (10,751) | — |
| Net income | — | — | 47,983 | — | 47,983 |
| Other comprehensive income (loss) | — | — | — | (451) | (451) |
| Dividends - common stock (\$0.13 per share) | — | — | (19,782) | — | (19,782) |
| Common stock issued | 6 | 99 | — | — | 105 |
| Common stock repurchased | (64) | (1,051) | — | — | (1,115) |
| Share-based compensation expense | — | 1,931 | — | — | 1,931 |
| Stock activity under incentive compensation plans | 190 | 298 | (259) | — | 229 |
| Balance at March 31, 2018 | \$152,172 | \$1,640,776 | \$447,696 | \$ (61,526) | \$ 2,179,118 |
| Balance at December 31, 2018 | \$175,141 | \$2,031,695 | \$527,684 | \$ (44,950) | \$ 2,689,570 |
| Cumulative effect of change in accounting principles (Note 2) | — | — | 6,322 | — | 6,322 |
| Balance, January 1, 2019 | 175,141 | 2,031,695 | 534,006 | (44,950) | 2,695,892 |
| Net income | — | — | 56,276 | — | 56,276 |
| Other comprehensive income (loss) | — | — | — | 47,570 | 47,570 |
| Dividends - common stock (\$0.13 per share) | — | — | (22,812) | — | (22,812) |
| Common stock issued | 9 | 121 | — | — | 130 |
| Common stock repurchased | (1,655) | (25,642) | — | — | (27,297) |
| Share-based compensation expense | — | 1,800 | — | — | 1,800 |
| Stock activity under incentive compensation plans | 484 | (12) | (159) | — | 313 |
| Balance at March 31, 2019 | \$173,979 | \$2,007,962 | \$567,311 | \$ 2,620 | \$ 2,751,872 |

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| | Three Months Ended | |
|--|--------------------|------------|
| | March 31, | |
| (dollars in thousands) | 2019 | 2018 |
| Cash Flows From Operating Activities | | |
| Net income | \$56,276 | \$47,983 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 6,443 | 5,833 |
| Amortization of other intangible assets | 4,472 | 3,609 |
| Amortization of tax credit investments | 260 | 716 |
| Net premium amortization on investment securities | 3,154 | 3,845 |
| Accretion income related to acquired loans | (8,668) | (10,914) |
| Share-based compensation expense | 1,800 | 1,931 |
| Excess tax (benefit) expense on share-based compensation | (1,013) | 536 |
| Provision for loan losses | 1,043 | 380 |
| Net debt securities (gains) losses | 103 | (788) |
| Net (gains) losses on sales of loans and other assets | (1,564) | 5,365 |
| Increase in cash surrender value of company-owned life insurance | (3,188) | (2,605) |
| Residential real estate loans originated for sale | (94,632) | (92,377) |
| Proceeds from sales of residential real estate loans | 97,010 | 93,686 |
| (Increase) decrease in interest receivable | 3,184 | 5,481 |
| (Increase) decrease in other real estate owned | (47) | 2,075 |
| (Increase) decrease in other assets | 13,665 | 9,211 |
| Increase (decrease) in accrued expenses and other liabilities | (34,376) | (22,567) |
| Total adjustments | (12,354) | 3,417 |
| Net cash flows provided by (used in) operating activities | 43,922 | 51,400 |
| Cash Flows From Investing Activities | | |
| Purchases of investment securities available-for-sale | (541,589) | (113,525) |
| Purchases of Federal Home Loan Bank/Federal Reserve Bank stock | (14,439) | (16,520) |
| Proceeds from maturities, prepayments, and calls of investment securities available-for-sale | 145,356 | 118,694 |
| Proceeds from sales of investment securities available-for-sale | 8,681 | 84,257 |
| Proceeds from maturities, prepayments, and calls of investment securities held-to-maturity | 21,689 | 26,117 |
| Proceeds from sales of Federal Home Loan Bank/Federal Reserve Bank stock | 19 | — |
| Proceeds from sales of equity securities | 130 | 128 |
| Net principal collected from (loans made to) loan customers | 182,638 | (110,027) |
| Proceeds from settlements on company-owned life insurance | 2,861 | 1,797 |
| Proceeds from sales of premises and equipment and other assets | 84 | 2,578 |
| Purchases of premises and equipment and other assets | (11,684) | (9,593) |
| Net cash flows provided by (used in) investing activities | (206,254) | (16,094) |
| Cash Flows From Financing Activities | | |
| Net increase (decrease) in: | | |
| Deposits | 79,321 | 182,697 |
| Federal funds purchased and interbank borrowings | 54,895 | (185,007) |
| Securities sold under agreements to repurchase | (19,814) | (76,621) |
| Other borrowings | 3,650 | (32) |
| Payments for maturities of Federal Home Loan Bank advances | (325,070) | (772,928) |
| Proceeds from Federal Home Loan Bank advances | 425,000 | 825,000 |
| Cash dividends paid on common stock | (22,812) | (19,782) |

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| | | |
|--|-----------|-----------|
| Common stock repurchased | (27,297) | (1,115) |
| Proceeds from exercise of stock options | 280 | 186 |
| Common stock issued | 130 | 105 |
| Net cash flows provided by (used in) financing activities | 168,283 | (47,497) |
| Net increase (decrease) in cash and cash equivalents | 5,951 | (12,191) |
| Cash and cash equivalents at beginning of period | 317,165 | 290,432 |
| Cash and cash equivalents at end of period | \$323,116 | \$278,241 |
| Supplemental cash flow information: | | |
| Total interest paid | \$33,779 | \$20,775 |
| Total taxes paid (net of refunds) | \$150 | \$(183) |
| Securities transferred from held-to-maturity to available-for-sale | \$— | \$447,026 |
| Securities transferred from available-for-sale to held-to-maturity | \$— | \$323,990 |

See Note 10 for additional supplemental cash flow information related to leases.

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 March 31, 2019 and 2018, and December 31, 2018, and the results of its operations for the three months ended March 31, 2019 and 2018. 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, 2018.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the 2019 presentation. Such reclassifications had no effect on net income or shareholders’ equity and were insignificant amounts.

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Guidance Adopted in 2019

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: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) 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.

In July 2018, the FASB issued ASU No. 2018-10, *Codification Improvements to Topic 842, Leases* and ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*. ASU No. 2018-10 provides improvements related to ASU No. 2016-02 to increase stakeholders’ awareness of the amendments and to expedite the improvements. The amendments affect narrow aspects of the guidance issued in ASU No. 2016-02. ASU No. 2018-11 allows entities adopting ASU No. 2016-02 to choose an additional (and optional) transition method, under which an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. ASU No. 2018-11 also allows lessors to not separate non-lease components from the associated lease component if certain conditions are met. The amendments in these updates became effective for annual periods and interim periods within those annual periods beginning after December 15, 2018.

Old National elected the optional transition method permitted by ASU No. 2018-11. Under this method, an entity shall recognize and measure leases that exist at the application date and prior comparative periods are not adjusted. In addition, Old National elected the package of practical expedients to leases that commenced before the effective date:

1. An entity need not reassess whether any expired or existing contracts contain leases.
2. An entity need not reassess the lease classification for any expired or existing leases.
3. An entity need not reassess initial direct costs for any existing leases.

Old National also elected the practical expedient, which must be applied consistently to all leases, to use hindsight in determining the lease term and in assessing impairment of our right-of-use assets. We also elected a practical expedient to not assess whether existing or expired land easements that were not previously accounted for as leases under Topic 840 contain a lease under this Topic. Both of these practical expedients may be elected separately or in conjunction with each other or the package noted above.

Based on both operating and finance leases outstanding at December 31, 2018, the impact of adoption on January 1, 2019 was recording a lease liability of \$122.9 million, a right-of-use asset of \$118.7 million, and a cumulative-effect adjustment of \$6.3 million to increase retained earnings.

FASB ASC 310 – In March 2017, the FASB issued ASU No. 2017-08, Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This update amends the amortization period for certain purchased callable debt securities held at a premium. FASB is shortening the amortization period for the premium to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. Concerns were raised that current GAAP excludes certain callable debt securities from consideration of early repayment of principal even if the holder is certain that the call will be exercised. As a result, upon the exercise of a call on a callable debt security held at a premium, the unamortized premium is recorded as a loss in earnings. There is diversity in practice (1) in the amortization period for premiums of callable debt securities and (2) in how the potential for exercise of a call is factored into current impairment assessments. The amendments in this update became effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods and did not have a material impact on the consolidated financial statements.

FASB ASC 718 – In June 2018, the FASB issued ASU No. 2018-07, Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this update expand the scope of Topic 718, Compensation—Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees. The amendments in this update became effective for annual periods beginning after December 15, 2018, including interim periods within that fiscal year and did not have a material impact on the consolidated financial statements.

FASB ASC 958 – In June 2018, the FASB issued ASU No. 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update clarify and improve the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. The ASU clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. This is important because such classification affects the timing of contribution revenue and expense recognition. The new ASU does not apply to transfers of assets from governments to businesses. The amendments in this update became effective for a public business entity for transactions in which the entity serves as a resource recipient to annual periods beginning after June 15, 2018, including interim periods within those annual periods. The amendments in this update became effective for a public business entity for transactions in which the entity serves as a resource provider to annual periods beginning after December 15, 2018, including interim periods within those annual periods and there was no impact.

FASB ASC 815 – In October 2018, the FASB issued ASU No. 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting. In the United States, eligible benchmark interest rates under Topic 815 are

interest rates on direct Treasury obligations of the U.S. government (“UST”), the London Interbank Offered Rate (“LIBOR”) swap rate, and the Overnight Index Swap (“OIS”) Rate based on the Fed Funds Effective Rate. When the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, in August 2017, it introduced the Securities Industry and Financial Markets Association (“SIFMA”) Municipal Swap Rate as the fourth permissible U.S. benchmark rate.

The new ASU adds the OIS rate based on SOFR as a U.S. benchmark interest rate to facilitate the LIBOR to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes. The amendments in this update became effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and the financial statement impact immediately upon adoption was immaterial. The future financial statement impact will depend on

any new contracts entered into using new benchmark rates, as well as any existing contracts that get migrated from LIBOR to new benchmark interest rates. The Company has formed a working group who is developing a transition plan for all exposed contracts migrating from LIBOR to SOFR. Additionally, the working group is monitoring industry specific transition guidance around a LIBOR contract's "fallback" language with the industry goal to minimize or eliminate value transfers resulting from the transition.

Accounting Guidance Issued But Not Yet Adopted

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 ("CECL"). 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 current expected credit loss measurement will be used to estimate the allowance for credit losses ("ACL") over the life of the financial assets. 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.

As previously disclosed, Old National formed a cross functional committee to oversee the adoption of the ASU at the effective date. A working group was also formed and has developed a project plan focused on understanding the ASU, researching issues, identifying data needs for modeling inputs, technology requirements, modeling considerations, and ensuring overarching governance has been achieved for each objective and milestone. The project plan is targeting data and model validation completion during the first half of 2019, with parallel processing of our existing allowance for loan losses model with the CECL prior to implementation. Currently, the working group has identified seven distinct loan portfolios for which a model has been developed. For all seven loan portfolios, the data sets have been identified, populated, and internally validated.

Currently, our measurements for estimating the current expected life-time credit losses for loans and debt securities (as well as certain beneficial interests classified as held-to-maturity) includes the following major items:

- Initial forecast – use a period of one year for all portfolio segments and off-balance-sheet credit exposures, using forward-looking economic scenarios of expected losses.
- Historical loss forecast – for a period incorporating the remaining contractual life, adjusted for prepayments, and the changes in various economic variables during representative historical and recessionary periods.
- Reversion period – use a range from 1 to 2 years, which links the initial loss forecast to the historical loss forecast based on economic conditions at the measurement date.
- Discounted cash flow ("DCF") aggregator – using the items above to estimate the life-time credit losses for all portfolios and losses for loans modified in a TDR.

During 2019, Old National is focused on refining assumptions and evaluation/analysis of the parallel processing results. Concurrent with this, Old National is also focused on researching and resolving interpretive accounting issues in the ASU contemplating various related accounting policies, developing processes and related controls, and considering various reporting disclosures.

As of the beginning of the first reporting period in which the new standard is effective, Old National expects to recognize a one-time cumulative effect adjustment increasing the allowance for loan losses, since the ASU covers credit losses over the expected life of a loan as well as considering future changes in macroeconomic conditions. The magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements cannot yet be reasonably estimated, however, we expect to identify a range in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019.

In December 2018, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC approved a final rule to address changes to credit loss accounting under GAAP, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of the new accounting standard.

FASB ASC 350 – In January 2017, the FASB issued ASU No. 2017-04, Intangibles: Goodwill and Other: Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, the income tax effects of tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the qualitative impairment test is necessary. The amendments should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. The amendments in this update should be adopted for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted on testing dates after January 1, 2017. Old National is 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 820 – In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The updated guidance improves the disclosure requirements on fair value measurements. The ASU removes certain disclosures required by Topic 820 related to transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements; and for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU modifies certain disclosures required by Topic 820 related to disclosure of transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities for nonpublic entities; the requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly for investments in certain entities that calculate net asset value; and clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The ASU adds certain disclosure requirements related to changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update become effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted. Old National is 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 715 – In August 2018, the FASB issued ASU No. 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this update become effective for fiscal years ending after December 15, 2020 and will not have a material impact on the consolidated financial statements.

FASB ASC 350 – In August 2018, the FASB issued ASU No. 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments in this update become effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal

years. Early adoption is permitted. Old National is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

FASB ASC 842 – In March 2019, the FASB issued ASU No. 2019-01, Leases (Topic 842): Codification Improvements. The amendments in ASU No. 2019-01 align the guidance for fair value of the underlying asset by lessors that are not manufacturers or dealers in Topic 842 with that of existing guidance. As a result, the fair value of the underlying asset at lease commencement is its cost, reflecting any volume or trade discounts that may apply. However, if there has been a significant lapse of time between when the underlying asset is acquired and when the lease commences, the definition of fair value in Topic 820, Fair Value Measurement should be applied. ASU No. 2019-01 also requires lessors within the scope of Topic 942, Financial Services—Depository and Lending, to present all “principal payments received under leases” within investing activities. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. Early adoption is permitted. Old National is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

NOTE 3 – ACQUISITION AND DIVESTITURE ACTIVITY

Acquisition

Klein Financial, Inc.

Effective November 1, 2018, Old National completed the acquisition of Minnesota-based Klein through a 100% stock merger. Klein was a bank holding company with KleinBank as its wholly-owned subsidiary. Founded in 1907 and headquartered in Chaska, Minnesota with 18 full-service branches, KleinBank was the largest family-owned community bank serving the Twin Cities and its western communities. 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, which will enable Old National to achieve economies of scale in these areas.

Pursuant to the merger agreement, each holder of Klein common stock received 7.92 shares of Old National Common Stock per share of Klein common stock such holder owned. The total fair value of consideration for Klein was \$406.5 million, consisting of 22.8 million shares of Old National Common Stock valued at \$406.5 million. Through March 31, 2019, transaction and integration costs of \$15.5 million associated with this acquisition have been expensed and remaining integration costs will be expensed as incurred.

The following table reflects management’s preliminary valuation of the assets acquired and liabilities assumed (in thousands):

| | |
|---------------------------------|-----------|
| Cash and cash equivalents | \$60,759 |
| Investment securities | 697,951 |
| FHLB/Federal Reserve Bank stock | 2,637 |
| Loans held for sale | 3,371 |
| Loans | 1,049,073 |
| Premises and equipment | 33,391 |
| Accrued interest receivable | 7,896 |
| Company-owned life insurance | 36,380 |
| Net deferred tax assets | 6,500 |

| | |
|--|-------------|
| Other real estate owned | 954 |
| Other assets | 10,299 |
| Deposits | (1,713,086) |
| Securities sold under agreements to repurchase | (19,481) |
| Accrued expenses and other liabilities | (17,506) |
| Net tangible assets acquired | 159,138 |
| Definite-lived intangible assets acquired | 39,017 |
| Loan servicing rights | 285 |
| Goodwill | 208,034 |
| Total consideration | \$406,474 |

Certain loans and premises and equipment measurements have not been finalized and are subject to change. As Old National receives the information related to facts and circumstances that existed as of the acquisition date, we will finalize the provisional measurements recorded as of March 31, 2019. Such adjustments will be included in the allocation in the reporting period in which the final amounts are determined, not to exceed one year from the acquisition date.

Goodwill related to this acquisition will not be deductible for tax purposes.

The estimated fair value of the core deposit intangible was \$39.0 million and is being amortized over an estimated useful life of 12 years.

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

| (in thousands) | Fair Value of Acquired Loans at Acquisition Date | Gross Contractual Cash Flows at Acquisition Date | Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected |
|----------------------------------|--|--|--|
| Acquired receivables subject to | | | |
| ASC 310-30 | \$ 11,663 | \$ 18,568 | \$ 4,521 |
| Acquired receivables not subject | | | |
| to ASC 310-30 | \$ 1,037,410 | \$ 1,252,954 | \$ 76,534 |

NOTE 4 – NET INCOME PER SHARE

Basic and diluted net income per share are calculated using the two-class method. Net income is divided by the weighted-average number of common shares outstanding during the period. Adjustments to the weighted average number of common shares outstanding are made only when such adjustments will dilute net income per common share. Net income is then divided by the weighted-average number of common shares and common share equivalents during the period.

The following table reconciles basic and diluted net income per share for the three months ended March 31, 2019 and 2018:

| (dollars and shares in thousands, except per share data) | Three Months Ended March 31, | |
|---|---------------------------------|----------|
| | 2019 | 2018 |
| Basic Net Income Per Share | | |
| Net income | \$56,276 | \$47,983 |
| Weighted average common shares outstanding | 174,734 | 151,721 |

| | | |
|--|----------|----------|
| Basic Net Income Per Share | \$0.32 | \$0.32 |
| Diluted Net Income Per Share | | |
| Net income | \$56,276 | \$47,983 |
| Weighted average common shares outstanding | 174,734 | 151,721 |
| Effect of dilutive securities: | | |
| Restricted stock | 582 | 569 |
| Stock options (1) | 52 | 80 |
| Weighted average shares outstanding | 175,368 | 152,370 |
| Diluted Net Income Per Share | \$0.32 | \$0.31 |

(1) Options to purchase 14 thousand shares and 15 thousand shares outstanding at March 31, 2019 and 2018, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

NOTE 5 – INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at March 31, 2019 and December 31, 2018 and the corresponding amounts of unrealized gains and losses therein:

| (dollars in thousands) | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|-------------------|---------------------|----------------------|---------------|
| March 31, 2019 | | | | |
| Available-for-Sale | | | | |
| U.S. Treasury | \$9,739 | \$ 51 | \$(13) | \$9,777 |
| U.S. government-sponsored entities and agencies | 703,398 | 172 | (5,056) | 698,514 |
| Mortgage-backed securities - Agency | 2,557,848 | 25,070 | (22,215) | 2,560,703 |
| States and political subdivisions | 944,149 | 21,883 | (596) | 965,436 |
| Pooled trust preferred securities | 13,850 | — | (5,727) | 8,123 |
| Other securities | 327,621 | 2,573 | (2,975) | 327,219 |
| Total available-for-sale securities | \$4,556,605 | \$ 49,749 | \$(36,582) | \$4,569,772 |
| Held-to-Maturity | | | | |
| U.S. government-sponsored entities and agencies | \$74,195 | \$30 | \$(39) | \$74,186 |
| Mortgage-backed securities - Agency | 123,627 | 366 | (135) | 123,858 |
| States and political subdivisions | 287,012 | 8,880 | (59) | 295,833 |
| Total held-to-maturity securities | \$484,834 | \$9,276 | \$(233) | \$493,877 |
| December 31, 2018 | | | | |
| Available-for-Sale | | | | |
| U.S. Treasury | \$5,332 | \$— | \$(31) | \$5,301 |
| U.S. government-sponsored entities and agencies | 639,458 | 35 | (11,342) | 628,151 |
| Mortgage-backed securities - Agency | 2,243,774 | 9,738 | (44,217) | 2,209,295 |
| States and political subdivisions | 932,757 | 11,113 | (3,441) | 940,429 |
| Pooled trust preferred securities | 13,861 | — | (5,366) | 8,495 |
| Other securities | 337,435 | 486 | (6,176) | 331,745 |
| Total available-for-sale securities | \$4,172,617 | \$21,372 | \$(70,573) | \$4,123,416 |
| Held-to-Maturity | | | | |
| U.S. government-sponsored entities and agencies | \$73,986 | \$— | \$(1,627) | \$72,359 |
| Mortgage-backed securities - Agency | 127,120 | 39 | (2,750) | 124,409 |
| States and political subdivisions | 305,228 | 6,208 | (2,101) | 309,335 |
| Total held-to-maturity securities | \$506,334 | \$6,247 | \$(6,478) | \$506,103 |

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Proceeds from sales or calls of available-for-sale investment securities and the resulting realized gains and realized losses were as follows for the three months ended March 31, 2019 and 2018:

| (dollars in thousands) | Three Months Ended March 31, | |
|--|------------------------------------|-----------|
| | 2019 | 2018 |
| Proceeds from sales of available-for-sale securities | \$8,681 | \$84,257 |
| Proceeds from calls of available-for-sale securities | 23,685 | 17,436 |
| Total | \$32,366 | \$101,693 |

| | | |
|---|----------|----------|
| Realized gains on sales of available-for-sale securities | \$71 | \$2,008 |
| Realized gains on calls of available-for-sale securities | 3 | 1 |
| Realized losses on sales of available-for-sale securities | (148) | (1,257) |
| Realized losses on calls of available-for-sale securities | (29) | (49) |
| Other securities gains (losses) (1) | — | 85 |
| Net debt securities gains (losses) | \$(103) | \$788 |

(1) For the three months ended March 31, 2018, other securities gains (losses) included realized gains and losses of equity securities previously classified as trading securities. For the three months ended March 31, 2019, gains (losses) on equity securities are included in other income.

