UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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 the Registrant as specified in its charter)

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

(800) 731-2265
(Registrant's telephone number, including area code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ 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 such 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 ☑

The aggregate market value of the registrant’s voting common stock held by non-affiliates on June 30, 2019, was $2,814,350,333 (based on the closing price on that date of $16.59). In calculating the market value of securities held by non-affiliates of the registrant, the registrant has treated as securities held by affiliates as of June 30, 2019, voting stock owned of record by its directors and principal executive officers, and voting stock held by the registrant's trust department in a fiduciary capacity for benefit of its directors and principal executive officers. This calculation does not reflect a determination that persons are affiliates for any other purposes.

The number of shares outstanding of the registrant's common stock, as of January 31, 2020, was 169,054,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held April 30, 2020 are incorporated by reference into Part III of this Form 10-K.

OLD NATIONAL BANCORP
2019 ANNUAL REPORT ON FORM 10-K
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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 throughout this report, including the Notes to Consolidated Financial Statements. You may find it helpful to refer to this page as you read this report.

ACH: Automated Clearing House
Anchor (MN): Anchor Bancorp, Inc.
Anchor Bank (MN): Anchor Bank, N.A.
Anchor (WI): Anchor BanCorp Wisconsin Inc.
AnchorBank (WI): AnchorBank, fsb
AOCI: accumulated other comprehensive income (loss)
AQR: asset quality rating
ASC: Accounting Standards Codification
ASU: Accounting Standards Update
ATM: automated teller machine
CDO: collateralized debt obligation
CECL: current expected credit loss
CFPB: Consumer Financial Protection Bureau
Common Stock: Old National Bancorp common stock, without par value
CReED: Indiana Community Revitalization Enhancement District Tax Credit
DTI: debt-to-income
FASB: Financial Accounting Standards Board
FDIC: Federal Deposit Insurance Corporation
FHLB: Federal Home Loan Bank
FHLBI: Federal Home Loan Bank of Indianapolis
FHTC: Federal Historic Tax Credit
FICO: Fair Isaac Corporation
GAAP: U.S. generally accepted accounting principles
GDP: gross domestic product
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
OCC: Office of the Comptroller of the Currency
ONI: ONB Insurance Group, Inc.
OTTI: other-than-temporary impairment
PCD: purchased with credit deterioration
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
SOFR: Secured Overnight Financing Rate
TBA: to be announced
TDR: troubled debt restructuring

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:

- market, economic, operational, liquidity, credit, and interest rate risks associated with our business;
- competition;
- government legislation and policies (including the impact of the Dodd-Frank Wall Street Reform and the Consumer Protection Act and its related regulations);
- our ability to execute our business plan, including the anticipated impact from the ONB Way strategic plan that may differ from current estimates;
- changes in the economy which could materially impact credit quality trends and the ability to generate loans and gather deposits;
- failure or circumvention of our internal controls;
- failure or disruption of our information systems;
- significant changes in accounting, tax, or regulatory practices or requirements, including the impact of the new CECL standard;
- new legal obligations or liabilities or unfavorable resolutions of litigations;
- disruptive technologies in payment systems and other services traditionally provided by banks; and
- computer hacking and other cybersecurity threats.

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.

PART I

ITEM 1. BUSINESS

GENERAL

Old National is a financial holding company incorporated in the state of Indiana and maintains its principal executive office in Evansville, Indiana. We, through our wholly-owned banking subsidiary, provide a wide range of services, including commercial and consumer loan and depository services, private banking, brokerage, trust, investment advisory, and other traditional banking services. At December 31, 2019, we employed 2,709 full-time equivalent associates.

COMPANY PROFILE

Old National Bank, our wholly-owned banking subsidiary ("Old National Bank"), was founded in 1834 and is the oldest company in Evansville, Indiana. In 1982, Old National Bancorp was formed; in 2001 we became a financial holding company and we are currently the largest financial holding company headquartered in the state of Indiana with consolidated assets of $20.4 billion at December 31, 2019.