(1)

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

| (dollars in thousands) | At March 31, 2019 | | Weighted Average Yield | |
|---------------------------|-------------------|---------------|------------------------------|---|
| | Amortized Cost | Fair Value | | |
| Available-for-Sale | | | | |
| Within one year | \$105,019 | \$105,091 | 2.49 | % |
| One to five years | 518,087 | 518,110 | 2.46 | |
| Five to ten years | 583,312 | 590,229 | 3.28 | |
| Beyond ten years | 3,350,187 | 3,356,342 | 2.97 | |
| Total | \$4,556,605 | \$4,569,772 | 2.94 | % |
| Held-to-Maturity | | | | |
| Within one year | \$18,069 | \$18,179 | 4.32 | % |
| One to five years | 34,127 | 35,080 | 3.95 | |
| Five to ten years | 76,905 | 79,823 | 4.49 | |
| Beyond ten years | 355,733 | 360,795 | 3.58 | |
| Total | \$484,834 | \$493,877 | 3.78 | % |

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The following table summarizes the available-for-sale investment securities with unrealized losses at March 31, 2019 and December 31, 2018 by aggregated major security type and length of time in a continuous unrealized loss position:

| (dollars in thousands) | Less than 12 months | | 12 months or longer | | Total | |
|-------------------------------------|---------------------|-------------------|---------------------|-------------------|-------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| March 31, 2019 | | | | | | |
| Available-for-Sale | | | | | | |
| U.S. Treasury | \$4,395 | \$ (2) | \$1,481 | \$ (11) | \$5,876 | \$ (13) |
| U.S. government-sponsored entities | | | | | | |
| and agencies | — | — | 536,114 | (5,056) | 536,114 | (5,056) |
| Mortgage-backed securities - Agency | 37,689 | (179) | 1,130,333 | (22,036) | 1,168,022 | (22,215) |
| States and political subdivisions | 544 | — | 109,859 | (596) | 110,403 | (596) |
| Pooled trust preferred securities | — | — | 8,123 | (5,727) | 8,123 | (5,727) |
| Other securities | 27,648 | (128) | 155,906 | (2,847) | 183,554 | (2,975) |
| Total available-for-sale | \$70,276 | \$ (309) | \$1,941,816 | \$ (36,273) | \$2,012,092 | \$ (36,582) |
| December 31, 2018 | | | | | | |
| Available-for-Sale | | | | | | |
| U.S. Treasury | \$3,829 | \$ (12) | \$1,472 | \$ (19) | \$5,301 | \$ (31) |
| U.S. government-sponsored entities | | | | | | |
| and agencies | 54,701 | (594) | 519,911 | (10,748) | 574,612 | (11,342) |
| Mortgage-backed securities - Agency | 82,289 | (742) | 1,172,984 | (43,475) | 1,255,273 | (44,217) |
| States and political subdivisions | 99,162 | (1,340) | 151,097 | (2,101) | 250,259 | (3,441) |
| Pooled trust preferred securities | — | — | 8,495 | (5,366) | 8,495 | (5,366) |
| Other securities | 94,607 | (1,965) | 143,842 | (4,211) | 238,449 | (6,176) |
| Total available-for-sale | \$334,588 | \$ (4,653) | \$1,997,801 | \$ (65,920) | \$2,332,389 | \$ (70,573) |

The following table summarizes the held-to-maturity investment securities with unrecognized losses at March 31, 2019 and December 31, 2018 by aggregated major security type and length of time in a continuous unrecognized loss position:

| (dollars in thousands) | Less than 12 months | | 12 months or longer | | Total | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|------------|---------------------|
| | Fair Value | Unrecognized Losses | Fair Value | Unrecognized Losses | Fair Value | Unrecognized Losses |
| March 31, 2019 | | | | | | |
| Held-to-Maturity | | | | | | |
| U.S. government-sponsored entities | | | | | | |
| and agencies | \$— | \$ — | \$41,036 | \$ (964) | \$41,036 | \$ (964) |
| Mortgage-backed securities - Agency | — | — | 44,719 | (2,190) | 44,719 | (2,190) |
| States and political subdivisions | — | — | 7,433 | (214) | 7,433 | (214) |
| Total held-to-maturity | \$— | \$ — | \$93,188 | \$ (3,368) | \$93,188 | \$ (3,368) |

December 31, 2018

Held-to-Maturity

U.S. government-sponsored entities

| | | | | | | | | | |
|-------------------------------------|----------|-----------|----------|-----------|------------|----------|-----------|------------|---|
| and agencies | \$— | \$ — | \$72,359 | \$ (4,642 |) | \$72,359 | \$ (4,642 |) | |
| Mortgage-backed securities - Agency | 4,335 | (24 |) | 119,207 | (8,006 |) | 123,542 | (8,030 |) |
| States and political subdivisions | 24,533 | (983 |) | 70,022 | (3,556 |) | 94,555 | (4,539 |) |
| Total held-to-maturity | \$28,868 | \$ (1,007 |) | \$261,588 | \$ (16,204 |) | \$290,456 | \$ (17,211 |) |

The unrecognized losses on held-to-maturity investment securities presented in the table above include unrecognized losses on securities that were transferred from available-for-sale to held-to-maturity totaling \$3.1 million at March 31, 2019 and \$10.7 million at December 31, 2018.

Management evaluates debt securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. 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.

When OTTI occurs, the amount of the OTTI 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 OTTI 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 OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI 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 OTTI related to other factors shall be recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment.

There was no OTTI recorded during the three months ended March 31, 2019 or 2018.

At March 31, 2019, Old National's securities portfolio consisted of 2,057 securities, 532 of which were in an unrealized loss position. The unrealized losses attributable to our U.S. Treasury, U.S. government-sponsored entities and agencies, agency mortgage-backed securities, states and political subdivisions, and other securities are the result of fluctuations in interest rates. Our pooled trust preferred securities are discussed below. At March 31, 2019, 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.

Pooled Trust Preferred Securities

At March 31, 2019, our securities portfolio contained two pooled trust preferred securities with a fair value of \$8.1 million and unrealized losses of \$5.7 million. These securities are not subject to FASB ASC 325-10 and are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. For the three months ended March 31, 2019 and 2018, 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. Both pooled trust preferred securities have experienced credit defaults. However, these securities have excess subordination and are not other-than-temporarily impaired as a result of their class hierarchy, which provides more loss protection.

Trust preferred securities

March 31, 2019

(dollars in thousands)

| Class | Lowest Credit | Amortized Cost | Fair Value | Unrealized Gain/(Loss) | Realized Losses | Currently Performing/Remaining | # of Issuers | Actual Deferrals as a % of Collateral | Expected Defaults as a % of Collateral | Excess Subordination as a % of Collateral |
|-------|---------------|----------------|------------|------------------------|-----------------|--------------------------------|--------------|---------------------------------------|--|---|
| | | | | | | | | | | |

| | Rating | | | | | | | | | |
|---|--------|------|-----------|-----------|-------------|------|-------|-------|------|-------|
| | (1) | | | | | | | | | |
| Pooled trust preferred securities: | | | | | | | | | | |
| Pretsl XXVII LTD | B | B | \$ 4,334 | \$ 2,298 | \$ (2,036) | \$ — | 33/43 | 17.2% | 4.5% | 36.2% |
| Trapeza Ser 13A | A2A | BBB | 9,516 | 5,825 | (3,691) | — | 44/49 | 4.5% | 4.5% | 55.7% |
| | | | 13,850 | 8,123 | (5,727) | — | | | | |
| Single Issuer trust preferred securities: | | | | | | | | | | |
| JP Morgan Chase & Co | | BBB- | 4,790 | 4,375 | (415) | — | | | | |
| Total | | | \$ 18,640 | \$ 12,498 | \$ (6,142) | \$ — | | | | |

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

Equity securities are recorded at fair value and totaled \$6.2 million at March 31, 2019 and \$5.6 million at December 31, 2018. There were gains on equity securities of \$0.2 million during the three months ended March 31, 2019 and \$0.1 million during the three months ended March 31, 2018. Old National also has equity securities without readily determinable fair values that are included in other assets that totaled \$76.6 million at March 31, 2019 and \$79.2 million at December 31, 2018. These are illiquid investments that consist of partnerships, limited liability companies, and other ownership interests that support affordable housing, economic development, and community

revitalization initiatives in low-to-moderate income neighborhoods. There have been no impairments or downward adjustments on these securities in the three months ended March 31, 2019 or 2018.

NOTE 6 – LOANS HELD FOR SALE

Mortgage loans held for immediate sale in the secondary market were \$14.1 million at March 31, 2019, compared to \$14.9 million at December 31, 2018. Residential loans that Old National has originated with the intent to sell are recorded at fair value in accordance with FASB ASC 825-10, *Financial Instruments*. Conventional mortgage production is sold on a servicing retained basis. Certain loans, such as government guaranteed mortgage loans are sold on servicing released basis.

NOTE 7 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Old National's loans 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, Wisconsin, and Minnesota. Old National manages concentrations of credit exposure by industry, product, geography, customer relationship, and loan size. While loans to lessors of both residential and non-residential real estate exceed 10% of total loans, no individual sub-segment category within those broader categories reaches the 10% threshold.

The composition of loans by lending classification was as follows:

| | March 31, 2019 | December 31, 2018 |
|---------------------------|-------------------|-------------------------|
| (dollars in thousands) | | |
| Commercial (1) | \$3,042,790 | \$3,232,970 |
| Commercial real estate: | | |
| Construction | 552,825 | 504,625 |
| Other | 4,470,795 | 4,454,226 |
| Residential real estate | 2,243,885 | 2,248,404 |
| Consumer credit: | | |
| Home equity | 553,264 | 589,322 |
| Auto | 1,034,347 | 1,059,633 |
| Other | 171,071 | 154,712 |
| Total loans | 12,068,977 | 12,243,892 |
| Allowance for loan losses | (55,559) | (55,461) |
| Net loans | \$12,013,418 | \$12,188,431 |

(1) Includes direct finance leases of \$57.6 million at March 31, 2019 and \$60.0 million at December 31, 2018. 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 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 (including Old National), 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.

At 194%, Old National Bank's commercial real estate loans as a percentage of its risk-based capital remained well below the regulatory guideline limit of 300% at March 31, 2019.

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 generally requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Consumer

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

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 PD and 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 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.

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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 months ended March 31, 2019 and 2018 was as follows:

| (dollars in thousands) | Commercial | | | | Total |
|--|------------|-------------|-------------|----------|----------|
| | Commercial | Real Estate | Residential | Consumer | |
| Three Months Ended March 31, 2019 | | | | | |
| Balance at beginning of period | \$ 21,742 | \$ 23,470 | \$ 2,277 | \$ 7,972 | \$55,461 |
| Charge-offs | (160) | (235) | (178) | (2,319) | (2,892) |
| Recoveries | 375 | 570 | 72 | 930 | 1,947 |
| Provision | (1,551) | 1,364 | 131 | 1,099 | 1,043 |
| Balance at end of period | \$ 20,406 | \$ 25,169 | \$ 2,302 | \$ 7,682 | \$55,559 |
| Three Months Ended March 31, 2018 | | | | | |
| Balance at beginning of period | \$ 19,246 | \$ 21,436 | \$ 1,763 | \$ 7,936 | \$50,381 |
| Charge-offs | (245) | (3) | (362) | (2,075) | (2,685) |
| Recoveries | 511 | 484 | 148 | 1,162 | 2,305 |
| Provision | 79 | (1,121) | 214 | 1,208 | 380 |
| Balance at end of period | \$ 19,591 | \$ 20,796 | \$ 1,763 | \$ 8,231 | \$50,381 |

The following table provides Old National's recorded investment in loans by portfolio segment at March 31, 2019 and December 31, 2018 and other information regarding the allowance:

| (dollars in thousands) | Commercial | | | | Total |
|---------------------------------------|-------------|-------------|-------------|-------------|--------------|
| | Commercial | Real Estate | Residential | Consumer | |
| March 31, 2019 | | | | | |
| Allowance for loan losses: | | | | | |
| Individually evaluated for impairment | \$4,534 | \$6,336 | \$— | \$— | \$10,870 |
| Collectively evaluated for impairment | 15,867 | 18,680 | 2,301 | 7,528 | 44,376 |
| Loans acquired with deteriorated | | | | | |
| credit quality | 5 | 153 | 1 | 154 | 313 |
| Total allowance for loan losses | \$20,406 | \$25,169 | \$2,302 | \$7,682 | \$55,559 |
| Loans and leases outstanding: | | | | | |
| Individually evaluated for impairment | \$34,660 | \$78,055 | \$— | \$— | \$112,715 |
| Collectively evaluated for impairment | 3,002,256 | 4,921,352 | 2,234,966 | 1,755,393 | 11,913,967 |
| Loans acquired with deteriorated | | | | | |
| credit quality | 5,874 | 24,213 | 8,919 | 3,289 | 42,295 |
| Total loans and leases outstanding | \$3,042,790 | \$5,023,620 | \$2,243,885 | \$1,758,682 | \$12,068,977 |

December 31, 2018

Allowance for loan losses:

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| | | | | | |
|---------------------------------------|-------------|-------------|-------------|-------------|--------------|
| Individually evaluated for impairment | \$6,035 | \$8,306 | \$— | \$— | \$14,341 |
| Collectively evaluated for impairment | 15,700 | 14,845 | 2,276 | 7,821 | 40,642 |
| Loans acquired with deteriorated | | | | | |
| credit quality | 7 | 319 | 1 | 151 | 478 |
| Total allowance for loan losses | \$21,742 | \$23,470 | \$2,277 | \$7,972 | \$55,461 |
| Loans and leases outstanding: | | | | | |
| Individually evaluated for impairment | \$35,410 | \$83,104 | \$— | \$— | \$118,514 |
| Collectively evaluated for impairment | 3,191,367 | 4,850,356 | 2,239,147 | 1,800,115 | 12,080,985 |
| Loans acquired with deteriorated | | | | | |
| credit quality | 6,193 | 25,391 | 9,257 | 3,552 | 44,393 |
| Total loans and leases outstanding | \$3,232,970 | \$4,958,851 | \$2,248,404 | \$1,803,667 | \$12,243,892 |

Credit Quality

Old National's management monitors the credit quality of its loans in an on-going manner. Internally, management assigns an AQR to each non-homogeneous commercial and commercial real estate loan in the portfolio, with the exception of certain FICO-scored small business loans. 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.

The risk category of commercial and commercial real estate loans by class of loans at March 31, 2019 and December 31, 2018 was as follows:

| (dollars in thousands) | | Commercial | | Commercial Real Estate - Construction | | Commercial Real Estate - Other | |
|---|--------------------|--------------------|------------------|---------------------------------------|--------------------|--------------------------------|----------|
| Corporate Credit Exposure | Commercial | December | March | December | March | December | December |
| Credit Risk Profile by Internally Assigned Grade: | March 31, 2019 | 31, 2018 | 31, 2019 | 31, 2018 | March 31, 2019 | 31, 2018 | 31, 2018 |
| Pass | \$2,837,646 | \$3,029,130 | \$494,410 | \$460,158 | \$4,140,815 | \$4,167,902 | |
| Criticized | 106,501 | 98,798 | 43,161 | 29,368 | 119,173 | 110,586 | |
| Classified - substandard | 64,597 | 66,394 | 746 | 1,275 | 141,357 | 102,961 | |
| Classified - nonaccrual | 22,982 | 29,003 | 14,508 | 13,824 | 33,870 | 37,441 | |
| Classified - doubtful | 11,064 | 9,645 | — | — | 35,580 | 35,336 | |
| Total | \$3,042,790 | \$3,232,970 | \$552,825 | \$504,625 | \$4,470,795 | \$4,454,226 | |

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 at March 31, 2019 and December 31, 2018:

| (dollars in thousands) | Residential | Consumer | | |
|------------------------|-------------|-------------|-------------|-----------|
| | | Home Equity | Auto | Other |
| March 31, 2019 | | | | |
| Performing | \$2,218,094 | \$548,501 | \$1,031,049 | \$170,046 |
| Nonperforming | 25,791 | 4,763 | 3,298 | 1,025 |
| Total | \$2,243,885 | \$553,264 | \$1,034,347 | \$171,071 |
| December 31, 2018 | | | | |
| Performing | \$2,223,450 | \$586,235 | \$1,057,038 | \$153,113 |
| Nonperforming | 24,954 | 3,087 | 2,595 | 1,599 |
| Total | \$2,248,404 | \$589,322 | \$1,059,633 | \$154,712 |

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 TDR. 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 PCI loans, is to recognize interest income on impaired loans unless the loan is placed on nonaccrual status.

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The following table shows Old National's impaired loans at March 31, 2019 and December 31, 2018, respectively. Only purchased loans that have experienced subsequent impairment since the date acquired (excluding loans acquired with deteriorated credit quality) are included in the table below.

| (dollars in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---------------------------------------|------------------------|--------------------------------|----------------------|
| March 31, 2019 | | | |
| With no related allowance recorded: | | | |
| Commercial | \$ 25,345 | \$25,552 | \$ — |
| Commercial Real Estate - Construction | 10,953 | 10,953 | — |
| Commercial Real Estate - Other | 39,143 | 40,043 | — |
| Residential | 2,302 | 2,323 | — |
| Consumer | 958 | 1,130 | — |
| With an allowance recorded: | | | |
| Commercial | 9,315 | 9,368 | 4,534 |
| Commercial Real Estate - Construction | 3,555 | 3,555 | 1,634 |
| Commercial Real Estate - Other | 24,404 | 24,404 | 4,702 |
| Residential | 873 | 873 | 44 |
| Consumer | 1,373 | 1,373 | 69 |
| Total | \$ 118,221 | \$ 119,574 | \$ 10,983 |
| December 31, 2018 | | | |
| With no related allowance recorded: | | | |
| Commercial | \$ 22,031 | \$22,292 | \$ — |
| Commercial Real Estate - Other | 41,126 | 41,914 | — |
| Residential | 2,276 | 2,296 | — |
| Consumer | 362 | 535 | — |
| With an allowance recorded: | | | |
| Commercial | 13,379 | 13,432 | 6,035 |
| Commercial Real Estate - Construction | 13,824 | 13,824 | 1,830 |
| Commercial Real Estate - Other | 28,154 | 28,154 | 6,476 |
| Residential | 889 | 889 | 44 |
| Consumer | 2,013 | 2,013 | 101 |
| Total | \$ 124,054 | \$ 125,349 | \$ 14,486 |

The average balance of impaired loans during the three months ended March 31, 2019 and 2018 are included in the table below.

| (dollars in thousands) | Three Months Ended March 31, | |
|---------------------------------------|---------------------------------|----------|
| | 2019 | 2018 |
| Average Recorded Investment | | |
| With no related allowance recorded: | | |
| Commercial | \$23,688 | \$20,714 |
| Commercial Real Estate - Construction | 5,477 | — |

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| | | |
|---------------------------------------|------------|------------|
| Commercial Real Estate - Other | 40,135 | 40,801 |
| Residential | 2,289 | 2,275 |
| Consumer | 660 | 1,842 |
| With an allowance recorded: | | |
| Commercial | 11,347 | 7,468 |
| Commercial Real Estate - Construction | 8,690 | 905 |
| Commercial Real Estate - Other | 26,279 | 23,672 |
| Residential | 881 | 910 |
| Consumer | 1,693 | 2,117 |
| Total | \$ 121,139 | \$ 100,704 |

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Old National does not record interest on nonaccrual loans until principal is recovered. Interest income recognized on impaired loans during the three months ended March 31, 2019 and 2018 was immaterial.

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 interest income. 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 loans at March 31, 2019 and December 31, 2018 were as follows:

| | 30-59 Days Past Due | 60-89 Days Past Due | Past Due 90 Days or More | | Total | |
|-------------------------|------------------------------|------------------------------|-----------------------------------|----------------|------------|---------------|
| | | | Accruing | Nonaccrual (1) | Past Due | Current |
| (dollars in thousands) | | | | | | |
| March 31, 2019 | | | | | | |
| Commercial | \$ 1,308 | \$ 888 | \$ 98 | \$ 34,046 | \$ 36,340 | \$ 3,006,450 |
| Commercial Real Estate: | | | | | | |
| Construction | — | — | — | 14,508 | 14,508 | 538,317 |
| Other | 1,656 | 1,858 | 140 | 69,450 | 73,104 | 4,397,691 |
| Residential | 25,297 | 855 | 49 | 25,791 | 51,992 | 2,191,893 |
| Consumer: | | | | | | |
| Home equity | 786 | 310 | 158 | 4,763 | 6,017 | 547,247 |
| Auto | 4,667 | 790 | 89 | 3,298 | 8,844 | 1,025,503 |
| Other | 494 | 110 | 26 | 1,025 | 1,655 | 169,416 |
| Total loans | \$ 34,208 | \$ 4,811 | \$ 560 | \$ 152,881 | \$ 192,460 | \$ 11,876,517 |
| December 31, 2018 | | | | | | |
| Commercial | \$ 3,627 | \$ 279 | \$ 52 | \$ 38,648 | \$ 42,606 | \$ 3,190,364 |
| Commercial Real Estate: | | | | | | |
| Construction | — | — | — | 13,824 | 13,824 | 490,801 |
| Other | 1,633 | 500 | 40 | 72,777 | 74,950 | 4,379,276 |
| Residential | 25,947 | 3,437 | 258 | 24,954 | 54,596 | 2,193,808 |
| Consumer: | | | | | | |
| Home equity | 1,434 | 960 | 456 | 3,087 | 5,937 | 583,385 |
| Auto | 7,091 | 1,903 | 377 | 2,595 | 11,966 | 1,047,667 |
| Other | 711 | 210 | 170 | 1,599 | 2,690 | 152,022 |
| Total loans | \$ 40,443 | \$ 7,289 | \$ 1,353 | \$ 157,484 | \$ 206,569 | \$ 12,037,323 |

(1) Includes purchased credit impaired loans of \$19.6 million at March 31, 2019 and \$20.5 million at December 31, 2018 that are categorized as nonaccrual for credit analysis purposes because the collection of principal or interest is doubtful. However, these loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

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Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At March 31, 2019, these loans totaled \$952.5 million, of which \$471.6 million had been sold to other financial institutions and \$480.9 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 TDR has occurred, which is when for economic or legal reasons related to a borrower's financial difficulties, Old National 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. Generally, Old National charges off small commercial loans scored through our small business credit center with contractual balances under \$250,000 that are 90 days or more delinquent and do not have adequate collateral support. 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 TDR, the loan is typically written down to its collateral value less selling costs.

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The following table presents activity in TDRs for the three months ended March 31, 2019 and 2018:

| (dollars in thousands) | Commercial | | | | Total |
|-----------------------------------|------------|-------------|-------------|----------|-----------|
| | Commercial | Real Estate | Residential | Consumer | |
| Three Months Ended March 31, 2019 | | | | | |
| Balance at beginning of period | \$ 10,275 | \$ 27,671 | \$ 3,390 | \$ 2,374 | \$ 43,710 |
| (Charge-offs)/recoveries | (7) | (75) | — | (3) | (85) |
| (Payments)/disbursements | (1,029) | (1,562) | (143) | (58) | (2,792) |
| Additions | 2,407 | 3,103 | — | — | 5,510 |
| Balance at end of period | \$ 11,646 | \$ 29,137 | \$ 3,247 | \$ 2,313 | \$ 46,343 |
| Three Months Ended March 31, 2018 | | | | | |
| Balance at beginning of period | \$ 12,088 | \$ 34,705 | \$ 3,315 | \$ 3,895 | \$ 54,003 |
| (Charge-offs)/recoveries | (129) | (10) | 23 | 298 | 182 |
| (Payments)/disbursements | (580) | (773) | (280) | (605) | (2,238) |
| Additions | 539 | 566 | — | 432 | 1,537 |
| Balance at end of period | \$ 11,918 | \$ 34,488 | \$ 3,058 | \$ 4,020 | \$ 53,484 |

TDRs included with nonaccrual loans totaled \$27.0 million at March 31, 2019 and \$26.3 million at December 31, 2018. Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling \$3.8 million at March 31, 2019 and \$3.0 million at December 31, 2018. At March 31, 2019, Old National had committed to lend an additional \$5.0 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 three months ended March 31, 2019 and 2018 are the same except for when the loan modifications involve the forgiveness of principal. The following table presents loans by class modified as TDRs that occurred during the three months ended March 31, 2019 and 2018:

| (dollars in thousands) | Number of Loans | Pre-modification | Post-modification |
|-----------------------------------|-----------------|---------------------------------|---------------------------------|
| | | Outstanding Recorded Investment | Outstanding Recorded Investment |
| Three Months Ended March 31, 2019 | | | |
| TDR: | | | |
| Commercial | 3 | \$ 2,407 | \$ 2,407 |
| Commercial Real Estate - Other | 1 | 3,103 | 3,103 |
| Total | 4 | \$ 5,510 | \$ 5,510 |
| Three Months Ended March 31, 2018 | | | |
| TDR: | | | |
| Commercial | 1 | \$ 539 | \$ 539 |
| Commercial Real Estate - Other | 1 | 566 | 566 |
| Consumer | 1 | 432 | 432 |
| Total | 3 | \$ 1,537 | \$ 1,537 |

The TDRs that occurred during the three months ended March 31, 2019 and 2018 did not have a material impact on the allowance for loan losses and resulted in no charge-offs during the three months ended March 31, 2019 or 2018.

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

TDRs for which there was a payment default within twelve months following the modification were insignificant during the three months ended March 31, 2019 and 2018.

The terms of certain other loans were modified during 2019 and 2018 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 PCI loan is being accounted for as part of a pool, it will not be removed from the pool. As of March 31, 2019, 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

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 prospectively.

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 was as follows:

| | March | December |
|------------------------|---------|----------|
| | 31, | 31, |
| (dollars in thousands) | 2019 | 2018 |
| Commercial | \$5,874 | \$ 6,193 |
| Commercial real estate | 24,213 | 25,391 |

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| | | |
|-----------------------------------|----------|-----------|
| Residential | 8,919 | 9,257 |
| Consumer | 3,289 | 3,552 |
| Carrying amount | 42,295 | 44,393 |
| Allowance for loan losses | (313) | (478) |
| Carrying amount, net of allowance | \$41,982 | \$ 43,915 |

The outstanding balance of loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was \$243.7 million at March 31, 2019 and \$246.9 million at December 31, 2018.

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The accretable difference on PCI loans is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. Accretion recorded as loan interest income totaled \$2.0 million during the three months ended March 31, 2019 and \$4.5 million during the three months ended March 31, 2018. 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 PCI loans, or income expected to be collected, was as follows:

| (dollars in thousands) | Three Months Ended March 31, | |
|--|------------------------------------|----------|
| | 2019 | 2018 |
| Balance at beginning of period | \$25,051 | \$27,835 |
| Accretion of income | (1,968) | (4,526) |
| Reclassifications from (to) nonaccretable difference | 1,306 | 1,379 |
| Disposals/other adjustments | — | 4 |
| Balance at end of period | \$24,389 | \$24,692 |

Included in Old National's allowance for loan losses is \$0.3 million related to the purchased loans disclosed above at March 31, 2019 and \$0.5 million at December 31, 2018.

PCI loans purchased during 2018 for which it was probable at acquisition that all contractually required payments would not be collected were as follows:

| (dollars in thousands) | Klein (1) |
|--|-----------|
| Contractually required payments | \$ 18,568 |
| Nonaccretable difference | (4,521) |
| Cash flows expected to be collected at acquisition | 14,047 |
| Accretable yield | (2,384) |
| Fair value of acquired loans at acquisition | \$ 11,663 |

(1) Old National acquired Klein effective November 1, 2018.

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 8 – OTHER REAL ESTATE OWNED

The following table presents activity in other real estate owned for the three months ended March 31, 2019 and 2018:

| | Three Months Ended March 31, | |
|--------------------------------|------------------------------------|----------|
| (dollars in thousands) | 2019 | 2018 |
| Balance at beginning of period | \$3,232 | \$8,810 |
| Additions | 394 | 550 |
| Sales | (272) | (2,351) |
| Impairments | (75) | (274) |
| Balance at end of period (1) | \$3,279 | \$6,735 |

(1) Includes repossessed personal property of \$0.4 million at March 31, 2019 and \$0.3 million at March 31, 2018. Foreclosed residential real estate property included in the table above totaled \$1.2 million at March 31, 2019 and \$1.3 million at December 31, 2018. Consumer mortgage loans collateralized by residential real property that were in the process of foreclosure totaled \$3.7 million at March 31, 2019 and \$4.9 million at December 31, 2018.

NOTE 9 – PREMISES AND EQUIPMENT

The composition of premises and equipment at March 31, 2019 and December 31, 2018 was as follows:

| (dollars in thousands) | March 31, 2019 | December 31, 2018 |
|------------------------------------|-------------------|-------------------------|
| Land | \$79,314 | \$79,231 |
| Buildings | 372,231 | 365,102 |
| Furniture, fixtures, and equipment | 108,457 | 107,862 |
| Leasehold improvements | 43,153 | 42,288 |
| Total | 603,155 | 594,483 |
| Accumulated depreciation | (112,939) | (108,571) |
| Premises and equipment, net | \$490,216 | \$485,912 |

Depreciation expense was \$6.4 million for the three months ended March 31, 2019, compared to \$5.8 million for the three months ended March 31, 2018.

Finance Leases

Old National leases three branch buildings and certain equipment under finance leases that are included in premises and equipment. See Notes 10 and 16 to the consolidated financial statements for detail regarding these leases.

NOTE 10 – LEASES

Old National adopted FASB Topic 842 as of January 1, 2019. See Note 2 to the consolidated financial statements regarding transition guidance related to the new standard.

Old National determines if an arrangement is or contains a lease at contract inception. Operating leases are included in operating lease right-of-use assets and operating lease liabilities in our consolidated balance sheet at March 31, 2019. Finance leases are included in premises and equipment and other borrowings in our consolidated balance sheets at March 31, 2019 and 2018, and December 31, 2018.

Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. In determining the present value of lease payments, we use the implicit lease rate when readily determinable. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date. The incremental borrowing rate is the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment.

Old National has operating and finance leases for land, office space, banking centers, and equipment. These leases are generally for periods of 10 to 20 years with various renewal options. We include certain renewal options in the measurement of our right-of-use assets and lease liabilities if they are reasonably certain to be exercised. Variable lease payments that are dependent on an index or a rate are initially measured using the index or rate at the commencement date and are included in the measurement of the lease liability. Variable lease payments that are not dependent on an index or a rate are excluded from the measurement of the lease liability and are recognized in profit and loss in accordance with Topic 842. Variable lease payments are defined as payments made for the right to use an asset that vary because of changes in facts or circumstances occurring after the commencement date, other than the passage of time.

We have made a policy election to exclude the recognition requirements of Topic 842 to all classes of leases with original terms of 12 months or less. Instead, the short-term lease payments are recognized in profit or loss on a straight-line basis over the lease term.

Old National has lease agreements with lease and non-lease components, which are generally accounted for separately. For real estate leases, non-lease components and other non-components, such as common area maintenance charges, real estate taxes, and insurance are not included in the measurement of the lease liability since

they are generally able to be segregated. For certain equipment leases, Old National accounts for the lease and non-lease components as a single lease component using the practical expedient available for that class of assets. Additionally, for certain equipment leases, Old National applies a portfolio approach to effectively account for the operating lease right-of-use assets and liabilities.

Old National does not have any material sub-lease agreements.

The components of lease expense were as follows:

| (dollars in thousands) | Three Months Ended March 31, 2019 |
|-------------------------------------|--------------------------------------|
| Operating lease cost | \$ 4,402 |
| Finance lease cost: | |
| Amortization of right-of-use assets | 158 |
| Interest on lease liabilities | 81 |
| Short-term lease cost | 1 |
| Sub-lease income | (179) |
| Total | \$ 4,463 |

Lease expense for operating leases for the three months ended March 31, 2018 was \$4.4 million.

Supplemental balance sheet information related to leases was as follows:

| (dollars in thousands) | March 31, 2019 |
|-------------------------------------|-------------------|
| Operating Leases | |
| Operating lease right-of-use assets | \$109,916 |
| Operating lease liabilities | 114,040 |

| | |
|-----------------------------|-------|
| Finance Leases | |
| Premises and equipment, net | 7,335 |
| Other borrowings | 7,432 |

| | |
|---------------------------------------|-------|
| Weighted-Average Remaining Lease Term | 11.0 |
| Operating leases | years |
| | 12.1 |
| Finance leases | years |

Weighted-Average Discount Rate

| | | |
|------------------|------|---|
| Operating leases | 3.45 | % |
| Finance leases | 4.48 | % |

Supplemental cash flow information related to leases was as follows:

| (dollars in thousands) | Three Months Ended March 31, 2019 |
|---|--------------------------------------|
| Cash paid for amounts included in the measurement of | |
| lease liabilities: | |
| Operating cash flows from operating leases | \$ 4,436 |
| Operating cash flows from finance leases | 81 |
| Financing cash flows from finance leases | 111 |
| Right-of-use assets obtained in exchange for lease obligations: | |
| Operating leases | 117,739 |
| Finance leases | 7,542 |

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The following table presents a maturity analysis of the Company's lease liability by lease classification at March 31, 2019:

| (dollars in thousands) | Operating Leases | Finance Leases |
|------------------------------------|---------------------|-------------------|
| 2019 | \$13,094 | \$573 |
| 2020 | 16,764 | 768 |
| 2021 | 15,690 | 772 |
| 2022 | 14,131 | 778 |
| 2023 | 9,674 | 791 |
| Thereafter | 68,974 | 6,030 |
| Total undiscounted lease payments | 138,327 | 9,712 |
| Less amounts representing interest | (24,287) | (2,280) |
| Lease liability | \$114,040 | \$7,432 |

Old National leases certain office space and buildings to unrelated parties in exchange for consideration. All of these tenant leases are classified as operating leases. The following table presents a maturity analysis of the Company's tenant leases at March 31, 2019:

| (dollars in thousands) | Tenant Leases |
|-----------------------------------|------------------|
| 2019 | \$1,457 |
| 2020 | 1,473 |
| 2021 | 1,200 |
| 2022 | 831 |
| 2023 | 690 |
| Thereafter | 2,538 |
| Total undiscounted lease payments | \$8,189 |

NOTE 11 – GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill for the three months ended March 31, 2019 and 2018:

| (dollars in thousands) | Three Months Ended March 31, | |
|--------------------------------|---------------------------------|-----------|
| | 2019 | 2018 |
| Balance at beginning of period | \$1,036,258 | \$828,051 |
| Acquisition adjustments | — | 753 |
| Balance at end of period | \$1,036,258 | \$828,804 |

Goodwill is reviewed annually for impairment. No events or circumstances since the August 31, 2018 annual impairment test were noted that would indicate it was more likely than not a goodwill impairment exists. See Note 3 to the consolidated financial statements for detail regarding changes in goodwill recorded in 2018 associated with acquisitions.

The gross carrying amount and accumulated amortization of other intangible assets at March 31, 2019 and December 31, 2018 were as follows:

| (dollars in thousands) | Gross Carrying Amount | Accumulated Amortization and Impairment | Net Carrying Amount |
|------------------------------|-----------------------|---|---------------------|
| March 31, 2019 | | | |
| Core deposit | \$ 119,051 | \$ (51,588) |) \$ 67,463 |
| Customer trust relationships | 16,547 | (11,466) |) 5,081 |
| Total intangible assets | \$ 135,598 | \$ (63,054) |) \$ 72,544 |
| December 31, 2018 | | | |
| Core deposit | \$ 129,100 | \$ (57,524) |) \$ 71,576 |
| Customer trust relationships | 16,547 | (11,107) |) 5,440 |
| Total intangible assets | \$ 145,647 | \$ (68,631) |) \$ 77,016 |

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.

Old National reviews other intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. No impairment charges were recorded during the three months ended March 31, 2019 or 2018. Total amortization expense associated with intangible assets was \$4.5 million for the three months ended March 31, 2019, compared to \$3.6 million for the three months ended March 31, 2018.

Estimated amortization expense for future years is as follows:

| (dollars in thousands) | |
|------------------------|-----------|
| 2019 remaining | \$ 12,439 |
| 2020 | 14,091 |
| 2021 | 11,336 |
| 2022 | 9,014 |
| 2023 | 7,053 |
| Thereafter | 18,611 |
| Total | \$ 72,544 |

NOTE 12 – LOAN SERVICING RIGHTS

At March 31, 2019, loan servicing rights derived from loans sold with servicing retained totaled \$24.3 million, compared to \$24.5 million at December 31, 2018. Loans serviced for others are not reported as assets. The principal balance of loans serviced for others was \$3.290 billion at March 31, 2019, compared to \$3.306 billion at December 31, 2018. Approximately 99.7% of the loans serviced for others at March 31, 2019 were residential mortgage loans. Custodial escrow balances maintained in connection with serviced loans were \$25.7 million at March 31, 2019 and \$10.7 million at December 31, 2018.

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The following table summarizes the carrying values and activity related to loan servicing rights and the related valuation allowance for the three months ended March 31, 2019 and 2018:

| (dollars in thousands) | Three Months Ended March 31, | |
|---|------------------------------------|----------|
| | 2019 | 2018 |
| Balance at beginning of period | \$24,512 | \$24,690 |
| Additions | 659 | 770 |
| Amortization | (900) | (1,060) |
| Balance before valuation allowance at end of period | 24,271 | 24,400 |
| Valuation allowance: | | |
| Balance at beginning of period | (15) | (29) |
| (Additions)/recoveries | (2) | 9 |
| Balance at end of period | (17) | (20) |
| Loan servicing rights, net | \$24,254 | \$24,380 |

At March 31, 2019, the fair value of servicing rights was \$26.2 million, which was determined using a discount rate of 12% and a weighted average prepayment speed of 137% PSA. At December 31, 2018, the fair value of servicing rights was \$27.4 million, which was determined using a discount rate of 12% and a weighted average prepayment speed of 119% PSA.

NOTE 13 – QUALIFIED AFFORDABLE HOUSING PROJECTS AND OTHER TAX CREDIT INVESTMENTS

Old National is a limited partner in several tax-advantaged limited partnerships whose purpose is to invest in approved qualified affordable housing, renewable energy, or other renovation or community revitalization projects. As of March 31, 2019, Old National expects to recover its remaining investments through the use of the tax credits that are generated by the investments.

The following table summarizes Old National’s investments in qualified affordable housing projects and other tax credit investments at March 31, 2019 and December 31, 2018:

| (dollars in thousands) | | March 31, 2019 | | December 31, 2018 | |
|------------------------|---------------------------|----------------|----------------|-------------------|------------|
| | | Unfunded | | Unfunded | |
| Investment | Accounting Method | Investment | Commitment (1) | Investment | Commitment |
| LIHTC | Proportional amortization | \$27,554 | \$ 1,365 | \$28,396 | \$ 2,238 |
| FHTC | Equity | 16,815 | 17,027 | 16,815 | 17,945 |
| CRoED | Equity | 13 | — | 17 | 538 |
| Renewable Energy | Equity | 8,907 | 9,536 | 9,176 | 17,827 |
| Total | | \$53,289 | \$ 27,928 | \$54,404 | \$ 38,548 |

(1) All commitments will be paid by Old National by 2027.

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The following table summarizes the amortization expense and tax benefit recognized for Old National's qualified affordable housing projects and other tax credit investments for the three months ended March 31, 2019 and 2018:

| (dollars in thousands) | Amortization Expense (1) | Tax Expense (Benefit) Recognized (2) |
|-----------------------------------|--------------------------|--------------------------------------|
| Three Months Ended March 31, 2019 | | |
| LIHTC | \$ 792 | \$ (1,042) |
| FHTC | — | — |
| Renewable Energy | 260 | (244) |
| Total | \$ 1,052 | \$ (1,286) |
| Three Months Ended March 31, 2018 | | |
| LIHTC | \$ 639 | \$ (831) |
| FHTC | — | (1,948) |
| Renewable Energy | 716 | (3,415) |
| Total | \$ 1,355 | \$ (6,194) |

(1) The amortization expense for the LIHTC investments is included in our income tax expense. The amortization expense for the FHTC and Renewable Energy tax credits is included in noninterest expense.

(2) All of the tax benefits recognized are included in our income tax expense. The tax benefit recognized for the FHTC and Renewable Energy investments primarily reflects the tax credits generated from the investments and excludes the net tax expense (benefit) of the investments' income (loss).