At December 31, 2019, Old National Bank operated 192 banking centers located primarily in Indiana, Kentucky, Michigan, Wisconsin, and Minnesota. 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.

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

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

In addition to the community banking services of lending and providing deposit services, we offer comprehensive wealth management, investment, and foreign currency services. For businesses, we provide treasury management, merchant, health savings, and capital markets services as well as community development lending and equity investment solutions that produce jobs and revitalize our communities.

In January 2020, Old National commenced implementation of a strategic plan ("The ONB Way"), which has various detailed business objectives designed to keep the Company's clients at the center of all we do. The ONB Way includes:

- Realigning the organization into clearly defined segments to align leaders and relationship managers with the client segment they can best serve (while not wavering on our commitment to community).
- Deepening client relationships through integrated Commercial, Community Banking, and Wealth teams.
- Simplifying and improving the end-to-end banking/borrowing journey while adhering to strong risk management principles.
- Creating a new Wealth Division that combines wealth management, investments, and private banking for a simplified, highly consultative client experience firmly rooted in financial planning.
- Investing in our operational and information technology infrastructure to meet our clients "where they are" and ensure that we keep pace with technology and client digital expectations.

MARKET AREA

We own the largest bank headquartered in Indiana. Operating from a home base in Evansville, Indiana, we have continued to grow our footprint in Indiana, Kentucky, Michigan, Wisconsin, and Minnesota. Since the beginning of 2011, Old National has transformed its franchise by reducing low-return businesses and low-growth markets and investing in higher-growth markets.

The following table reflects information on the top markets we currently serve, demonstrating that our largest metropolitan statistical areas compare favorably to the national average.

Metropolitan Statistical Area	Percent of Old National Bank Franchise (%)	Deposits Per Branch ($M)	2010-2020 Population Change (%)	2020-2025 Projected Population Change (%)	2020 Median Household Income ($)	2020-2025 Projected Household Income Change (%)
Minneapolis-St. Paul-Bloomington, MN-WI (1)	20.8	93.6	10.0	4.4	84,241	11.5
Evansville, IN-KY	16.4	139.0	1.0	0.9	56,517	10.7
Indianapolis-Carmel-Anderson, IN	8.4	55.1	10.1	3.8	65,306	11.2
Madison, WI (1)	5.8	48.8	10.7	3.8	77,671	12.2
Bloomington, IN (1)	4.7	135.4	5.8	2.5	54,429	16.3
Fort Wayne, IN (1)	3.6	102.8	6.4	3.0	58,865	10.6
Terre Haute, IN	2.8	66.9	(2.0)	0.0	47,477	5.7
Jasper, IN	2.5	72.8	0.6	1.1	64,196	8.4
Ann Arbor, MI (1)	2.2	77.5	8.7	3.0	75,938	13.8
Adrian, MI (1)	2.1	61.1	(1.8)	(0.3)	61,701	12.1
National average			**7.0**	**3.3**	**66,010**	**9.9**
Weighted average or sum total Old National Bank top 5	56.0	86.8	9.6	4.0	67,633	12.2
Weighted average or sum total Old National Bank top 10	69.2	84.5	8.9	3.7	64,634	11.4
(1) Expansion markets weighted average	**39.1**	**82.8**	**9.4**	**4.0**	**68,808**	**12.7**
Weighted average total Old National Bank			**4.8**	**2.2**	**65,019**	**10.9**

Source: S&P Global Market Intelligence

ACQUISITION AND DIVESTITURE STRATEGY

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

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

Our most recent acquisitions included the following:

- Michigan-based Founders Financial Corporation through a stock and cash merger on January 1, 2015 that added four branches in the Grand Rapids, Michigan market;
- Anchor BanCorp Wisconsin Inc. through a stock and cash merger on May 1, 2016 that added 46 branches in the Madison, Milwaukee, and Fox Valley triangle markets;
- Anchor Bank, N.A., headquartered in the Twin Cities, through a stock and cash merger on November 1, 2017 that added 17 branches in Minnesota; and
- Minnesota-based Klein through a 100% stock merger on November 1, 2018 that added 18 branches serving the Twin Cities and its western communities.