NOTE 14 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities sold under agreements to repurchase are secured borrowings. Old National pledges investment securities to secure these borrowings. The following table presents securities sold under agreements to repurchase and related weighted-average interest rates at or for the three months ended March 31:

| (dollars in thousands) | 2019 | 2018 |
|---|-----------|-----------|
| Outstanding at March 31, | \$342,480 | \$308,189 |
| Average amount outstanding | 361,261 | 342,682 |
| Maximum amount outstanding at any month-end | 367,884 | 336,319 |
| Weighted-average interest rate: | | |
| During the three months ended March 31, | 0.74 % | 0.42 % |
| At March 31, | 0.79 | 0.48 |

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

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At March 31, 2019

Remaining Contractual Maturity of the Agreements

Overnight ~~and~~ to Greater Than

Continuous 30 Days 30-90 Days 90 days Total

(dollars in thousands)

Repurchase Agreements:

| | | | | | | |
|-------------------------------------|------------|------|------|------|------|------------|
| U.S. Treasury and agency securities | \$ 342,480 | \$ — | \$ — | \$ — | \$ — | \$ 342,480 |
|-------------------------------------|------------|------|------|------|------|------------|

| | | | | | | |
|-------|------------|------|------|------|------|------------|
| Total | \$ 342,480 | \$ — | \$ — | \$ — | \$ — | \$ 342,480 |
|-------|------------|------|------|------|------|------------|

The fair value of securities pledged to secure repurchase agreements may decline. Old National has pledged securities valued at 119% of the gross outstanding balance of repurchase agreements at March 31, 2019 to manage this risk.

NOTE 15 – FEDERAL HOME LOAN BANK ADVANCES

The following table summarizes Old National Bank’s FHLB advances at March 31, 2019 and December 31, 2018:

| (dollars in thousands) | March 31, 2019 | December 31, 2018 |
|--|-------------------|-------------------------|
| FHLB advances (fixed rates 1.50% to 6.08% and variable rates 2.81% to 2.94%) maturing April 2019 to October 2028 | \$1,703,573 | \$1,603,643 |
| ASC 815 fair value hedge and other basis adjustments | 16,371 | 9,838 |
| Total other borrowings | \$1,719,944 | \$1,613,481 |

FHLB advances had weighted-average rates of 2.49% at March 31, 2019 and 2.56% at December 31, 2018. Investment securities and residential real estate loans collateralize these borrowings up to 140% of outstanding debt.

Contractual maturities of FHLB advances at March 31, 2019 were as follows:

| (dollars in thousands) | |
|--|-------------|
| Due in 2019 | \$126,408 |
| Due in 2020 | 100,000 |
| Due in 2021 | 20,000 |
| Due in 2022 | 57,000 |
| Due in 2023 | 164 |
| Thereafter | 1,400,001 |
| ASC 815 fair value hedge and other basis adjustments | 16,371 |
| Total | \$1,719,944 |

NOTE 16 – OTHER BORROWINGS

The following table summarizes Old National’s other borrowings at March 31, 2019 and December 31, 2018:

| (dollars in thousands) | March 31, 2019 | December 31, 2018 |
|---|----------------------|-------------------------|
| Old National Bancorp: Senior unsecured notes (fixed rate 4.125%) maturing August 2024 | \$175,000 | \$175,000 |
| Unamortized debt issuance costs related to senior | (831) | (870) |

unsecured notes
 Junior subordinated debentures (variable rates of

3.93% to 6.39%) maturing April 2032

| | | |
|--|-----------|-----------|
| to June 2037 | 60,310 | 60,310 |
| Other basis adjustments | (2,910) | (3,046) |
| Old National Bank: | | |
| Finance lease liabilities | 7,432 | 5,262 |
| Subordinated debentures (fixed rate 5.75%) | 12,000 | 12,000 |
| Other | 583 | (773) |
| Total other borrowings | \$251,584 | \$247,883 |

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Contractual maturities of other borrowings at March 31, 2019 were as follows:

| | |
|---|-----------|
| (dollars in thousands) | |
| Due in 2019 | \$ 338 |
| Due in 2020 | 471 |
| Due in 2021 | 494 |
| Due in 2022 | 521 |
| Due in 2023 | 557 |
| Thereafter | 252,361 |
| Unamortized debt issuance costs and other | |
| basis adjustments | (3,158) |
| Total | \$251,584 |

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.

Junior Subordinated Debentures

Junior subordinated debentures related to trust preferred securities are classified in “other borrowings.” On November 1, 2017, Old National acquired Anchor (MN) and exceeded \$15 billion in assets. As a result, these securities can only be treated as Tier 2 capital for regulatory purposes, subject to certain limitations. Prior to the fourth quarter of 2017, these securities qualified as Tier 1 capital for regulatory purposes.

Through various acquisitions, Old National assumed junior subordinated debenture obligations related to various trusts that issued trust preferred securities. Old National guarantees the payment of distributions on the trust preferred securities issued by the trusts. Proceeds from the issuance of each of these securities were used to purchase junior subordinated debentures with the same financial terms as the securities issued by the trusts.

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.

The following table summarizes the terms of our outstanding junior subordinated debentures at March 31, 2019:

| (dollars in thousands) | | | | Rate at March 31, 2019 | |
|-----------------------------|---------------|--------------------|--------------------------|------------------------------------|--------------------|
| Name of Trust | Issuance Date | Issuance Amount | Rate | | Maturity Date |
| VFSC Capital Trust I | April 2002 | \$3,093 | 6-month LIBOR plus 3.70% | 6.39% | April 22, 2032 |
| VFSC Capital Trust II | October 2002 | 4,124 | 3-month LIBOR plus 3.45% | 6.14% | November 7, 2032 |
| VFSC Capital Trust III | April 2004 | 3,093 | 3-month LIBOR plus 2.80% | 5.39% | September 8, 2034 |
| St. Joseph Capital Trust II | March 2005 | 5,000 | 3-month LIBOR plus 1.75% | 4.36% | March 17, 2035 |
| Anchor Capital Trust III | August 2005 | 5,000 | 3-month LIBOR plus 1.55% | 4.14% | September 30, 2035 |

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| | | | | | |
|---|----------------|----------|--------------------------|-------|--------------------|
| Tower Capital Trust 2 Home Federal Statutory | December 2005 | 8,000 | 3-month LIBOR plus 1.34% | 3.93% | December 30, 2035 |
| Trust I Monroe Bancorp Capital | September 2006 | 15,000 | 3-month LIBOR plus 1.65% | 4.26% | September 15, 2036 |
| Trust I | July 2006 | 3,000 | 3-month LIBOR plus 1.60% | 4.39% | October 7, 2036 |
| Tower Capital Trust 3 Monroe Bancorp Statutory | December 2006 | 9,000 | 3-month LIBOR plus 1.69% | 4.32% | March 1, 2037 |
| Trust II Total | March 2007 | 5,000 | 3-month LIBOR plus 1.60% | 4.21% | June 15, 2037 |
| | | \$60,310 | | | |

Subordinated Debentures

On November 1, 2017, Old National assumed \$12.0 million of subordinated fixed-to-floating notes related to the acquisition of Anchor (MN). The subordinated debentures have a 5.75% fixed rate of interest through October 29, 2020. From October 30, 2020 to the October 30, 2025 maturity date, the debentures have a floating rate of interest equal to the three-month LIBOR rate plus 4.356%.

Finance Lease Liabilities

Old National has long-term finance lease liabilities for certain banking centers totaling \$7.4 million. The economic substance of these leases is that Old National is financing the acquisition of the building through the lease and accordingly, the building is recorded as a right-of-use asset in premises and equipment and the lease is recorded as a liability in other borrowings. The right-of-use assets and lease liabilities are initially measured at the present value of the lease payments over the lease term using Old National's incremental borrowing rate based on the information available at the commencement date of the lease. See Note 10 to the consolidated financial statements for a maturity analysis of the Company's finance lease liabilities.

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes within each classification of AOCI, net of tax, for the three months ended March 31, 2019 and 2018:

| | Unrealized | | | | |
|--|--------------|--------------|-------------|-----------|--------------|
| | Gains and | Unrealized | Gains | | |
| | Losses on | Gains and | and | | |
| | Available- | Losses on | Losses | Defined | |
| | for-Sale | Held-to- | on | Benefit | |
| | Debt | Maturity | Cash | Pension | |
| | Securities | Securities | Hedges | Plans | Total |
| (dollars in thousands) | | | | | |
| Three Months Ended March 31, 2019 | | | | | |
| Balance at beginning of period | \$ (37,348) | \$ (8,515) | \$ 1,099 | \$ (186) | \$ (44,950) |
| Other comprehensive income (loss) before | | | | | |
| reclassifications | 47,711 | — | (296) | — | 47,415 |
| Amounts reclassified from AOCI to income (1) | 79 | 351 | (290) | 15 | 155 |
| Balance at end of period | \$ 10,442 | \$ (8,164) | \$ 513 | \$ (171) | \$ 2,620 |
| Three Months Ended March 31, 2018 | | | | | |
| Balance at beginning of period | \$ (35,557) | \$ (12,107) | \$ (2,337) | \$ (271) | \$ (50,272) |
| Amount reclassified from AOCI to retained | | | | | |
| earnings for cumulative effect of | | | | | |
| change in accounting principle | — | — | (52) | — | (52) |
| Amounts reclassified from AOCI to retained | (7,583) | (2,600) | (509) | (59) | (10,751) |

earnings related to the Tax Cuts and Jobs

Act of 2017

Other comprehensive income (loss) before

| | | | | | |
|--|--------------|-------------|----------|-----------|--------------|
| reclassifications | (8,872) | 4,514 | 3,444 | — | (914) |
| Amounts reclassified from AOCI to income (1) | (593) | 456 | 580 | 20 | 463 |
| Balance at end of period | \$ (52,605) | \$ (9,737) | \$ 1,126 | \$ (310) | \$ (61,526) |

(1) See table below for details about reclassifications to income.

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The following table summarizes the significant amounts reclassified out of each component of AOCI for the three months ended March 31, 2019 and 2018:

| Details about AOCI Components | Amount Reclassified from AOCI Three Months Ended March 31, | | Affected Line Item in the Statement of Income |
|--|---|----------|--|
| (dollars in thousands) | 2019 | 2018 | |
| Unrealized gains and losses on | | | |
| available-for-sale debt securities | \$(103) | \$788 | Net debt securities gains (losses) |
| | 24 | (195) | Income tax (expense) benefit |
| | \$(79) | \$593 | Net income |
| Unrealized gains and losses on | | | |
| held-to-maturity securities | \$(457) | \$(591) | Interest income (expense) |
| | 106 | 135 | Income tax (expense) benefit |
| | \$(351) | \$(456) | Net income |
| Gains and losses on cash flow hedges | | | |
| Interest rate contracts | \$385 | \$(769) | Interest income (expense) |
| | (95) | 189 | Income tax (expense) benefit |
| | \$290 | \$(580) | Net income |
| Amortization of defined benefit | | | |
| pension items | | | |
| Actuarial gains (losses) | \$(20) | \$(51) | Salaries and employee benefits |
| | 5 | 31 | Income tax (expense) benefit |
| | \$(15) | \$(20) | Net income |
| Total reclassifications for the period | \$(155) | \$(463) | Net income |

NOTE 18 – EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan

The Employee Stock Ownership and Savings Plan (the “401(k) Plan”) permits employees to participate the first month following one month of service. During the second quarter of 2018, Old National increased its match to 75% of employee compensation deferral contributions of the first 4% of compensation, and 50% of the next 4% of compensation. The change was retroactive for all of 2018. Contribution expense under the 401(k) Plan was \$2.8 million in the three months ended March 31, 2019, compared to \$1.5 million in the three months ended March 31, 2018.

NOTE 19 – SHARE-BASED COMPENSATION

At March 31, 2019, Old National had 3.9 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

Old National granted 82 thousand time-based restricted stock awards to certain key officers during the three months ended March 31, 2019, with shares vesting generally 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. At March 31, 2019, unrecognized compensation expense was estimated to be \$4.9 million for unvested restricted stock awards. The cost is expected to be recognized over a weighted-average period of 2.0 years.

Old National recorded share-based compensation expense related to restricted stock awards of \$0.6 million, net of tax, during the three months ended March 31, 2019, compared to \$0.5 million, net of tax, during the three months ended March 31, 2018.

Restricted Stock Units

Old National granted 326 thousand shares of performance based restricted stock units to certain key officers during the three months ended March 31, 2019, 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. At March 31, 2019, unrecognized compensation expense was estimated to be \$7.8 million. The cost is expected to be recognized over a weighted-average period of 2.2 years.

Old National recorded share-based compensation expense related to restricted stock units of \$0.8 million, net of tax, during the three months ended March 31, 2019, compared to \$0.9 million, net of tax, during the three months ended March 31, 2018.

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 share-based compensation expense related to these stock options during the three months ended March 31, 2019 or 2018.

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 three months ended March 31, 2019 or 2018. At March 31, 2019, 61 thousand stock appreciation rights remained outstanding.

NOTE 20 – 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:

| (dollars in thousands) | Three Months Ended March 31, | |
|--|------------------------------------|----------|
| | 2019 | 2018 |
| Provision at statutory rate of 21% | \$14,570 | \$11,117 |
| Tax-exempt income: | | |
| Tax-exempt interest | (2,531) | (2,191) |
| Section 291/265 interest disallowance | 111 | 62 |
| Company-owned life insurance income | (669) | (547) |
| Tax-exempt income | (3,089) | (2,676) |
| State income taxes | 1,999 | 1,188 |
| Interim period effective rate adjustment | 688 | 92 |
| Tax credit investments - federal | (420) | (5,769) |
| Other, net | (644) | 1,005 |
| Income tax expense | \$13,104 | \$4,957 |

Effective tax rate 18.9 % 9.4 %

In accordance with ASC 740-270, *Accounting for Interim Reporting*, the provision for income taxes was recorded at March 31, 2019 and 2018 based on the current estimate of the effective annual rate.

The higher effective tax rate during the three months ended March 30, 2019 when compared to the three months ended March 31, 2018 is primarily the result of a decrease in federal tax credits available.

Unrecognized Tax Benefits

Old National has an immaterial amount of unrecognized tax benefits. Old National expects the total amount of unrecognized tax benefits to be reduced to zero in the third quarter of 2019.

Net Deferred Tax Assets

Significant components of net deferred tax assets (liabilities) were as follows at March 31, 2019 and December 31, 2018:

| | March 31, 2019 | December 31, 2018 |
|---|----------------------|-------------------------|
| (dollars in thousands) | | |
| Deferred Tax Assets | | |
| Allowance for loan losses, net of recapture | \$14,458 | \$14,514 |
| Benefit plan accruals | 14,624 | 21,754 |
| Alternative minimum tax credit | 2,545 | 2,545 |
| Net operating loss carryforwards | 30,168 | 31,765 |
| Federal tax credits | 3,116 | 1,779 |
| Deferred gain on securities | 1,844 | 1,976 |
| Acquired loans | 24,857 | 26,956 |
| Operating lease liabilities | 30,451 | — |
| Lease exit obligation | — | 1,025 |
| Unrealized losses on available-for-sale investment securities | — | 11,853 |
| Unrealized losses on held-to-maturity investment securities | 2,391 | 2,497 |
| Tax credit investments and other partnerships | 3,196 | 3,004 |
| Other real estate owned | 144 | 144 |
| Other, net | 2,691 | 3,167 |
| Total deferred tax assets | 130,485 | 122,979 |
| Deferred Tax Liabilities | | |
| Accretion on investment securities | (795) | (595) |
| Purchase accounting | (17,873) | (18,100) |
| Loan servicing rights | (6,080) | (6,141) |
| Premises and equipment | (11,019) | (8,507) |
| Prepaid expenses | (716) | (681) |
| Operating lease right-of-use assets | (29,393) | — |
| Unrealized gains on available-for-sale investment securities | (2,725) | — |
| Unrealized gains on hedges | (167) | (358) |
| Other, net | (2,287) | (1,549) |
| Total deferred tax liabilities | (71,055) | (35,931) |
| Net deferred tax assets | \$59,430 | \$87,048 |

Through the acquisition of Anchor (WI) 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 March 31, 2019 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 (WI), 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 \$13.0 million has not been recognized.

No valuation allowance was recorded at March 31, 2019 or December 31, 2018 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 \$97.1 million at March 31, 2019 and \$104.5 million at December 31, 2018. This federal net operating loss was acquired from the acquisition of Anchor (WI) in 2016. If not used, the federal net operating loss carryforwards will expire from 2028 to 2033. Old National has alternative minimum tax (“AMT”) credit carryforwards totaling \$6.3 million at March 31, 2019 and \$10.1 million at December 31, 2018. The enactment of H.R. 1 eliminates the parallel tax system known as the AMT and allows any existing AMT credits to be used to reduce regular tax or be refunded from 2018 to 2021. ASC 740 allows for the reclassification of the AMT credit from a deferred tax asset to a current tax asset, except for the amount limited by section 382. Old National has \$2.5 million of AMT credit carryforward subject to section 382 limitations. The \$2.5 million is maintained in deferred tax assets and the remaining \$3.8 million has been reclassified to a current tax asset. Old National has federal tax credit carryforwards of \$3.1 million at March 31, 2019 and \$1.8 million at December 31, 2018. The federal tax credits consist mainly of energy efficient home credits, low income housing

credits, and research and development credits that, if not used, will expire from 2025 to 2039. Old National has recorded state net operating loss carryforwards totaling \$165.0 million at March 31, 2019 and \$165.6 million at December 31, 2018. If not used, the state net operating loss carryforwards will expire from 2024 to 2033.

The federal and recorded state net operating loss carryforwards are subject to an annual limitation under Internal Revenue Code section 382. Old National believes that all of the recorded net operating loss carryforwards will be used prior to expiration.

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS

As part of our overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, collars, caps, and floors. The notional amount of these derivative instruments was \$1.332 billion at March 31, 2019 and \$1.482 billion at December 31, 2018. These derivative financial instruments at March 31, 2019 consisted of \$857.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, \$175.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances, and \$300.0 million notional amount interest rate collars related to a variable-rate commercial loan pool. Derivative financial instruments at December 31, 2018 consisted of \$757.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, \$525.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances, and \$200.0 million notional amount interest rate collars related to a variable-rate commercial loan pool. 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 accordance with ASC 815-20-35-1, subsequent changes in fair value for a hedging instrument that has been designated and qualifies as part of a hedging relationship should be accounted for in the following manner:

Cash flow hedges: changes in fair value will be recognized as a component in other comprehensive income.

Fair value hedges: changes in fair value will be recognized concurrently in earnings.

Consistent with this guidance, as long as a hedging instrument is designated and the results of the effectiveness testing support that the instrument qualifies for hedge accounting treatment, 100% of the periodic changes in fair value of the hedging instrument will be accounted for as outlined above. This is the case whether or not economic mismatches exist in the hedging relationship. As a result, there will be no periodic measurement or recognition of ineffectiveness. Rather, the full impact of hedge gains and losses will be recognized in the period in which the hedged transactions impact earnings.

While separate measurement and presentation of ineffectiveness is being eliminated, paragraph 815-20-45-1A requires the change in fair value of the hedging instrument that is included in the assessment of hedge effectiveness be presented in the same income statement line item that is used to present the earnings effect of the hedged item.

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. These derivative contracts do not qualify for hedge accounting. At March 31, 2019, the notional amount of the interest rate lock commitments was \$68.9 million and forward commitments were \$73.5 million. At December 31, 2018, the notional amount of the interest rate lock commitments was \$27.6 million and forward commitments were \$34.5 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 \$877.1 million at March 31, 2019. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were \$793.4 million at December 31, 2018. 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.

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Old National enters into derivative financial instruments as part of its foreign currency risk management strategies. These derivative instruments consist of foreign currency forward contracts to accommodate the business needs of its customers. Old National does not designate these foreign currency forward contracts for hedge accounting treatment. The notional amounts of these foreign currency forward contracts and the offsetting counterparty derivative instruments were \$3.8 million at March 31, 2019 and \$3.6 million at December 31, 2018.

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 Old National's derivative instruments. During the next 12 months, we estimate that \$0.7 million will be reclassified to interest income and \$0.6 million will be reclassified to interest expense.