In regard to future partnerships, we are an active looker and a selective buyer. We are patient and continue to wait for the perfect pitch while we remain focused on execution.

Divestitures

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

On May 31, 2016, the Company sold its insurance operations, ONI. The Company received approximately $91.8 million in cash resulting in a pre-tax gain of $41.9 million and an after-tax gain of $17.6 million. Goodwill and intangible assets of approximately $47.5 million were eliminated as part of this transaction. ONI was an ancillary business and did not meet the criteria to be treated as a discontinued operation as defined in Accounting Standards Update 2014-08, *"Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity."*

On October 26, 2018, the Company divested ten branches in Wisconsin to Marine Credit Union of La Crosse, Wisconsin. At closing, the purchasers assumed $230.6 million in deposits and no loans. Old National recorded a net pre-tax gain of $14.0 million in connection with the sale, which included a deposit premium of $15.0 million, goodwill allocation of $0.6 million, and $0.4 million of other transaction expenses.

Since the beginning of 2011 through the end of 2019, we have consolidated 159 banking centers. Over the same period, we have more than doubled our assets and have increased our average total deposits per branch from $34 million to approximately $76 million, while only increasing our number of banking centers by 31 to 192.

Another component of The ONB Way is the optimization of our branch network. This optimization, which includes 31 banking centers scattered throughout the footprint that will be consolidated in April 2020, reflects an ongoing shift among our clients toward digital banking solutions. Many of the facilities to be consolidated are in smaller markets, several of which were added in recent years through partnership activity. By state, these consolidations include ten banking centers in both Wisconsin and Indiana, five in Michigan, four in Minnesota, and two in Kentucky.

COMPETITION

The banking industry and related financial service providers operate in a highly competitive market. Old National competes with financial service providers such as other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds, and other financial intermediaries. In addition, Financial Technology, or FinTech, start-ups are emerging in key areas of banking.

Many of our nonfinancial institution competitors have fewer regulatory constraints, broader geographic service areas, greater capital, and, in some cases, lower cost structures. In addition, competition for quality customers has intensified as a result of changes in regulation, mergers and acquisitions, advances in technology and product delivery systems, consolidation among financial service providers, bank failures, and the conversion of certain former investment banks to bank holding companies.

SUPERVISION AND REGULATION

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

Significant elements of the laws and regulations applicable to Old National and its subsidiaries are described below. The descriptions are not intended to be complete and are qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations, or regulatory policies applicable to Old National and its subsidiaries, for which Old National cannot predict, could have a material effect on the business of the Company.

The Dodd-Frank Act. On July 21, 2010, financial regulatory reform legislation entitled the "Dodd-Frank Wall Street Reform and Consumer Protection Act" (the "Dodd-Frank Act") was signed into law. The Dodd-Frank Act significantly restructured the financial regulatory environment in the United States. The Dodd-Frank Act contains numerous provisions that affect all bank holding companies and banks, including Old National and Old National Bank, some of which are described in more detail below. The scope and impact of many of the Dodd-Frank Act provisions were determined and issued over time. The impact of the Dodd-Frank Act on Old National has been substantial. Provisions in the legislation affect the payment of interest on demand deposits, collection of interchange fees associated with certain deposits, and placed limits on certain revenues on those deposits.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act"), which was enacted in May 2018, repealed or modified several provisions of the Dodd-Frank Act. Certain key provisions of the Economic Growth Act and its implementing regulations include:

- elimination of supervisory stress testing and company run stress testing for bank holding companies with less than $250 billion in assets;
- prohibiting federal banking regulators from imposing higher capital standards on High Volatility Commercial Real Estate exposures unless they are for acquisition, development, or construction;
- exempting from appraisal requirements certain transactions involving real property in rural areas and valued at less than $400,000; and
- requiring the CFPB to provide guidance on how the Truth in Lending Act-Real Estate Settlement Procedures Act Integrated Disclosure applies to mortgage assumption transactions and construction-to-permanent home loans, as well the extent to which lenders can rely on model disclosures that do not reflect recent regulatory changes.