The following table summarizes the fair value of derivative financial instruments utilized by Old National:

| (dollars in thousands) | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
|---|------------------------------|---------------|------------------------------|---------------|
| March 31, 2019 | | | | |
| Derivatives designated as hedging instruments | | | | |
| Interest rate contracts | Other assets | \$ 18,231 | Other liabilities | \$ 2,351 |
| Total derivatives designated as hedging instruments | | \$ 18,231 | | \$ 2,351 |
| Derivatives not designated as hedging instruments | | | | |
| Interest rate contracts | Other assets | \$ 19,749 | Other liabilities | \$ 8,849 |
| Mortgage contracts | Other assets | 1,872 | Other liabilities | 292 |
| Foreign currency contracts | Other assets | 100 | Other liabilities | 54 |
| Total derivatives not designated as hedging instruments | | \$ 21,721 | | \$ 9,195 |
| Total | | \$ 39,952 | | \$ 11,546 |
| December 31, 2018 | | | | |
| Derivatives designated as hedging instruments | | | | |
| Interest rate contracts | Other assets | \$ 12,741 | Other liabilities | \$ 1,603 |
| Total derivatives designated as hedging instruments | | \$ 12,741 | | \$ 1,603 |
| Derivatives not designated as hedging instruments | | | | |
| Interest rate contracts | Other assets | \$ 15,278 | Other liabilities | \$ 10,562 |
| Mortgage contracts | Other assets | 874 | Other liabilities | 316 |
| Foreign currency contracts | Other assets | 112 | Other liabilities | 69 |
| Total derivatives not designated as hedging instruments | | \$ 16,264 | | \$ 10,947 |
| Total | | \$ 29,005 | | \$ 12,550 |

Summary information about the interest rate swaps designated as fair value hedges is as follows:

| | December | |
|--------------------------------|-------------------|-------------|
| (dollars in thousands) | March 31, 2019 | 31, 2018 |
| Notional amounts | \$857,000 | \$757,000 |
| Weighted average pay rates | 2.49 % | 2.48 % |
| Weighted average receive rates | 2.65 % | 2.70 % |
| Weighted average maturity | 3.6 years | 3.9 years |
| Fair value of swaps | \$16,227 | \$9,683 |

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The effect of derivative instruments in fair value hedging relationships on the consolidated statements of income for the three months ended March 31, 2019 and 2018 were as follows:

| (dollars in thousands) | | | | | Gain (Loss) Recognized in Income on Related Hedged Items |
|---|---|---|---|---|---|
| Derivatives in | Location of Gain or (Loss) Recognized in | Gain (Loss) Recognized in Income on Derivative | Hedged Items in Fair Value Hedging Relationships | Location of Gain or (Loss) Recognized in | |
| Fair Value Hedging Relationships Three Months Ended | in Income on Derivative | on Derivative | | in Income on Related Hedged Item | |
| March 31, 2019 | Interest income/(expense) | \$ 6,552 | Fixed-rate debt | Interest income/(expense) | \$ (6,548) |
| March 31, 2018 | Interest income/(expense) | \$ (720) | Fixed-rate debt | Interest income/(expense) | \$ 722 |

Summary information about the interest rate swaps designated as cash flow hedges is as follows:

| (dollars in thousands) | March 31, 2019 | December 31, 2018 |
|--------------------------------|-------------------|-------------------------|
| Notional amounts | \$175,000 | \$525,000 |
| Weighted average pay rates | 3.01 % | 2.21 % |
| Weighted average receive rates | 2.65 % | 2.63 % |
| Weighted average maturity | 1.9 years | 1.4 years |
| Unrealized gains (losses) | \$(2,351) | \$146 |

Old National has designated its interest rate collars as cash flow hedges. The structure of these instruments is such that Old National pays the counterparty an incremental amount if the collar index exceeds the cap rate. Conversely, Old National receives an incremental amount if it falls below the floor rate. No payments are required if the collar index falls between the cap and floor rates. Summary information about the collars designated as cash flow hedges is as follows:

| (dollars in thousands) | March 31, 2019 | December 31, 2018 |
|------------------------------|-------------------|-------------------------|
| Notional amounts | \$300,000 | \$200,000 |
| Weighted average cap rates | 3.21 % | 3.44 % |
| Weighted average floor rates | 2.21 % | 2.38 % |
| Weighted average rates | 2.49 % | 2.35 % |

| | | |
|---------------------------|-----------|-----------|
| Weighted average maturity | 2.6 years | 2.8 years |
| Unrealized gains (losses) | \$2,004 | \$1,309 |

The effect of derivative instruments in cash flow hedging relationships on the consolidated statements of income for the three months ended March 31, 2019 and 2018 were as follows:

| (dollars in thousands) | | Three Months Ended | | Three Months Ended | |
|-------------------------|---------------------------|---------------------------|----------------|--------------------------|----------------|
| | | March 31, 2019 | March 31, 2018 | March 31, 2019 | March 31, 2018 |
| | | Gain (Loss) Recognized in | | Gain (Loss) Reclassified | |
| Derivatives in | Location of Gain or | Other | | from | |
| Cash Flow Hedging | (Loss) Reclassified | Comprehensive | | AOCI into | |
| Relationships | from AOCI into Income | Income on | | Income | |
| Interest rate contracts | Interest income/(expense) | Derivative | Derivative | Income | Income |
| | | \$(392) | \$4,563 | \$385 | \$(769) |

The effect of derivatives not designated as hedging instruments on the consolidated statements of income for the three months ended March 31, 2019 and 2018 were as follows:

| (dollars in thousands) | Location of Gain or (Loss) | Three Months Ended | |
|---|------------------------------------|--------------------|------------------------------------|
| | | March 31, 2019 | 2018 |
| Derivatives Not Designated as Hedging Instruments | Recognized in Income on Derivative | Gain (Loss) | Recognized in Income on Derivative |
| Interest rate contracts (1) | Other income/(expense) | \$(37) | \$— |
| Mortgage contracts | Mortgage banking revenue | 1,022 | 638 |
| Foreign currency contracts | Other income/(expense) | 3 | 17 |
| Total | | \$988 | \$655 |

(1)Includes the valuation differences between the customer and offsetting swaps.

NOTE 22 – 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.

Old National is not currently involved in any material litigation.

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 \$3.743 billion and standby letters of credit of \$100.2 million at March 31, 2019. At March 31, 2019, approximately \$3.478 billion of the loan commitments had fixed rates and \$265.3 million had floating rates, with the floating interest rates ranging from 1% to 16%. At December 31, 2018, loan commitments totaled \$3.566 billion and standby letters of credit totaled \$319.0 million. These commitments are not reflected in the

consolidated financial statements. The allowance for unfunded loan commitments totaled \$2.2 million at March 31, 2019 and \$2.5 million at December 31, 2018.

Old National had credit extensions with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients totaling \$2.2 million at March 31, 2019 and \$15.5 million at December 31, 2018. Old National provided collateral to the unaffiliated banks to secure credit extensions totaling \$7.8 million at March 31, 2019 and December 31, 2018. Old National did not provide collateral for the remaining credit extensions.

Visa Class B Restricted Shares

In 2008, Old National received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A common shares. This conversion will not occur until the final settlement of certain litigation for which Visa is

indemnified by the holders of Visa's Class B shares, including Old National. Visa funded an escrow account from its initial public offering to settle these litigation claims. Increases in litigation claims requiring Visa to fund the escrow account due to insufficient funds will result in a reduction of the conversion ratio of each Visa Class B share to unrestricted Class A shares. As of March 31, 2019, the conversion ratio was 1.6298. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation, the 56,210 Class B shares that Old National owns at March 31, 2019 are carried at a zero cost basis and are included in other assets with our equity securities that have no readily determinable fair value.

NOTE 23 – 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 Old National to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At March 31, 2019, the notional amount of standby letters of credit was \$100.2 million, which represented the maximum amount of future funding requirements, and the carrying value was \$0.5 million. At December 31, 2018, the notional amount of standby letters of credit was \$319.0 million, which represented the maximum amount of future funding requirements, and the carrying value was \$0.5 million.

Old National is a party in risk participation transactions of interest rate swaps, which had total notional amount of \$38.3 million at March 31, 2019.

NOTE 24 – SEGMENT INFORMATION

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 25 – FAIR VALUE

Fair value is 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. There are three levels of inputs that may be used to measure fair values:

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

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

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

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

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

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

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

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

| (dollars in thousands) | Carrying Value | Fair Value Measurements at March 31, 2019 Using | | |
|---|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets | | | | |
| Equity securities | \$6,235 | \$ 6,235 | \$ — | \$ — |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury | 9,777 | 9,777 | — | — |
| U.S. government-sponsored entities and agencies | 698,514 | — | 698,514 | — |
| Mortgage-backed securities - Agency States and political subdivisions | 2,560,703 | — | 2,560,703 | — |
| Pooled trust preferred securities | 965,436 | — | 965,396 | 40 |
| Other securities | 8,123 | — | — | 8,123 |
| Residential loans held for sale | 327,219 | 30,640 | 296,579 | — |
| Derivative assets | 14,082 | — | 14,082 | — |
| Derivative assets | 39,952 | — | 39,952 | — |
| Financial Liabilities | | | | |
| Derivative liabilities | 11,546 | — | 11,546 | — |

| (dollars in thousands) | Carrying Value | Fair Value Measurements at December 31, 2018 Using | | |
|------------------------|----------------|--|---|---|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Other Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| | | | | |

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| | | | | |
|---|-----------|----------|-----------|-------|
| Financial Assets | | | | |
| Equity securities | \$5,582 | \$ 5,582 | \$ — | \$ — |
| Investment securities available-for-sale: | | | | |
| U.S. Treasury | 5,301 | 5,301 | — | — |
| U.S. government-sponsored entities and agencies | 628,151 | — | 628,151 | — |
| Mortgage-backed securities - Agency | 2,209,295 | — | 2,209,295 | — |
| States and political subdivisions | 940,429 | — | 936,321 | 4,108 |
| Pooled trust preferred securities | 8,495 | — | — | 8,495 |
| Other securities | 331,745 | 30,259 | 301,486 | — |
| Residential loans held for sale | 14,911 | — | 14,911 | — |
| Derivative assets | 29,005 | — | 29,005 | — |
| Financial Liabilities | | | | |
| Derivative liabilities | 12,550 | — | 12,550 | — |

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The table below presents a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| (dollars in thousands) | Pooled Trust Preferred Securities | States and Political Subdivisions |
|---|---|---|
| Three Months Ended March 31, 2019 | | |
| Balance at beginning of period | \$ 8,495 | \$ 4,108 |
| Accretion (amortization) of discount | 4 | — |
| Sales/payments received | (15) | (35) |
| Increase (decrease) in fair value of securities | (361) | — |
| Transfers out of Level 3 | — | (4,033) |
| Balance at end of period | \$ 8,123 | \$ 40 |
| Three Months Ended March 31, 2018 | | |
| Balance at beginning of period | \$ 8,448 | \$ — |
| Accretion of discount | 5 | — |
| Sales/payments received | (288) | — |
| Increase (decrease) in fair value of securities | 30 | — |
| Transfers into Level 3 | — | 4,061 |
| Balance at end of period | \$ 8,195 | \$ 4,061 |

The accretion or amortization of discounts on securities in the table above is included in interest income. An increase in fair value is reflected in the balance sheet as an increase in the fair value of investment securities available-for-sale, an increase in accumulated other comprehensive income, which is included in shareholders' equity, and a decrease in other assets related to the tax impact. A decrease in fair value is reflected in the balance sheet as a decrease in the fair value of investment securities available-for-sale, a decrease in accumulated other comprehensive income, which is included in shareholders' equity, and an increase in other assets related to the tax impact. During the three months ended March 31, 2019, Old National received third party pricing on a \$4.0 million state and political subdivisions security and transferred it out of Level 3. Old National transferred a \$4.1 million state and political subdivisions security to Level 3 during the three months ended March 31, 2018 because Old National could no longer obtain evidence of observable inputs.

The table 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 | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
|-----------------------------------|---------------|-------------------------|-------------------------------|--------------------------------|
| March 31, 2019 | | | | |
| Pooled trust preferred securities | \$8,123 | Discounted cash flow | Constant prepayment rate (a) | 0.00% 3.6% - 4.2% |
| | | | Additional asset defaults (b) | (4.0%) |
| | | | Expected asset recoveries (c) | 0.00% |

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| | | | | |
|-----------------------------------|---------|----------------------|-------------------------------|--------|
| State and political subdivisions | 40 | Discounted cash flow | No observable inputs | N/A |
| | | | Local municipality issuance | |
| | | | Old National owns 100% | |
| | | | Carried at par | |
| December 31, 2018 | | | | |
| Pooled trust preferred securities | \$8,495 | Discounted cash flow | Constant prepayment rate (a) | 0.00% |
| | | | | 6.8% - |
| | | | | 8.5% |
| | | | Additional asset defaults (b) | (7.3%) |
| | | | Expected asset recoveries (c) | 0.00% |
| State and political subdivisions | 4,108 | Discounted cash flow | No observable inputs | N/A |
| | | | Local municipality issuance | |
| | | | Old National owns 100% | |
| | | | Carried at par | |

(a) Assuming no prepayments.

(b) Each currently performing pool asset is assigned a default probability based on the banking environment, which is adjusted for specific issuer evaluation, of 0%, 50%, or 100%.

(c) Each currently defaulted pool asset is assigned a recovery probability based on specific issuer evaluation of 0%, 25%, or 100%.

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

Assets measured at fair value on a non-recurring basis at March 31, 2019 are summarized below:

| | Carrying Value | Fair Value Measurements at March 31, 2019 Using Significant | | |
|--------------------------------------|----------------|---|---------------------------------------|---|
| | | Quoted Active Identical Assets (Level 1) | Others in Observable Assets (Level 2) | Significant Unobservable Inputs (Level 3) |
| (dollars in thousands) | | | | |
| Collateral Dependent Impaired Loans: | | | | |
| Commercial loans | \$4,781 | \$ — | \$ — | \$ 4,781 |
| Commercial real estate loans | 17,146 | — | — | 17,146 |
| Foreclosed Assets: | | | | |
| Commercial | 225 | — | — | 225 |
| Loan servicing rights | 93 | — | 93 | — |

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 \$31.4 million, with a valuation allowance of \$9.5 million at March 31, 2019. Old National recorded provision expense associated with these loans totaling \$1.2 million for the three months ended March 31, 2019. Old National recorded provision recapture associated with impaired commercial and commercial real estate loans that were deemed collateral dependent totaling \$1.6 million for the three months ended March 31, 2018.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of \$0.2 million at March 31, 2019. 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 no write-downs of other real estate owned during the three months ended March 31, 2019 and \$0.3 million during the three months ended March 31, 2018.

Loan servicing rights are evaluated for impairment based upon the fair value of the rights as compared to the carrying amount. If the carrying amount of an individual tranche exceeds fair value, impairment is recorded on that tranche so that the servicing asset is carried at fair value. Fair value is determined at a tranche level, based on market prices for comparable mortgage servicing contracts when available, or alternatively based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model utilizes a discount rate, weighted average prepayment speed, and other economic factors that market participants would use in estimating future net servicing income and that can be validated against available market data (Level 2). The valuation allowance for loan servicing rights with impairments at March 31, 2019 totaled \$17 thousand. Old National recorded impairments

associated with these loan servicing rights totaling \$2 thousand during the three months ended March 31, 2019 and recoveries of \$9 thousand for the three months ended March 31, 2018.

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Assets measured at fair value on a non-recurring basis at December 31, 2018 are summarized below:

| (dollars in thousands) | Carrying Value | Fair Value Measurements at December 31, 2018 Using Significant | | |
|--------------------------------------|----------------|--|-----------------------------------|---|
| | | Quoted Prices for Identical Assets (Level 1) | Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Collateral Dependent Impaired Loans: | | | | |
| Commercial loans | \$7,242 | \$ — | \$ — | \$ 7,242 |
| Commercial real estate loans | 29,125 | — | — | 29,125 |
| Foreclosed Assets: | | | | |
| Residential | 68 | — | — | 68 |
| Loan servicing rights | 104 | — | 104 | — |

At December 31, 2018, impaired commercial and commercial real estate loans had a principal amount of \$49.3 million, with a valuation allowance of \$12.9 million.

Other real estate owned and other repossessed property had a net carrying amount of \$68 thousand at December 31, 2018.

The valuation allowance for loan servicing rights with impairments at December 31, 2018 totaled \$15 thousand.

The table 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 | Valuation Techniques | Unobservable Input | Range (Weighted Average) |
|-------------------------------|------------|--------------------------|---|--------------------------|
| Collateral Dependent Impaired | | | | |
| Loans | | | | |
| Commercial loans | \$4,781 | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 0% - 90% (41%) |
| Commercial real estate loans | 17,146 | Fair value of collateral | Discount for type of property, age of appraisal and current status | 0% - 50% (35%) |
| Foreclosed Assets | | | | |
| Commercial | 225 | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 8% |

December 31, 2018

Collateral Dependent Impaired

Loans

| | | | | |
|------------------------------|---------|--------------------------|---|--------------------|
| Commercial loans | \$7,242 | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 0% - 90% (35%) |
| Commercial real estate loans | 29,125 | Fair value of collateral | Discount for type of property, age of appraisal and current status | 0% - 50% (35%) |
| Foreclosed Assets | | | | |
| Residential | 68 | Fair value of collateral | Discount for type of property, age of appraisal, and current status | 15% - 16% (15%) |

Financial instruments recorded using fair value option

Old National 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.

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Residential loans held for sale

Old National has 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 \$188 thousand for the three months ended March 31, 2019 and \$22 thousand for the three months ended March 31, 2018.

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 at March 31, 2019 and December 31, 2018 was as follows:

| (dollars in thousands) | Aggregate Fair Value | Difference | Contractual Principal |
|---------------------------------|-------------------------|------------|--------------------------|
| March 31, 2019 | | | |
| Residential loans held for sale | \$ 14,082 | \$ 570 | \$ 13,512 |
| December 31, 2018 | | | |
| Residential loans held for sale | \$ 14,911 | \$ 475 | \$ 14,436 |

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:

| (dollars in thousands) | Other Gains and (Losses) | Interest Income | Interest (Expense) | Total Changes in Fair Values Included in Current Period Earnings |
|-----------------------------------|-----------------------------------|--------------------|-----------------------|--|
| Three Months Ended March 31, 2019 | | | | |
| Residential loans held for sale | \$ 90 | \$ 5 | \$ — | \$ 95 |
| Three Months Ended March 31, 2018 | | | | |
| Residential loans held for sale | \$ 35 | \$ — | \$ (4) | \$ 31 |

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The carrying amounts and estimated fair values of financial instruments not carried at fair value at March 31, 2019 and December 31, 2018 were as follows:

| (dollars in thousands) | Carrying Value | Fair Value Measurements at March 31, 2019 Using | | |
|--|----------------|---|---|---|
| | | Quoted Prices for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets | | | | |
| Cash, due from banks, money market, and other interest-earning investments | \$323,116 | \$323,116 | \$— | \$— |
| Investment securities held-to-maturity: | | | | |
| U.S. government-sponsored entities and agencies | 74,195 | — | 74,186 | — |
| Mortgage-backed securities - Agency State and political subdivisions | 123,627 | — | 123,858 | — |
| | 287,012 | — | 295,833 | — |
| Loans, net: | | | | |
| Commercial | 3,022,384 | — | — | 2,961,284 |
| Commercial real estate | 4,998,451 | — | — | 4,915,521 |
| Residential real estate | 2,241,583 | — | — | 2,205,698 |
| Consumer credit | 1,751,000 | — | — | 1,715,516 |
| Accrued interest receivable | 86,279 | 34 | 25,225 | 61,020 |
| Financial Liabilities | | | | |
| Deposits: | | | | |
| Noninterest-bearing demand deposits | \$3,903,314 | \$3,903,314 | \$— | \$— |
| Checking, NOW, savings, and money market interest-bearing deposits | 8,464,358 | 8,464,358 | — | — |
| Time deposits | 2,061,598 | — | 2,046,438 | — |
| Federal funds purchased and interbank borrowings | 325,030 | 325,030 | — | — |
| Securities sold under agreements to repurchase | 342,480 | 342,480 | — | — |
| FHLB advances | 1,719,944 | — | — | 1,731,524 |
| Other borrowings | 251,584 | — | 254,441 | — |
| Accrued interest payable | 7,961 | — | 7,961 | — |
| Standby letters of credit | 482 | — | — | 482 |
| Off-Balance Sheet Financial Instruments | | | | |
| Commitments to extend credit | \$— | \$— | \$— | \$ 4,105 |

| (dollars in thousands) | Carrying Value | Fair Value Measurements at December 31, 2018 Using | | |
|--|----------------|--|---|---|
| | | Quoted Prices for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets | | | | |
| Cash, due from banks, money market, and other interest-earning investments | \$317,165 | \$317,165 | \$— | \$— |
| Investment securities held-to-maturity: | | | | |
| U.S. government-sponsored entities and agencies | 73,986 | — | 72,359 | — |
| Mortgage-backed securities - Agency | 127,120 | — | 124,409 | — |
| State and political subdivisions | 305,228 | — | 309,335 | — |
| Loans, net: | | | | |
| Commercial | 3,211,228 | — | — | 3,161,132 |
| Commercial real estate | 4,935,381 | — | — | 4,781,294 |
| Residential real estate | 2,246,127 | — | — | 2,225,853 |
| Consumer credit | 1,795,695 | — | — | 1,773,352 |
| Accrued interest receivable | 89,464 | 13 | 27,580 | 61,871 |
| Financial Liabilities | | | | |
| Deposits: | | | | |
| Noninterest-bearing demand deposits | \$3,965,380 | \$3,965,380 | \$— | \$— |
| Checking, NOW, savings, and money market interest-bearing deposits | 8,360,313 | 8,360,313 | — | — |
| Time deposits | 2,024,256 | — | 2,002,187 | — |
| Federal funds purchased and interbank borrowings | 270,135 | 270,135 | — | — |
| Securities sold under agreements to repurchase | 362,294 | 362,294 | — | — |
| FHLB advances | 1,613,481 | — | — | 1,611,103 |
| Other borrowings | 247,883 | — | 248,065 | — |
| Accrued interest payable | 9,871 | — | 9,871 | — |
| Standby letters of credit | 525 | — | — | 525 |
| Off-Balance Sheet Financial Instruments | | | | |
| Commitments to extend credit | \$— | \$— | \$— | \$ 3,115 |

The methods utilized to measure the fair value of financial instruments at March 31, 2019 and December 31, 2018 represent an approximation of exit price, however, an actual exit price may differ.