The Volcker Rule. Section 619 of the Dodd-Frank Act contains provisions prohibiting proprietary trading and restricting the activities involving private equity and hedge funds (the "Volcker Rule"). Rules implementing the Volcker Rule were adopted in December 2013. Proprietary trading is defined as the trading of securities, derivatives, or futures (or options on any of the foregoing) as principal, where such trading is principally for the purpose of short-term resale, benefiting from actual or expected short-term price movements and realizing short-term arbitrage profits. The rule's definition of proprietary trading specifically excludes market-making-related activity, certain government issued securities trading and certain risk management activities. Old National and Old National Bank do not engage in any prohibited proprietary trading activities. During 2019, the federal financial agencies announced revisions to the Volcker Rule that will simplify and streamline compliance requirements for Old National Bank.

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

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

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

Capital and Liquidity Requirements. Bank holding companies are required to comply with the Federal Reserve's risk-based capital guidelines. The FDIC and the OCC have adopted risk-based capital ratio guidelines to which depository institutions under their respective supervision, including Old National Bank, are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighted categories, with higher levels of capital being required for the categories perceived as representing greater risk. Old National Bank exceeded all risk-based minimum capital requirements of the FDIC and OCC as of December 31, 2019 and 2018. For Old National's regulatory capital ratios and regulatory requirements as of December 31, 2019 and 2018, see Note 26 to the consolidated financial statements.

The federal regulatory authorities' current risk-based capital guidelines are based upon the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel Committee is a committee of international central banks and bank regulators responsible for establishing international supervisory guidelines for use in member jurisdictions to enhance and align bank regulation on a global scale and promote financial stability. In December 2010 and January 2011, the Basel Committee published the final revisions to the international regulatory capital framework generally referred to as "Basel III," as a response to deficiencies in the international regulatory standards identified during the global financial crisis.

Effective July 2, 2013, the Federal Reserve and the OCC approved final rules known as the "Basel III Capital Rules" substantially revising the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions, including Old National and Old National Bank. The Basel III Capital Rules address the components of capital and other issues affecting the numerator in banking institutions' regulatory capital ratios. The Basel III Capital Rules also implement the requirements of Section 939A of the Dodd-Frank Act to remove references to credit ratings from the federal banking agencies' rules. Certain of the Basel III Capital Rules came into effect for Old National and Old National Bank on January 1, 2015; subject to a phase-in period ending on December 31, 2018.

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

As of January 1, 2019, the Basel III Capital Rules require banking organizations to maintain:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% CET1 ratio, effectively resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%);
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%);
- a minimum ratio of total capital (that is, Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5%); and
- a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to adjusted average consolidated assets.

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

The Basel III Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing rights, deferred tax assets dependent upon future taxable income and investments in the capital of unconsolidated financial institutions be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. Beginning in 2020, this framework for regulatory capital deductions to CET1 will be simplified by increasing the deduction threshold to 25% at the individual level for each of the aforementioned categories. Under current capital standards, the effects of accumulated other comprehensive income items included in capital are excluded for the purposes of determining regulatory capital ratios. Under the Basel III Capital Rules, Old National and Old National Bank are given a one-time election (the "Opt-out Election") to filter certain AOCI components, comparable to the treatment under the current general risk-based capital rule. The Company chose the Opt-out Election on the March 31, 2015 Call Report and FR Y-9C for Old National Bank and Old National, respectively.

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

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

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

Management believes that, as of December 31, 2019, Old National and Old National Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company's net income.

The Basel III Capital Rules permit banks with less than $15 billion in assets to continue to treat trust preferred securities as Tier 1 capital. This treatment is permanently grandfathered as Tier 1 capital for organic growth but not as a result of a merger or acquisition. On November 1, 2017, Old National acquired Anchor (MN) and exceeded $15 billion in assets. As the result of this acquisition, Tier 1 treatment of trust preferred securities is prohibited and those securities can only be treated as Tier 2 capital. The Basel III Capital Rules also permit banks with less than

$250 billion in assets to choose to continue excluding unrealized gains and losses on certain securities holdings for purposes of calculating regulatory capital. As previously reported, Old National chose the Opt-out Election in its March 31, 2015 Call Report. Additionally, the Basel III Capital Rules limit a banking organization's capital distributions and certain discretionary bonus payments if the banking organization does not hold a "capital conservation buffer" consisting of a specified amount of CET1 capital in addition to the amount necessary to meet its minimum risk-based capital requirements.

The liquidity framework under the Basel III Capital Rules (the "Basel III liquidity framework") applies a balance sheet perspective to establish quantitative standards designed to ensure that a banking organization is appropriately positioned to satisfy its short- and long-term funding needs. One test to address short-term liquidity risk is referred to as the liquidity coverage ratio ("LCR"), designed to calculate the ratio of a banking entity's high-quality liquid assets to its total net cashflows over a 30-day time horizon. The other test, referred to as the net stable funding ratio ("NSFR"), is designed to promote more medium- and long-term asset funding by incenting banking entities to increase their holdings of U.S. Treasury securities and other sovereign debt, as well as increase the use of long-term debt as a funding source. The Basel III liquidity framework was implemented as a minimum standard on January 1, 2015, with a phase-in period ending January 1, 2019. However, the federal banking agencies have not proposed rules implementing the Basel III liquidity framework and have not determined to what extent it will apply to U.S. banks that are not large, internationally active banks.

Management believes that, as of December 31, 2019, Old National Bank would meet the LCR requirement under the Basel III liquidity framework on a fully phased-in basis if such requirements were currently effective. Management's evaluation of the impact of the NSFR requirement is ongoing as of December 31, 2019. Requirements to maintain higher levels of liquid assets could adversely impact the Company's net income.

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

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

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

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

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

Management believes that, as of December 31, 2019, Old National Bank was "well capitalized" based on the existing ratios and the ratios as modified by the Basel III Capital Rules.

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

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

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

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

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

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

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

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

Loans to One Borrower. Old National Bank generally may not make loans or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, up to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2019, Old National Bank was in compliance with the loans-to-one-borrower limitations.

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

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

Fair Lending Laws. Fair Lending laws prohibit discrimination in banking services and include the Equal Credit Opportunity Act ("ECOA") and the Fair Housing Act ("FHA"), which prohibit discrimination on the basis of race, gender, religion, or other prohibited factors in the extension of credit and residential real estate transactions. In May 2018, the U.S. Department of Justice ("DOJ") and KleinBank entered into a public Settlement Agreement ("Agreement") regarding alleged violations of the FHA and the ECOA within the Minneapolis, Minnesota market.

Old National Bank, as the legal successor in interest to KleinBank, has assumed the ongoing terms and obligations of the Agreement.

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

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

Anti-Money Laundering and the USA Patriot Act. A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act of 2001 (the "USA Patriot Act") substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations on financial institutions, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States.

The anti-money laundering ("AML") rules codify within the Financial Crimes Enforcement Network (the "FinCEN") regulations the "pillars" that must be included in a financial institutions AML compliance program. Regulators have communicated their expectations with respect to five pillars: (1) the development of internal policies, procedures, and control; (2) the designation of a compliance officer; (3) the establishment of an ongoing employee training program; (4) the implementation of an independent audit function to test programs; and (5) appropriate risk based procedures for conducting ongoing customer due diligence. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions when regulatory approval is required or to prohibit such transactions even if approval is not required.