NOTE 26 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Old National's revenue from contracts with customers in the scope of Topic 606 is recognized within noninterest income. The consolidated statements of income include all categories of noninterest income. The following table reflects only the categories of noninterest income that are within the scope of Topic 606:

| (dollars in thousands) | Three Months Ended March 31, | |
|--|------------------------------------|----------|
| | 2019 | 2018 |
| Wealth management fees | \$8,535 | \$9,026 |
| Service charges on deposit accounts | 10,826 | 10,759 |
| Debit card and ATM fees | 5,503 | 4,865 |
| Investment product fees | 5,271 | 5,031 |
| Other income: | | |
| Merchant processing fees | 707 | 641 |
| Gain (loss) on other real estate owned | 40 | 135 |
| Safe deposit box fees | 411 | 404 |
| Insurance premiums and commissions | 200 | 104 |
| Total | \$31,493 | \$30,965 |

Wealth management fees: Old National earns wealth management fees based upon asset custody and investment management services provided to individual and institutional customers. Most of these customers receive monthly or quarterly billings for services rendered based upon the market value of assets in custody. Fees that are transaction based are recognized at the point in time that the transaction is executed.

Service charges on deposit accounts: Old National earns fees from deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees and overdraft fees are recognized at a point in time, since the customer generally has a right to cancel the depository arrangement at any time. The arrangement is considered a day-to-day contract with ongoing renewals and optional purchases, so the duration of the contract does not extend beyond the services already performed. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which Old National satisfies its performance obligation.

Debit card and ATM fees: Debit card and ATM fees include ATM usage fees and debit card interchange income. As with the transaction-based fees on deposit accounts, the ATM fees are recognized at the point in time that Old National fulfills the customer's request. Old National earns interchange fees from cardholder transactions processed through card association networks. Interchange rates are generally set by the card associations based upon purchase volumes and other factors. Interchange fees represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Investment product fees: Investment product fees are the commissions and fees received from a registered broker/dealer and investment adviser that provide those services to Old National customers. Old National acts as an agent in arranging the relationship between the customer and the third-party service provider. These fees are recognized monthly from the third-party broker based upon services already performed, net of the processing fees charged to Old National by the broker.

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

The following discussion is an analysis of our results of operations for the three months ended March 31, 2019 and 2018, and financial condition as of March 31, 2019, compared to March 31, 2018 and December 31, 2018. 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.

FINANCIAL HIGHLIGHTS

The following table sets forth certain financial highlights of Old National:

| (dollars and shares in thousands, except per share data) | Three Months Ended | | |
|---|--------------------|----------------------|-------------------|
| | March 31, 2019 | December 31, 2018 | March 31, 2018 |
| Income Statement: | | | |
| Net interest income | \$147,048 | \$146,225 | \$128,572 |
| Taxable equivalent adjustment (1) | 3,198 | 3,049 | 2,767 |
| Provision for loan losses | 1,043 | 3,390 | 380 |
| Noninterest income | 46,416 | 58,154 | 41,905 |
| Noninterest expense | 123,041 | 150,268 | 117,157 |
| Net income | 56,276 | 47,498 | 47,983 |
| Common Share Data: | | | |
| Weighted average diluted shares | 175,368 | 167,992 | 152,370 |
| Net income (diluted) | \$0.32 | \$0.28 | \$0.31 |
| Cash dividends | 0.13 | 0.13 | 0.13 |
| Common dividend payout ratio (2) | 41 | % 46 | % 41 |
| Book value | \$15.82 | \$15.36 | \$14.32 |
| Stock price | 16.40 | 15.40 | 16.90 |
| Tangible common book value (3) | 9.44 | 9.00 | 8.55 |
| Performance Ratios: | | | |
| Return on average assets | 1.14 | % 1.01 | % 1.10 |
| Return on average common equity | 8.29 | 7.59 | 8.86 |
| Return on tangible common equity (3) | 14.52 | 12.88 | 15.62 |
| Return on average tangible common equity (3) | 14.88 | 13.84 | 15.80 |
| Net interest margin (3) | 3.51 | 3.64 | 3.45 |
| Efficiency ratio (3) | 60.26 | 70.33 | 65.84 |
| Net charge-offs (recoveries) to average loans | 0.03 | 0.02 | 0.01 |

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| | | | |
|---|--------------|--------------|--------------|
| Allowance for loan losses to ending loans | 0.46 | 0.45 | 0.45 |
| Non-performing loans to ending loans | 1.41 | 1.43 | 1.28 |
| Balance Sheet: | | | |
| Total loans | \$12,068,977 | \$12,243,892 | \$11,238,682 |
| Total assets | 20,084,420 | 19,728,435 | 17,496,287 |
| Total deposits | 14,429,270 | 14,349,949 | 12,788,600 |
| Total borrowed funds | 2,639,038 | 2,493,793 | 2,371,292 |
| Total shareholders' equity | 2,751,872 | 2,689,570 | 2,179,118 |
| Nonfinancial Data: | | | |
| Full-time equivalent employees | 2,908 | 2,892 | 2,721 |
| Banking centers | 193 | 191 | 191 |

(1) Calculated using the federal statutory tax rate in effect of 21% for all periods.

(2) Cash dividends per share divided by net income per share (basic).

(3) Represents a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section for reconciliations to GAAP financial measures.

NON-GAAP FINANCIAL MEASURES

Non-GAAP financial measures exclude certain items that are included in the financial results presented in accordance with GAAP. Management believes these non-GAAP financial measures enhance an investor's understanding of the financial results of Old National by providing a meaningful basis for period-to-period comparisons, assisting in operating results analysis, and predicting future performance.

The following table presents GAAP to non-GAAP reconciliations.

| (dollars and shares in thousands, except per share data) | Three Months Ended | | | |
|---|--------------------|-------------|---|--|
| | March 31, 2019 | 2018 | | |
| Tangible common book value: | | | | |
| Shareholders' equity (GAAP) | \$2,751,872 | \$2,179,118 | | |
| Deduct: Goodwill | 1,036,258 | 828,804 | | |
| Intangible assets | 72,544 | 48,833 | | |
| Tangible shareholders' equity (non-GAAP) | \$1,643,070 | \$1,301,481 | | |
| Period end common shares | 173,979 | 152,172 | | |
| Tangible common book value | 9.44 | 8.55 | | |
| Return on tangible common equity: | | | | |
| Net income (GAAP) | \$56,276 | \$47,983 | | |
| Add: Intangible amortization (net of tax) | 3,373 | 2,851 | | |
| Tangible net income (non-GAAP) | \$59,649 | \$50,834 | | |
| Tangible shareholders' equity (non-GAAP) | | | | |
| (see above) | \$1,643,070 | \$1,301,481 | | |
| Return on tangible common equity | 14.52 | % 15.62 | % | |
| Return on average tangible common equity: | | | | |
| Tangible net income (non-GAAP) (see above) | \$59,649 | \$50,834 | | |
| Average shareholders' equity (GAAP) | \$2,714,186 | \$2,166,055 | | |
| Deduct: Average goodwill | 1,036,258 | 828,141 | | |
| Average intangible assets | 74,849 | 51,092 | | |
| Average tangible shareholders' equity (non-GAAP) | \$1,603,079 | \$1,286,822 | | |
| Return on average tangible common equity | 14.88 | % 15.80 | % | |

| | | | | |
|--|---------------|---|---------------|---|
| Net interest margin: | | | | |
| Net interest income (GAAP) | \$ 147,048 | | \$ 128,572 | |
| Taxable equivalent adjustment | 3,198 | | 2,767 | |
| Net interest income - taxable equivalent | | | | |
| | | | | |
| basis (non-GAAP) | \$ 150,246 | | \$ 131,339 | |
| Average earning assets | \$ 17,143,574 | | \$ 15,205,891 | |
| Net interest margin | 3.51 | % | 3.45 | % |
| Efficiency ratio: | | | | |
| Noninterest expense (GAAP) | \$ 123,041 | | \$ 117,157 | |
| Deduct: Intangible amortization expense | 4,472 | | 3,609 | |
| Adjusted noninterest expense | | | | |
| (non-GAAP) | \$ 118,569 | | \$ 113,548 | |
| Net interest income - taxable equivalent | | | | |
| | | | | |
| basis (non-GAAP) (see above) | \$ 150,246 | | \$ 131,339 | |
| Noninterest income | 46,416 | | 41,905 | |
| Deduct: Net debt securities gains (losses) | (103 |) | 788 | |
| Adjusted total revenue (non-GAAP) | | | | |
| | \$ 196,765 | | \$ 172,456 | |
| Efficiency ratio | 60.26 | % | 65.84 | % |

Non-GAAP financial measures have inherent limitations, are not required to be uniformly applied, and are not audited. Although these non-GAAP financial measures are frequently used by investors to evaluate a company, they have limitations as analytical tools, and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. These non-GAAP measures are not necessarily comparable to similar measures that may be represented by other companies.

EXECUTIVE SUMMARY

During the first quarter of 2019, net income was \$56.3 million, or \$0.32 per diluted share. Net income was \$48.0 million, or \$0.31 per diluted share, for the first quarter of 2018.

We will continue to focus on our core strategic principles of basic banking in 2019, which are loan growth, fee-based income, and expense management. We use our low-cost core deposits to fund our commercial loan growth. That loan growth is filtered through our reliable credit process. We have a disciplined expense culture that permeates into all areas and processes. We are committed to driving and sustaining positive operating leverage.

We have continued to re-mix our earning assets towards more productive commercial and commercial real estate loans and out of indirect and other loans.

Loan Growth: Our loan balances, excluding loans held for sale, declined \$174.9 million to \$12.069 billion at March 31, 2019 compared to \$12.244 billion at December 31, 2018. This was primarily driven by a decline in commercial and industrial outstandings which was influenced by seasonal factors, lower line utilization, and elevated levels of prepayments due to sales of businesses.

Net Interest Income: For the three months ended March 31, 2019 compared to the three months ended March 31, 2018, our net interest income increased primarily due to the acquisition of Klein in November 2018 and increased loan yields. This was partially offset by higher costs of interest-bearing liabilities. Net interest income increased slightly in the first quarter of 2019 compared to the fourth quarter of 2018 with a full quarter of positive impact from our recent Klein partnership, substantially offset by fewer days and a change in in the mix of average interest earning assets and interest-bearing liabilities.

Fee Income: Noninterest income increased to \$46.4 million from \$41.9 million for the first quarter of 2019 when compared to the first quarter of 2018 substantially due to higher fee income associated with the Klein partnership.

Expenses: Noninterest expenses increased \$5.9 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018. The increase was primarily attributable to higher expenses associated with the Klein partnership. The first quarter of 2019 compared to the fourth quarter of 2018 decreased \$27.2 million reflecting lower merger and integration charges associated with Klein and continued discipline with respect to expense management.

In regard to future partnerships, we remain an active looker in our target markets and a highly selective, disciplined buyer. We continue to believe in our ability to bring a larger balance sheet with better capital and an enhanced product set to a partner that will allow them to better serve their clients.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the three months ended March 31, 2019 and 2018:

| (dollars in thousands) | Three Months Ended | | % Change | |
|---|--------------------|------------|-------------|---|
| | March 31, 2019 | 2018 | | |
| Income Statement Summary: | | | | |
| Net interest income | \$ 147,048 | \$ 128,572 | 14.4 | % |
| Provision for loan losses | 1,043 | 380 | 174.5 | |
| Noninterest income | 46,416 | 41,905 | 10.8 | |
| Noninterest expense | 123,041 | 117,157 | 5.0 | |
| Other Data: | | | | |
| Return on average common equity | 8.29 | % 8.86 | % | |
| Return on tangible common equity (1) | 14.52 | 15.62 | | |
| Return on average tangible common equity (1) | 14.88 | 15.80 | | |
| Efficiency ratio (1) | 60.26 | 65.84 | | |
| Tier 1 leverage ratio | 8.80 | 8.11 | | |
| Net charge-offs (recoveries) to average loans | 0.03 | 0.01 | | |

(1) Represents a non-GAAP financial measure. Refer to "Non-GAAP Financial Measures" section for reconciliations to GAAP financial measures.

Net Interest Income

Net interest income is the most significant component of our earnings, comprising 76% of revenues for the three months ended March 31, 2019. 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.

The Federal Reserve did not change the discount rate at their March 2019 meeting. The Treasury yield curve flattened as long-term rates declined and short-term interest rates remained flat during the quarter. This could cause our interest rate spread to decline, which may result in a decrease in our net interest income.

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 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, 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 21% for all periods. This analysis portrays the income tax benefits related to tax-exempt assets and helps to facilitate a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make peer comparisons.

| (dollars in thousands) | Three Months Ended | | | |
|--|--------------------|---------------|---|--|
| | March 31, | | | |
| | 2019 | 2018 | | |
| Net interest income | \$ 147,048 | \$ 128,572 | | |
| Conversion to fully taxable equivalent | 3,198 | 2,767 | | |
| Net interest income - taxable equivalent basis | \$ 150,246 | \$ 131,339 | | |
| | | | | |
| Average earning assets | \$ 17,143,574 | \$ 15,205,891 | | |
| | | | | |
| Net interest margin | 3.43 | % 3.38 | % | |
| Net interest margin - taxable equivalent basis | 3.51 | % 3.45 | % | |

The increase in net interest income for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 was primarily due to higher average earning assets of \$1.938 billion. Partially offsetting the higher average earning assets were higher average interest-bearing liabilities of \$1.420 billion in the three months ended March 31, 2019 when compared to the three months ended March 31, 2018. Net interest income for the three months ended March 31, 2019 and 2018 included accretion income (interest income in excess of contractual interest income) associated with acquired loans. Accretion income totaled \$8.9 million in the three months ended March 31, 2019, compared to \$11.0 million in the three months ended March 31, 2018. We expect accretion income on our PCI loans to decrease over time, but this may be offset by future acquisitions.

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The following tables present the average balance sheet for each major asset and liability category, its related interest income and yield, or its expense and rate for the three months ended March 31, 2019 and 2018.

| (tax equivalent basis, dollars in thousands) | Three Months Ended March 31, 2019 | | | Three Months Ended March 31, 2018 | | |
|---|--------------------------------------|---------------------------|----------------|--------------------------------------|---------------------------|----------------|
| | Average Balance | Income (1)/ Expense | Yield/ Rate | Average Balance | Income (1)/ Expense | Yield/ Rate |
| Earning Assets | | | | | | |
| Money market and other interest-earning investments | \$58,701 | \$278 | 1.92 % | \$66,536 | \$90 | 0.55 % |
| Investment securities: | | | | | | |
| Treasury and government sponsored agencies | 705,417 | 3,902 | 2.21 % | 663,096 | 3,424 | 2.07 % |
| Mortgage-backed securities | 2,497,368 | 17,603 | 2.82 % | 1,632,610 | 9,520 | 2.33 % |
| States and political subdivisions | 1,232,355 | 11,453 | 3.72 % | 1,204,855 | 10,478 | 3.48 % |
| Other securities | 497,604 | 4,440 | 3.57 % | 459,458 | 3,669 | 3.19 % |
| Total investment securities | 4,932,744 | 37,398 | 3.03 % | 3,960,019 | 27,091 | 2.74 % |
| Loans: (2) | | | | | | |
| Commercial | 3,122,402 | 36,035 | 4.62 % | 2,759,688 | 28,205 | 4.09 % |
| Commercial real estate | 4,989,622 | 65,076 | 5.22 % | 4,394,002 | 55,787 | 5.08 % |
| Residential real estate loans | 2,259,243 | 23,931 | 4.24 % | 2,176,413 | 21,472 | 3.95 % |
| Consumer | 1,780,862 | 19,398 | 4.42 % | 1,849,233 | 17,828 | 3.91 % |
| Total loans | 12,152,129 | 144,440 | 4.76 % | 11,179,336 | 123,292 | 4.42 % |
| Total earning assets | 17,143,574 | \$182,116 | 4.26 % | 15,205,891 | \$150,473 | 3.97 % |
| Less: Allowance for loan losses | (55,789) | | | (50,953) | | |
| Non-Earning Assets | | | | | | |
| Cash and due from banks | 229,957 | | | 199,132 | | |
| Other assets | 2,490,524 | | | 2,089,790 | | |
| Total assets | \$19,808,266 | | | \$17,443,860 | | |
| Interest-Bearing Liabilities | | | | | | |
| Checking and NOW accounts | \$3,693,886 | \$3,142 | 0.34 % | \$3,067,437 | \$819 | 0.11 % |
| Savings accounts | 2,935,710 | 2,283 | 0.32 % | 3,052,646 | 1,343 | 0.18 % |
| Money market accounts | 1,702,655 | 2,826 | 0.67 % | 1,159,010 | 546 | 0.19 % |
| Time deposits | 2,031,957 | 8,193 | 1.64 % | 1,736,984 | 4,547 | 1.06 % |
| Total interest-bearing deposits | 10,364,208 | 16,444 | 0.64 % | 9,016,077 | 7,255 | 0.33 % |
| Federal funds purchased and interbank borrowings | 316,998 | 1,918 | 2.45 % | 261,353 | 1,017 | 1.58 % |
| Securities sold under agreements to repurchase | 361,261 | 662 | 0.74 % | 342,682 | 359 | 0.42 % |
| FHLB advances | 1,672,376 | 9,931 | 2.41 % | 1,675,700 | 7,780 | 1.88 % |
| Other borrowings | 249,794 | 2,915 | 4.67 % | 248,828 | 2,723 | 4.38 % |
| Total borrowed funds | 2,600,429 | 15,426 | 2.41 % | 2,528,563 | 11,879 | 1.91 % |
| Total interest-bearing liabilities | \$12,964,637 | \$31,870 | 1.00 % | \$11,544,640 | \$19,134 | 0.67 % |
| Noninterest-Bearing Liabilities and Shareholders' Equity | | | | | | |

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| | | |
|--|--------------|--------------|
| Demand deposits | \$3,846,828 | \$3,563,104 |
| Other liabilities | 282,615 | 170,061 |
| Shareholders' equity | 2,714,186 | 2,166,055 |
| Total liabilities and shareholders' equity | \$19,808,266 | \$17,443,860 |

| | | | |
|-------------------------------|---------|--------|---------|
| Net interest rate spread | | 3.26 % | 3.30 % |
| Net interest margin (3) | | 3.51 % | 3.45 % |
| Taxable equivalent adjustment | \$3,198 | | \$2,767 |

(1) Interest income is reflected on a fully taxable equivalent basis.

(2) Includes loans held for sale.

(3) Net interest margin is defined as net interest income on a tax equivalent basis as a percentage of average earning assets.

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The following table presents the dollar amount of changes in taxable equivalent net interest income attributable to changes in the average balances of assets and liabilities and the yields earned or rates paid for the three months ended March 31, 2019 and 2018.

| (dollars in thousands) | From Three Months Ended March 31, 2018 to Three Months Ended March 31, 2019 | | |
|---|--|-------------------------|---------|
| | Total Change | Attributed to Volume | Rate |
| Interest Income | | | |
| Money market and other interest-earning investments | \$188 | \$(26) | \$214 |
| Investment securities (1) | 10,307 | 7,015 | 3,292 |
| Loans (1) | 21,148 | 11,164 | 9,984 |
| Total interest income | 31,643 | 18,153 | 13,490 |
| Interest Expense | | | |
| Checking and NOW deposits | 2,323 | 339 | 1,984 |
| Savings deposits | 940 | (79) | 1,019 |
| Money market deposits | 2,280 | 571 | 1,709 |
| Time deposits | 3,646 | 969 | 2,677 |
| Federal funds purchased and interbank borrowings | 901 | 274 | 627 |
| Securities sold under agreements to repurchase | 303 | 25 | 278 |
| FHLB advances | 2,151 | (33) | 2,184 |
| Other borrowings | 192 | 11 | 181 |
| Total interest expense | 12,736 | 2,077 | 10,659 |
| Net interest income | \$18,907 | \$16,076 | \$2,831 |

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

(1) Interest on investment securities and loans includes the effect of taxable equivalent adjustments of \$2.0 million and \$1.2 million, respectively, during the three months ended March 31, 2019 using the federal statutory rate in effect of 21%.