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

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

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

Federal Home Loan Bank System. Old National Bank is a member of the Federal Home Loan Bank System, which consists of 12 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions. As a member of the FHLBI, Old National Bank is required to acquire and hold shares of capital stock of the FHLBI in an amount at least equal to the sum of the membership stock purchase requirement, determined on an annual basis at the end of each calendar year, and the activity-based stock purchase requirement, determined on a daily basis. For Old National Bank, the membership stock purchase requirement is 1.0% of the Mortgage-Related Assets, as defined by the FHLBI, which consists principally of residential mortgage loans and mortgage-backed securities, held by Old National Bank. The activity-based stock purchase requirement is equal to the sum of: (1) a specified percentage ranging from 2.0% to 5.0%, which for Old National Bank is 5.0%, of outstanding borrowings from the FHLBI; (2) a specified percentage ranging from 0.0% to 5.0%, which for Old National Bank is 3.0%, of the outstanding principal balance of Acquired Member Assets, as defined by the FHLBI, and delivery commitments for Acquired Member Assets; (3) a specified dollar amount related to certain off-balance sheet items, which for Old National Bank is inapplicable; and (4) a specified percentage ranging from 0.0% to 5.0% of the carrying value on the FHLBI's balance sheet of derivative contracts between the FHLBI and Old National Bank, which for Old National Bank is inapplicable. The FHLBI can adjust the specified percentages and dollar amount from time to time within the ranges established by the FHLBI capital plan. As of December 31, 2019, Old National Bank was in compliance with the minimum stock ownership requirement.

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

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

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

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

The Dodd-Frank Act also created the Consumer Financial Protection Bureau (the "CFPB"), a consumer financial services regulator with supervisory authority over banks and their affiliates with assets of more than $10 billion, like Old National, to carry out federal consumer protection laws. The CFPB also regulates financial products and services sold to consumers and has rulemaking authority with respect to federal consumer financial laws. Any new regulatory requirements promulgated by the CFPB or modifications in the interpretations of existing regulations could require changes to Old National's consumer-facing businesses. The Dodd-Frank Act also gives the CFPB broad data collecting powers for fair lending for both small business and mortgage loans, as well as extensive authority to prevent unfair, deceptive, and abusive practices.

The rules issued by the CFPB have impacted our mortgage loan origination and servicing activities. Compliance with these rules will likely continue to increase our overall regulatory compliance costs.

Dividend Limitation. Old National Bank is subject to the provisions of the National Bank Act, is supervised, regulated and examined by the OCC, and is subject to the rules and regulations of the OCC, Federal Reserve and the FDIC. A substantial portion of Old National's cash revenue is derived from dividends paid to it by Old National Bank. These dividends are subject to various legal and regulatory restrictions as summarized in Note 26 to the consolidated financial statements.

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

AVAILABLE INFORMATION

All reports filed electronically by Old National with the SEC, including the annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements, other information and amendments to those reports filed or furnished (if applicable), are accessible at no cost on Old National's web site at www.oldnational.com as soon as reasonably practicable after electronically submitting such materials to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, and Old National's filings are accessible on the SEC's web site at www.sec.gov.

ITEM 1A. RISK FACTORS

There are a number of risks and uncertainties that could adversely affect Old National's business, financial condition, results of operations or cash flows, and access to liquidity. Old National's Enterprise Risk Management program is an enterprise-wide framework for identifying, managing, mitigating, monitoring, aggregating, and reporting risks. The following major risks identified by Old National's Enterprise Risk Management Program are described below: strategic, financial, and reputational; credit; market, interest rate, and liquidity; operational; and legal, regulatory, and compliance.

Strategic, Financial, and Reputational Risks

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

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

An economic downturn or sustained, high unemployment levels, and stock market volatility may negatively impact our operating results and have a negative effect on the ability of our borrowers to make timely repayments of their loans increasing the risk of loan defaults and losses.