The increase in the net interest margin on a fully taxable equivalent basis for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 was primarily due to higher yield on interest earning assets, partially offset by higher costs of interest-bearing liabilities and a change in the mix of average interest earning assets and interest-bearing liabilities. Also offsetting the increase in the net interest margin for the three months ended March 31, 2019 were lower yields associated with accretion income on acquired loans. Accretion income represented 21 basis points of the net interest margin for the three months ended March 31, 2019, compared to 28 basis points for the three months ended March 31, 2018. The yield on interest earning assets increased 29 basis points and the cost of interest-bearing liabilities increased 33 basis points in the quarterly year-over-year comparison. The yield on interest earning assets is calculated by dividing annualized taxable equivalent net interest income by average interest earning assets while the cost of interest-bearing liabilities is calculated by dividing annualized interest expense by average interest-bearing liabilities.

Average earning assets were \$17.144 billion for the three months ended March 31, 2019, compared to \$15.206 billion for the three months ended March 31, 2018, an increase of \$1.938 billion, or 13%. The increase in average earning

assets was primarily due to our acquisition of Klein in November 2018. The loan portfolio including loans held for sale, which generally has an average yield higher than the investment portfolio, was approximately 71% of average interest earning assets for the three months ended March 31, 2019, compared to 74% for the three months ended March 31, 2018.

Average loans including loans held for sale increased \$972.8 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to loans acquired from Klein in November 2018. Loans including loans held for sale attributable to the Klein acquisition totaled \$1.052 billion as of the closing date of the acquisition, which was November 1, 2018.

Average investments increased \$972.7 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 reflecting the Klein acquisition.

Average noninterest-bearing deposits increased \$283.7 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018. Average interest-bearing deposits increased \$1.348 billion for

the three months ended March 31, 2019 when compared to the three months ended March 31, 2018. The increases in average deposits also reflected the Klein acquisition.

Average borrowed funds increased \$71.9 million, or 3%, for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018.

Provision for Loan Losses

The provision for loan losses was \$1.0 million for the three months ended March 31, 2019, compared to \$0.4 million for the three months ended March 31, 2018. Net charge-offs totaled \$0.9 million during the three months ended March 31, 2019, compared to net charge-offs of \$0.4 million during the three months ended March 31, 2018. The higher provision for loan losses for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 is the result of an increase in net charge-offs and loan growth. Continued loan growth in future periods, a decline in our current level of recoveries, or an increase in charge-offs could result in an increase in provision expense.

Noninterest Income

We generate revenues in the form of noninterest income through client fees, sales commissions, and other gains and losses from our core banking franchise and other related businesses, such as wealth management, investment consulting, and investment products. The following table details the components in noninterest income for the three months ended March 31, 2019 and 2018:

| (dollars in thousands) | Three Months Ended | | % Change |
|-------------------------------------|--------------------|----------------|----------|
| | March 31, 2019 | March 31, 2018 | |
| Wealth management fees | \$8,535 | \$9,026 | (5.4)% |
| Service charges on deposit accounts | 10,826 | 10,759 | 0.6 |
| Debit card and ATM fees | 5,503 | 4,865 | 13.1 |
| Mortgage banking revenue | 5,011 | 4,192 | 19.5 |
| Investment product fees | 5,271 | 5,031 | 4.8 |
| Capital markets income | 2,517 | 498 | 405.4 |
| Company-owned life insurance | 3,188 | 2,605 | 22.4 |
| Net debt securities gains (losses) | (103) | 788 | (113.1) |
| Other income | 5,668 | 4,141 | 36.9 |
| Total noninterest income | \$46,416 | \$41,905 | 10.8 % |

The increase in noninterest income for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 was primarily due to higher noninterest income attributable to the Klein partnership. Also contributing to the increase in noninterest income was higher capital markets income.

Wealth management fees decreased \$0.5 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to lower personal trust fees.

Service charges and overdraft fees increased \$0.1 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to service charges and overdraft fees attributable to the Klein partnership.

Debit card and ATM fees increased \$0.6 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to higher interchange income attributable to the Klein partnership.

Mortgage banking revenue increased \$0.8 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to strong pipeline growth in the three months ended March 31, 2019.

Capital markets income is comprised of customer interest rate swap fees, foreign currency exchange fees, net gains (losses) on foreign currency adjustments, and tax credit fee income. Capital markets income increased \$2.0 million

for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to higher customer interest rate swap fees and higher tax credit fee income.

Net debt securities gains (losses) decreased \$0.9 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to lower realized gains on sales of available-for-sale securities in 2019, partially offset by lower realized losses on sales of available-for-sale securities in 2019.

Other income increased \$1.5 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to higher other income attributable to the Klein acquisition.

Noninterest Expense

The following table details the components in noninterest expense for the three months ended March 31, 2019 and 2018:

| (dollars in thousands) | Three Months Ended | | | |
|--|--------------------|-----------|-------------|---|
| | March 31, 2019 | 2018 | % Change | % |
| Salaries and employee benefits | \$71,183 | \$64,179 | 10.9 | % |
| Occupancy | 14,578 | 13,280 | 9.8 | |
| Equipment | 4,474 | 3,565 | 25.5 | |
| Marketing | 3,723 | 3,697 | 0.7 | |
| Data processing | 9,341 | 8,400 | 11.2 | |
| Communication | 3,054 | 3,064 | (0.3) |) |
| Professional fees | 2,910 | 2,730 | 6.6 | |
| Loan expenses | 1,912 | 1,744 | 9.6 | |
| Supplies | 755 | 722 | 4.6 | |
| FDIC assessment | 2,087 | 2,645 | (21.1) |) |
| Other real estate owned expense | 36 | 349 | (89.7) |) |
| Amortization of intangibles | 4,472 | 3,609 | 23.9 | |
| Amortization of tax credit investments | 260 | 716 | (63.7) |) |
| Other expense | 4,256 | 8,457 | (49.7) |) |
| Total noninterest expense | \$123,041 | \$117,157 | 5.0 | % |

Noninterest expense increased \$5.9 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to higher operating expenses and acquisition and integration costs associated with Klein. This increase was partially offset by impairments of long-lived assets of \$2.8 million in the three months ended March 31, 2018 related to branch consolidations.

Salaries and employee benefits increased \$7.0 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to higher salaries and employee benefits attributable to the Klein partnership. Also contributing to the increase in salaries and benefits were higher profit sharing expenses and hospitalization expenses.

Occupancy expenses increased \$1.3 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to higher occupancy expenses attributable to the Klein partnership and higher lease expense.

Equipment expenses increased \$0.9 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to higher equipment expenses attributable to the Klein partnership and an increase in small equipment expenses.

Data processing expenses increased \$0.9 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to integration expenses associated with the Klein partnership.

Amortization of intangibles increased \$0.9 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to amortization of core deposit intangibles related to the Klein acquisition.

Amortization of tax credit investments was \$0.3 million for the three months ended March 31, 2019 and \$0.7 million for the three months ended March 31, 2018. The recognition of tax credit amortization expense is contingent upon the successful rehabilitation of a historic building or completion of a solar project within the reporting period. Many factors including weather, labor availability, building regulations, inspections, and other unexpected construction delays related to a rehabilitation project can cause a project to exceed its estimated completion date. Amortization of tax credit investments is expected to be insignificant in 2019. See Note 13 to the consolidated financial statements for additional information on our tax credit investments.

Other expense decreased \$4.2 million for the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 primarily due to impairments of long-lived assets of \$2.8 million in the three months ended March 31, 2018 related to branch consolidations and integration expenses associated with the Anchor (MN) partnership totaling \$1.3 million in the three months ended March 31, 2018.

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 a tax benefit from our tax credit investments and interest on tax-exempt securities and loans. The provision for income taxes, as a percentage of pre-tax income, was 18.9% for the three months ended March 31, 2019, compared to 9.4% for the three months ended March 31, 2018. In accordance with ASC 740-270, *Accounting for Interim Reporting*, the provision for income taxes was recorded at March 31, 2019 based on the current estimate of the effective annual rate. The higher effective tax rate during the three months ended March 31, 2019 when compared to the three months ended March 31, 2018 was primarily the result of a decrease in federal tax credits available. See Note 20 to the consolidated financial statements for additional information.

FINANCIAL CONDITION

Overview

At March 31, 2019, our assets were \$20.084 billion, a \$2.588 billion increase compared to assets of \$17.496 billion at March 31, 2018, and a \$356.0 million increase compared to assets of \$19.728 billion at December 31, 2018. The increase from March 31, 2018 to March 31, 2019 was primarily due to the acquisition of Klein in November 2018, which had \$2.157 billion in assets as of the closing date of the acquisition, including goodwill of \$208.0 million. An increase in investment securities also contributed to the March 31, 2018 to March 31, 2019 increase in assets.

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 equity securities. Earning assets were \$17.413 billion at March 31, 2019, a \$2.174 billion increase compared to earning assets of \$15.239 billion at March 31, 2018, and a \$343.0 million increase compared to earning assets of \$17.070 billion at December 31, 2018.

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 \$74.2 million of U.S. government-sponsored entities and agencies securities, \$123.6 million of fixed-rate mortgage-backed securities, and \$287.0 million of state and political subdivision securities in our held-to-maturity investment portfolio at March 31, 2019.

Equity securities are recorded at fair value and totaled \$6.2 million at March 31, 2019 compared to \$5.6 million at March 31, 2018.

At March 31, 2019, the investment securities portfolio, including equity securities, was \$5.218 billion compared to \$3.897 billion at March 31, 2018, an increase of \$1.321 billion. Investment securities attributable to the Klein

acquisition totaled \$700.6 million as of the closing date of the acquisition. Investment securities represented 30% of earning assets at March 31, 2019, compared to 26% at March 31, 2018 and 28% at December 31, 2018. Excess liquidity generated this quarter resulted in a higher percentage of investment securities compared to December 31, 2018. 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. At March 31, 2019, management does not intend to sell any securities in an unrealized loss position and does not believe we will be required to sell such securities.

The investment securities available-for-sale portfolio had net unrealized gains of \$13.2 million at March 31, 2019, compared to net unrealized losses of \$69.0 million at March 31, 2018, and net unrealized losses of \$49.2 million at December 31, 2018. Net unrealized gains (losses) increased from December 31, 2018 to March 31, 2019 reflecting higher net unrealized gains on mortgage-backed securities and state and political subdivision securities due to a decline in long-term interest rates.

The investment portfolio had an effective duration of 3.65 at March 31, 2019, compared to 4.30 at March 31, 2018, and 4.00 at December 31, 2018. 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 3.03% for the three months ended March 31, 2019, compared to 2.74% for the three months ended March 31, 2018.

Loans Held for Sale

Mortgage loans held for immediate sale in the secondary market were \$14.1 million at March 31, 2019, compared to \$14.9 million at December 31, 2018. Certain mortgage loans are committed for sale at or prior to origination at a contracted price to an outside investor. Other mortgage loans held for immediate sale are hedged with TBA forward agreements and committed for sale when they are ready for delivery 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, beyond customary representations and warranties, and Old National has not experienced material losses arising from these sales. Mortgage originations are subject to volatility due to interest rates and home sales, among other factors.

We have elected the fair value option under FASB ASC 825-10 prospectively for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balance by \$0.6 million at March 31, 2019, compared to \$0.5 million at December 31, 2018.

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans are the largest classification within earning assets, representing 46% of earning assets at March 31, 2019, compared to 48% at March 31, 2018 and 48% at December 31, 2018. At March 31, 2019, commercial and commercial real estate loans were \$8.066 billion, an increase of \$804.8 million, or 11%, compared to March 31, 2018, and a decrease of \$125.4 million, or 2%, compared to December 31, 2018. Commercial and commercial real estate loans attributable to the Klein acquisition totaled \$836.8 million as of the closing date of the acquisition.

Residential Real Estate Loans

At March 31, 2019, residential real estate loans held in our loan portfolio were \$2.244 billion, an increase of \$85.4 million compared to March 31, 2018, and a decrease of \$4.5 million compared to December 31, 2018. Residential real estate loans attributable to the Klein acquisition totaled \$77.7 million as of the closing date of the acquisition. Future increases in interest rates could result in a decline in the level of refinancings and new originations of residential real estate loans.

Consumer Loans

Consumer loans, including automobile loans and personal and home equity loans and lines of credit, decreased \$59.9 million at March 31, 2019 compared to March 31, 2018, and decreased \$45.0 million from December 31, 2018. Old National assumed student loans in the acquisition of Anchor (WI) in May 2016. Old National sold the remaining student loan portfolio totaling \$64.9 million during the second quarter of 2018, resulting in a \$2.2 million

gain that is included in other income on the income statement. Consumer loans attributable to the Klein acquisition totaled \$134.6 million as of the closing date of the acquisition. We continue to see runoff in our less profitable indirect consumer loan portfolio.

Operating Lease Right-of-Use Assets

Operating lease right-of-use assets totaled \$109.9 million at March 31, 2019.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets at March 31, 2019 totaled \$1.109 billion, an increase of \$231.2 million compared to \$877.6 million at March 31, 2018. During 2018, we recorded \$247.1 million of goodwill and other intangible assets associated with the acquisition of Klein.

Net Deferred Tax Assets

Net deferred tax assets decreased \$29.3 million compared to March 31, 2018 primarily due to decreases in net deferred tax assets related to net unrealized gains or losses on available-for-sale investment securities and federal tax credits. Net deferred tax assets decreased \$27.6 million compared to December 31, 2018 primarily due to decreases in net deferred tax assets related to net unrealized gains or losses on available-for-sale investment securities and benefit plan accruals. Future changes in the corporate tax rate could result in a change in value of Old National's deferred tax assets and future income tax expense. See Note 20 to the consolidated financial statements for additional information.

Funding

Total funding, comprised of deposits and wholesale borrowings, was \$17.068 billion at March 31, 2019, an increase of \$1.908 billion from \$15.160 billion at March 31, 2018, and an increase of \$224.6 million from \$16.844 billion at December 31, 2018. Included in total funding were deposits of \$14.429 billion at March 31, 2019, an increase of \$1.640 billion from \$12.789 billion at March 31, 2018, and an increase of \$79.3 million from \$14.350 billion at December 31, 2018. Deposits attributable to the Klein acquisition totaled \$1.713 billion as of the closing date of the acquisition. Noninterest-bearing deposits increased \$247.6 million from March 31, 2018 to March 31,

2019. Interest-bearing checking and NOW deposits increased \$606.5 million from March 31, 2018 to March 31, 2019, while savings deposits decreased \$149.7 million. Money market deposits increased \$650.5 million from March 31, 2018 to March 31, 2019, while time deposits increased \$285.9 million.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At March 31, 2019, wholesale borrowings, including federal funds purchased and interbank borrowings, securities sold under agreements to repurchase, FHLB advances, and other borrowings, totaled \$2.639 billion, an increase of \$267.7 million, or 11%, from March 31, 2018, and an increase of \$145.2 million from December 31, 2018. Wholesale funding as a percentage of total funding was 15% at March 31, 2019, 16% at March 31, 2018, and 15% at December 31, 2018. The increase in wholesale funding from March 31, 2018 to March 31, 2019 was due to increases in federal funds purchased and interbank borrowings, securities sold under agreements to repurchase, FHLB advances, and other borrowings.

Operating Lease Liabilities

Operating lease liabilities totaled \$114.0 million at March 31, 2019.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities decreased \$44.9 million, or 23%, from December 31, 2018 primarily due to incentive payments in the first quarter of 2019 and decreases in unfunded commitments on various tax credit investments.

Capital

Shareholders' equity totaled \$2.752 billion at March 31, 2019, compared to \$2.179 billion at March 31, 2018 and \$2.690 billion at December 31, 2018. Shareholders' equity at March 31, 2019 included \$406.5 million from the 22.8 million shares of Common Stock that were issued in conjunction with the acquisition of Klein. Old National

We also paid cash dividends of \$0.13 per share in the three months ended March 31, 2019, which reduced equity by \$22.8 million. The change in unrealized gains (losses) on available-for-sale investment securities increased equity by \$48.1 million during the three months ended March 31, 2019. The Company's Common Stock is traded on the NASDAQ under the symbol "ONB" with 34,729 shareholders of record at March 31, 2019.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. At March 31, 2019, 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.

At March 31, 2019, Old National's consolidated capital position remains strong as evidenced by the following comparisons of key industry ratios.

| | Regulatory | | | |
|---|------------|-----------|--------|----------|
| | Guidelines | March 31, | | December |
| | Minimum | 2019 | 2018 | 31, |
| | | | | 2018 |
| Risk-based capital: | | | | |
| Tier 1 capital to total average assets (leverage ratio) | 4.00 | % 8.80 | % 8.11 | % 9.17 |
| Common equity Tier 1 capital to risk-adjusted | | | | |
| total assets | 7.00 | 11.77 | 10.71 | 11.36 |

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| | | | | |
|--|-------|-------|-------|-------|
| Tier 1 capital to risk-adjusted total assets | 8.50 | 11.77 | 10.71 | 11.36 |
| Total capital to risk-adjusted total assets | 10.50 | 12.70 | 11.72 | 12.27 |
| Shareholders' equity to assets | N/A | 13.70 | 12.45 | 13.63 |

At March 31, 2019, Old National Bank, Old National's bank subsidiary, maintained a strong capital position as evidenced by the following comparisons of key industry ratios.

| | Regulatory | Well | | | | | | | |
|--|------------|-------------|-----------|--------------|--------|--|--|--|--|
| | Guidelines | Capitalized | March 31, | December 31, | | | | | |
| | Minimum | Guidelines | 2019 | 2018 | | | | | |
| Risk-based capital: | | | | | | | | | |
| Tier 1 capital to total average assets (leverage | | | | | | | | | |
| ratio) | 4.00 | % 5.00 | % 9.30 | % 8.78 | % 9.58 | | | | |
| Common equity Tier 1 capital to risk-adjusted | | | | | | | | | |
| total assets | 7.00 | 6.50 | 12.48 | 11.60 | 11.98 | | | | |
| Tier 1 capital to risk-adjusted total assets | 8.50 | 8.00 | 12.48 | 11.60 | 11.98 | | | | |
| Total capital to risk-adjusted total assets | 10.50 | 10.00 | 12.98 | 12.13 | 12.47 | | | | |

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 Old National. The Risk Appetite Statement addresses the following major risks: strategic, market, liquidity, credit, operational/technology/cyber, 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 these major risks: credit, market, liquidity, operational/technology/cyber, and regulatory/compliance/legal.

Credit Risk

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

Investment Activities

We carry a higher exposure to loss in our pooled trust preferred securities, which are collateralized debt obligations, due to illiquidity in that market and the performance of the underlying collateral. At March 31, 2019, we had pooled trust preferred securities with a fair value of \$8.1 million, or less than 1% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and at March 31, 2019, the unrealized loss on our pooled trust preferred securities was \$5.7 million. The fair value of these securities should improve as we get closer to maturity, but not in all cases. There was no OTTI recorded during the three months ended March 31, 2019 or 2018.

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 5 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 \$341.2 million at March 31, 2019.

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, Wisconsin, and Minnesota. These loans are secured by first mortgages on real estate at 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, 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 LIBOR. 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, and credit scores. We do not offer home equity loan products with reduced documentation.

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

Asset Quality

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

We lend to commercial and commercial real estate clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling, and retailing. Old National manages concentrations of credit exposure by industry, product, geography, customer relationship, and loan size. At March 31, 2019, our average commercial loan size was under \$350,000 and our average commercial real estate loan size was under \$650,000. In addition, while loans to lessors of both residential and non-residential real estate exceed 10% of total loans, no individual sub-segment category within those broader categories reaches the 10% threshold. At March 31, 2019, we 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, Wisconsin, and Minnesota. 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.

On November 1, 2018, Old National closed on its acquisition of Klein. As of the closing date of the acquisition, loans totaled \$1.049 billion and other real estate owned totaled \$1.0 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 March 31, 2019, \$47.8 million met the definition of criticized and \$59.8 million were considered classified (of which \$16.3 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 are included in our summary of under-performing, criticized, and classified assets found below.

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

| (dollars in thousands) | March 31, 2019 | 2018 | December 31, 2018 |
|--|-------------------|-----------|----------------------|
| Nonaccrual loans: | | | |
| Commercial | \$34,046 | \$33,175 | \$ 38,648 |
| Commercial real estate | 83,958 | 60,403 | 86,601 |
| Residential real estate | 25,791 | 21,137 | 24,954 |
| Consumer | 9,086 | 12,581 | 7,281 |
| Total nonaccrual loans (1) | 152,881 | 127,296 | 157,484 |
| Renegotiated loans not on nonaccrual | 17,123 | 16,802 | 17,356 |
| Past due loans (90 days or more and still accruing): | | | |
| Commercial | 98 | 10 | 52 |
| Commercial real estate | 140 | — | 40 |
| Residential real estate | 49 | 16 | 258 |
| Consumer | 273 | 301 | 1,003 |
| Total past due loans | 560 | 327 | 1,353 |
| Other real estate owned | 3,279 | 6,735 | 3,232 |
| Total under-performing assets | \$173,843 | \$151,160 | \$ 179,425 |
| Classified loans (includes nonaccrual, renegotiated, past due 90 days, and other problem loans) | \$364,121 | \$245,746 | \$ 334,785 |
| Other classified assets (2) | 2,715 | 2,987 | 2,820 |
| Criticized loans | 268,836 | 174,873 | 238,752 |
| Total criticized and classified assets | \$635,672 | \$423,606 | \$ 576,357 |
| Asset Quality Ratios: | | | |
| Non-performing loans/total loans (3) (4) | 1.41 | % 1.28 | % 1.43 |
| Under-performing assets/total loans and other real estate owned (3) | 1.44 | 1.34 | 1.47 |
| Under-performing assets/total assets | 0.87 | 0.86 | 0.91 |
| Allowance for loan losses/under-performing assets (5) | 31.96 | 33.33 | 30.91 |
| Allowance for loan losses/nonaccrual loans (1) | 36.34 | 39.58 | 35.22 |

(1) Includes purchased credit impaired loans of \$19.6 million at March 31, 2019, \$11.5 million at March 31, 2018, and \$20.5 million at December 31, 2018 that are categorized as nonaccrual for credit analysis purposes because the collection of principal or interest is doubtful. However, these loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

(2) Includes one pooled trust preferred security and one insurance policy at March 31, 2019.

(3) Loans exclude loans held for sale.

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

(5) 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 \$173.8 million at March 31, 2019, compared to \$151.2 million at March 31, 2018 and \$179.4 million at December 31, 2018. Under-performing assets as a percentage of total loans and other real estate owned at March 31, 2019 were 1.44%, an increase of 10 basis points from 1.34% at March 31, 2018 and a decrease of 3 basis points from 1.47% at December 31, 2018.

Nonaccrual loans increased from March 31, 2018 primarily due to an increase in nonaccrual commercial real estate loans. Nonaccrual loans at March 31, 2019 include \$16.3 million of loans related to the Klein acquisition. As a percentage of nonaccrual loans, the allowance for loan losses was 36.34% at March 31, 2019, compared to 39.58% at March 31, 2018 and 35.22% at December 31, 2018. PCI loans that were included in the nonaccrual category for credit analysis purposes because the collection of principal or interest is doubtful totaled \$19.6 million at March 31, 2019, compared to \$11.5 million at March 31, 2018 and \$20.5 million at December 31, 2018. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

Total criticized and classified assets were \$635.7 million at March 31, 2019, an increase of \$212.1 million from March 31, 2018, and an increase of \$59.3 million from December 31, 2018. Other classified assets include investment securities that fell below investment grade rating totaling \$2.7 million at March 31, 2019, compared to \$3.0 million at March 31, 2018 and \$2.8 million at December 31, 2018.

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 TDR has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, Old National 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. Generally, Old National charges off small commercial loans scored through our small business credit center with contractual balances under \$250,000 that are 90 days or more delinquent and do not have adequate collateral support. 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 TDR, the loan is typically written down to its collateral value less selling costs.

At March 31, 2019, our TDRs consisted of \$11.6 million of commercial loans, \$29.1 million of commercial real estate loans, \$3.3 million of residential loans, and \$2.3 million of consumer loans totaling \$46.3 million. Approximately \$27.0 million of the TDRs at March 31, 2019 were included with nonaccrual loans. At December 31, 2018, our TDRs consisted of \$10.3 million of commercial loans, \$27.6 million of commercial real estate loans, \$3.4 million of

residential loans, and \$2.4 million of consumer loans totaling \$43.7 million. Approximately \$26.3 million of the TDRs at December 31, 2018 were included with nonaccrual loans.

Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling \$3.8 million at March 31, 2019 and \$3.0 million of December 31, 2018. At March 31, 2019, Old National had committed to lend an additional \$5.0 million to customers with outstanding loans that are classified as TDRs.

The terms of certain other loans were modified during 2019 and 2018 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 PCI loan is being accounted for as part of a pool, it will not be removed from the pool. At March 31, 2019, 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 \$0.9 million for the three months ended March 31, 2019, compared to \$0.4 million for the three months ended March 31, 2018. Annualized, net charge-offs (recoveries) to average loans were 0.03% for the three months ended March 31, 2019 compared to 0.01% for the three months ended March 31, 2018. Management will continue its efforts to reduce the level of non-performing loans and may consider the possibility of sales of troubled and non-performing loans, which could result in additional charge-offs to the allowance for loan losses.

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

At March 31, 2019, the allowance for loan losses was \$55.6 million, an increase of \$5.2 million compared to \$50.4 million at March 31, 2018, and an increase of \$0.1 million compared to \$55.5 million at December 31, 2018. Continued loan growth in future periods, a decline in our current level of recoveries, or an increase in charge-offs could result in an increase in provision expense.

As a percentage of total loans excluding loans held for sale, the allowance was 0.46% at March 31, 2019, compared to 0.45% at March 31, 2018 and 0.45% at December 31, 2018.

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The following table provides additional details of the components of the allowance for loan losses, including ASC 450, *Contingencies*, for loans collectively evaluated for impairment, ASC 310-10, *Receivables*, for loans individually evaluated for impairment, and ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, for loans acquired with deteriorated credit quality:

| (dollars in thousands) | Collectively Evaluated for | Individually Evaluated for | Acquired with Deteriorated Credit Quality | Total |
|-----------------------------|-------------------------------|-------------------------------|---|---------------|
| Originated loans | \$8,786,867 | \$ 83,971 | \$ — | \$8,870,838 |
| Acquired loans | 3,213,192 | 32,068 | 65,387 | 3,310,647 |
| Total loans | \$ 12,000,059 | \$ 116,039 | \$ 65,387 | \$ 12,181,485 |
| Remaining purchase discount | (86,092) | (3,324) | (23,092) | (112,508) |
| Loans, net of discount | \$ 11,913,967 | \$ 112,715 | \$ 42,295 | \$ 12,068,977 |
| Allowance, January 1, 2019 | \$40,642 | \$ 14,341 | \$ 478 | \$55,461 |
| Charge-offs | (2,507) | (364) | (21) | (2,892) |
| Recoveries | 992 | 908 | 47 | 1,947 |
| Provision expense | 5,249 | (4,015) | (191) | 1,043 |
| Allowance, March 31, 2019 | \$44,376 | \$ 10,870 | \$ 313 | \$55,559 |

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 \$2.2 million at March 31, 2019, compared to \$2.5 million at December 31, 2018.

Market Risk

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

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

Potential cash flows, sales, or replacement value of many of our assets and liabilities, especially those that earn or pay interest, are sensitive to changes in the general level of interest rates. This interest rate risk arises primarily from our normal business activities of gathering deposits and extending loans. Many factors affect our exposure to changes in

interest rates, such as general economic and financial conditions, customer preferences, historical pricing relationships, and re-pricing characteristics of financial instruments. Our earnings can also be affected by the monetary and fiscal policies of the U.S. Government and its agencies, particularly the Federal Reserve.

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 Old National. 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.

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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 at March 31, 2019 and 2018:

| (dollars in thousands) | Immediate Rate Decrease -50 Basis Points | | Immediate Rate Increase | | |
|--------------------------------------|---|--------------|-------------------------|----------------------|----------------------|
| | Base | | +100 Basis Points | +200 Basis Points | +300 Basis Points |
| March 31, 2019 | | | | | |
| Projected interest income: | | | | | |
| Money market, other interest earning | | | | | |
| investments, and investment | | | | | |
| securities | \$ 323,632 | \$ 335,556 | \$ 352,559 | \$ 368,113 | \$ 382,116 |
| Loans | 1,067,651 | 1,125,848 | 1,242,294 | 1,354,498 | 1,466,586 |
| Total interest income | 1,391,283 | 1,461,404 | 1,594,853 | 1,722,611 | 1,848,702 |
| Projected interest expense: | | | | | |
| Deposits | 97,668 | 139,307 | 229,789 | 320,256 | 410,715 |
| Borrowings | 119,915 | 140,240 | 180,901 | 221,569 | 262,270 |
| Total interest expense | 217,583 | 279,547 | 410,690 | 541,825 | 672,985 |
| Net interest income | \$ 1,173,700 | \$ 1,181,857 | \$ 1,184,163 | \$ 1,180,786 | \$ 1,175,717 |
| Change from base | \$ (8,157) | | \$ 2,306 | \$ (1,071) | \$ (6,140) |
| % change from base | -0.69 % | | 0.20 % | -0.09 % | -0.52 % |
| March 31, 2018 | | | | | |
| Projected interest income: | | | | | |
| Money market, other interest earning | | | | | |
| investments, and investment | | | | | |
| securities | \$ 228,367 | \$ 234,331 | \$ 247,550 | \$ 260,121 | \$ 272,410 |
| Loans | 901,486 | 958,043 | 1,069,783 | 1,180,736 | 1,291,192 |
| Total interest income | 1,129,853 | 1,192,374 | 1,317,333 | 1,440,857 | 1,563,602 |
| Projected interest expense: | | | | | |
| Deposits | 45,434 | 73,864 | 150,906 | 227,942 | 304,974 |
| Borrowings | 94,407 | 109,648 | 140,103 | 170,531 | 200,953 |
| Total interest expense | 139,841 | 183,512 | 291,009 | 398,473 | 505,927 |
| Net interest income | \$ 990,012 | \$ 1,008,862 | \$ 1,026,324 | \$ 1,042,384 | \$ 1,057,675 |
| Change from base | \$ (18,850) | | \$ 17,462 | \$ 33,522 | \$ 48,813 |
| % change from base | -1.87 % | | 1.73 % | 3.32 % | 4.84 % |

Our asset sensitivity decreased year over year primarily due to changes in our hedging strategies, balance sheet mix, investment duration, and prepayment speed behavior.

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 noninterest-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 noninterest-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. At March 31, 2019, our projected net interest income sensitivity based on the asset/liability models we utilize was within the limits of our interest rate risk policy for the scenarios tested.

We use derivative instruments, primarily interest rate swaps, to mitigate interest rate risk, including certain cash flow hedges on variable-rate debt with a notional amount of \$475 million at March 31, 2019. Our derivatives had an estimated fair value gain of \$28.4 million at March 31, 2019, compared to an estimated fair value gain of \$16.5 million at December 31, 2018. See Note 21 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 at March 31, 2019.

(dollars in thousands)

| Maturity Bucket | Amount | Rate |
|-----------------|-------------|--------|
| 2019 | \$1,315,351 | 1.78 % |
| 2020 | 469,375 | 1.67 |
| 2021 | 123,320 | 1.40 |
| 2022 | 58,648 | 1.46 |
| 2023 | 55,408 | 1.73 |
| 2024 and beyond | 39,496 | 1.59 |
| Total | \$2,061,598 | 1.72 % |

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

Moody's Investor Service affirmed the Long-Term Rating of A3 of Old National's senior unsecured/issuer rating on February 2, 2018.

Moody's Investor Service affirmed Old National Bank's long-term deposit rating of Aa3 on February 2, 2018. The bank's short-term deposit rating was affirmed at P-1 and the bank's issuer rating was affirmed at A3.

The rating outlook from Moody's Investor Service is negative. Moody's Investor Service concluded a rating review of Old National Bank on February 2, 2018.

The credit ratings of Old National and Old National Bank at March 31, 2019 are shown in the following table.

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

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. At March 31, 2019, Old National 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 | \$ 61,046 | \$ 262,070 |
| Unencumbered government-issued debt securities | — | 1,954,533 |
| Unencumbered investment grade municipal securities | — | 556,700 |
| Unencumbered corporate securities | — | 142,946 |
| Availability of borrowings: | | |
| Amount available from Federal Reserve discount window* | — | 474,222 |
| Amount available from Federal Home Loan Bank Indianapolis* | — | 671,468 |
| Total available funds | \$ 61,046 | \$ 4,061,939 |

*Based on collateral pledged

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. Old National Bancorp 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, Old National Bancorp has a shelf registration in place with the SEC permitting ready access to the public debt and equity markets. At March 31, 2019, Old National Bancorp's other borrowings outstanding were \$231.6 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 2018 and is not currently required.

Operational/Technology/Cyber Risk

Operational/technology/cyber risk is the potential that inadequate information systems, operational problems, breaches in internal controls, information security breaches, fraud, or unforeseen catastrophes will result in unexpected losses. We maintain frameworks, programs, and internal controls to prevent or minimize financial loss from failure of systems, people, or processes. This includes specific programs and frameworks intended to prevent or limit the effects of cyber risks including cyber-attacks or other information security breaches that might allow unauthorized transactions or unauthorized access to customer, associate, or company sensitive information. Metrics and measurements are used by Executive Leaders in the management of day-to-day operations to ensure effective customer service, minimization of service disruptions, and oversight of operational and cyber risk. We continually monitor and report on operational, technology, and cyber risks related to clients, products, and business practices; external and internal fraud; business disruptions and systems failures; cyber-attacks, information security or data breaches; damage to physical assets; and execution, delivery, and process management.

The Enterprise Risk Management Committee of the Board of Directors is responsible for the oversight, guidance, and monitoring of risks, including operational/technology/cyber risks, being taken by the Company. The monitoring is accomplished through on-going review of management reports, data on risks, policy limits and discussion on enterprise risk management strategies, policies, and risk assessments.

Regulatory/Compliance/Legal Risk

Regulatory/compliance/legal risk is the risk that the Company violated or was not in compliance with applicable laws, regulations or practices, industry standards, or ethical standards. The legal portion assesses the risk that unenforceable contracts, lawsuits, or adverse judgments can disrupt or otherwise negatively impact the Company. The Board of Directors expects we will perform business in a manner compliant with applicable laws and/or regulations and expects issues to be identified, analyzed, and remediated in a timely and complete manner.

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 \$3.743 billion and standby letters of credit of \$100.2 million at March 31, 2019. At March 31, 2019, approximately \$3.478 billion of the loan commitments had fixed rates and \$265.3 million had floating rates, with the floating rates ranging from 1% to 16%. At December 31, 2018, loan commitments were \$3.566 billion and standby letters of credit were \$319.0 million. The term of these off-balance sheet arrangements is typically one year or less.

Old National is a party in risk participation transactions of interest rate swaps, which had total notional amount of \$38.3 million at March 31, 2019.

CONTRACTUAL OBLIGATIONS

The following table presents our significant fixed and determinable contractual obligations at March 31, 2019:

| (dollars in thousands) | Payments Due In | | | | Total |
|---|-------------------------|-----------------------|------------------------|--------------------|--------------|
| | One Year or Less (1) | One to Three Years | Three to Five Years | Over Five Years | |
| Deposits without stated maturity IRAs, consumer, and brokered certificates of deposit | \$12,367,672 | \$— | \$— | \$— | \$12,367,672 |
| Federal funds purchased and interbank borrowings | 1,315,351 | 592,695 | 114,056 | 39,496 | 2,061,598 |
| Securities sold under agreements to repurchase | 325,030 | — | — | — | 325,030 |
| FHLB advances | 342,480 | — | — | — | 342,480 |
| Other borrowings | 126,408 | 120,000 | 57,164 | 1,416,372 | 1,719,944 |
| Fixed interest payments (2) | 338 | 965 | 1,078 | 249,203 | 251,584 |
| Operating leases | 37,992 | 94,852 | 90,242 | 124,099 | 347,185 |
| Other long-term liabilities (3) | 13,094 | 32,454 | 23,805 | 44,687 | 114,040 |
| | 16,399 | 11,312 | 169 | 48 | 27,928 |

(1) For the remaining nine months of fiscal 2019.

(2) Our senior notes, subordinated notes, certain trust preferred securities, and certain FHLB advances have fixed rates ranging from 1.50% to 6.08%. All of our other long-term debt is at LIBOR based variable rates at March 31, 2019. The projected variable interest assumes no increase in LIBOR rates from March 31, 2019.

(3) Includes unfunded commitments on qualified affordable housing projects and other tax credit investments.

We rent certain premises and equipment under operating leases. See Note 10 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 21 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 22 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 20 to the consolidated financial statements.

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, 2018. 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

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. Under FASB ASC 350, *Intangibles – Goodwill and Other*, goodwill 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.

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 value of goodwill and could result in impairment losses affecting our financials as a whole and our banking subsidiary in which the goodwill resides.

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

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loan review program to evaluate loan administration, credit quality, and compliance with corporate loan standards. This program includes periodic, regular reviews of problem loan reports, delinquencies and charge-offs.

Judgments and Uncertainties. We utilize a PD/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 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 March 31, 2019 resulted in a range for allowance for loan losses of \$16.9 million. The range pertains to general (FASB ASC 450, *Contingencies*) reserves for both retail and performing commercial loans. Specific (FASB ASC 310, *Receivables*) reserves do not have a range of probable loss. Due to the risks and uncertainty associated with the economy and our projection of loss rates inherent in the portfolio, we establish a range of probable outcomes (a high-end estimate and a low-end estimate) and evaluate our position within this range. The potential effect to net income based on our position in the range relative to the high and low endpoints is a decrease of \$1.8 million and an increase of \$10.9 million, respectively, after taking into account the tax effects. These sensitivities are hypothetical and may not represent actual results.

Derivative Financial Instruments

Description. As part of our overall interest rate risk management, we use derivative instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of the hedge accounting policy requires judgment in the assessment of hedge effectiveness, identification of similar hedged item groupings and measurement of changes in the fair value of derivative financial instruments and hedged items. To the extent hedging relationships are found to be effective, as determined by FASB ASC 815, *Derivatives and Hedging* ("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 20 to the consolidated financial statements for a further description of our provision and related income tax assets and liabilities.

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

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

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

FORWARD-LOOKING STATEMENTS

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

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

- economic, market, operational, liquidity, credit, and interest rate risks associated with our business;
- economic conditions generally and in the financial services industry;
- expected cost savings in connection with the consolidation of recent acquisitions may not be fully realized or realized within the expected time frames, and deposit attrition, customer loss, and revenue loss following completed acquisitions may be greater than expected;
- 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 this filing and our other filings with the SEC.

ITEM 3. QUANTITATIVE 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, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**(c) ISSUER PURCHASES OF EQUITY SECURITIES**

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum |
|--------------------------|---|---------------------------------------|---|---|
| | | | | Number of Shares that May Yet Be Purchased Under the Plans or Programs |
| 01/01/19 - 01/31/19 | — | \$ — | — | 7,000,000 |
| 02/01/19 - 02/28/19 | 145,617 | 16.92 | — | 7,000,000 |
| 03/01/19 - 03/31/19 | 1,504,823 | 16.47 | 1,500,000 | 5,500,000 |
| Quarter-to-date 03/31/19 | 1,650,440 | \$ 16.51 | 1,500,000 | 5,500,000 |

In the first quarter of 2019, the Board of Directors approved the repurchase of up to 7.0 million shares of the Company's stock to be repurchased, as conditions warrant, through January 31, 2020. During the three months ended March 31, 2019, Old National also 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 | <u>Agreement and Plan of Merger dated as of June 20, 2018 by and between Old National Bancorp and Klein Financial, Inc. (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (incorporated by reference to Exhibit 2.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on June 21, 2018).</u> |
| 3.1 | <u>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).</u> |
| 3.2 | <u>Amended and Restated By-Laws of Old National, 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).</u> |
| 4.1 | <u>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, N.A.)), 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).</u> |
| 4.2 | <u>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).</u> |
| 10.1 | <u>Form of Employment Agreement for Robert G. Jones (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 27, 2011).*</u> |
| 10.2 | <u>Amended Employment Agreement for Robert G. Jones (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 April 25, 2019).*</u> |
| 10.3 | <u>Employment Agreement dated as of May 2, 2019 between Old National Bancorp and James C. Ryan, III is filed herewith.*</u> |
| 10.4 | <u>Employment Agreement dated as of May 2, 2019 between Old National Bancorp and Brendon B. Falconer is filed herewith.*</u> |
| 31.1 | <u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 31.2 | <u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.1 | <u>Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |
| 32.2 | <u>Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> |

101 The following materials from Old National's Form 10-Q Report for the quarterly period ended March 31, 2019, formatted in iXBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

* Management
contract or
compensatory
plan or
arrangement

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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/ Brendon B. Falconer
Brendon B. Falconer
Senior Executive Vice President and Chief Financial Officer
Duly Authorized Officer and Principal Financial Officer

Date: May 2, 2019