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

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

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

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

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

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

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

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

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

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

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

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

In our market area, Old National encounters significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds, and other financial intermediaries. In addition, FinTech start-ups are emerging in key areas of banking. Our competitors may have substantially greater resources and lending limits than Old National does and may offer services that Old National does not or cannot provide. Many of our nonfinancial institution competitors have fewer regulatory constraints, broader geographic service areas, and, in some cases, lower cost structures. Old National's profitability depends upon Old National's continued ability to compete successfully in Old National's market area.

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

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

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

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

Old National is an entity separate and distinct from Old National Bank. Old National Bank conducts most of our operations and Old National depends upon dividends from Old National Bank to service its debt and to pay dividends to Old National's shareholders. The availability of dividends from Old National Bank is limited by various statutes and regulations. It is possible, depending upon the financial condition including liquidity and capital adequacy of Old National Bank and other factors, that the OCC could assert that the payment of dividends or other payments is an unsafe or unsound practice. In addition, the payment of dividends by our other subsidiaries is also subject to the laws of the subsidiary's state of incorporation, and regulatory capital and liquidity requirements applicable to such subsidiaries. At December 31, 2019, Old National Bank could pay dividends of $213.1 million without prior regulatory approval. In the event that Old National Bank was unable to pay dividends to us, we in turn would likely have to reduce or stop paying dividends on our Common Stock. Our failure to pay dividends on our Common Stock could have a material adverse effect on the market price of our Common Stock. See "Business – Supervision and Regulation – Dividend Limitations" and Note 26 to the consolidated financial statements.

Old National may not realize the expected benefits of its strategic imperatives.

Old National's ability to compete depends on a number of factors, including among others its ability to develop and successfully execute strategic plans and imperatives. Our strategic priorities include consistent quality earnings, enhanced management discipline, and strong risk management; greater confidence in decision making and appropriate levels of risk taking; fewer operational surprises, disruptions and losses; improved operational effectiveness and efficiency; more effective deployment of resources; and increased awareness and involvement in the achievement of strategic goals. Our inability to execute on or achieve the anticipated outcomes of our strategic priorities may affect how the market perceives us and could impede our growth and profitability.

Credit Risk

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

Old National makes various assumptions and judgments about the collectability of Old National's loan portfolio, including the creditworthiness of Old National's borrowers and the value of the real estate and other assets serving as collateral for the repayment of Old National's loans. Despite Old National's underwriting and monitoring practices, the effect of a declining economy could negatively impact the ability of Old National's borrowers to repay loans in a timely manner and could also negatively impact collateral values. As a result, Old National may experience significant loan losses that could have a material adverse effect on Old National's operating results. Since Old National must use assumptions regarding individual loans and the economy, Old National's current allowance for loan losses may not be sufficient to cover actual loan losses. Old National's assumptions may not anticipate the severity or duration of the current credit cycle; and Old National may need to significantly increase Old National's provision for losses on loans if one or more of Old National's larger loans or credit relationships becomes delinquent or if Old National expands its commercial real estate and commercial lending. Additionally, Old National will adopt ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("CECL") effective January 1, 2020. This standard will require financial institutions to determine periodic estimates of lifetime expected credit losses on financial instruments and other commitments to extend credit. This will change the current method of providing allowances for credit losses that are probable, which may require us to increase our allowance for loan losses, and may greatly increase the types of data we would need to collect and review to determine the appropriate level of the allowance for credit losses. In addition, federal and state regulators periodically review Old National's allowance for loan losses and may require Old National to increase the provision for loan losses or recognize loan charge-offs. Material additions to Old National's allowance would materially decrease Old National's net income. There can be no assurance that Old National's monitoring procedures and policies will reduce certain lending risks or that Old National's allowance for loan losses will be adequate to cover actual losses.

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

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

- *Commercial Real Estate Loans.* Repayment is dependent upon income being generated in amounts sufficient to cover operating expenses and debt service.
- *Commercial Loans.* Repayment is dependent upon the successful operation of the borrower's business.
- *Consumer Loans.* Consumer loans (such as personal lines of credit) are collateralized, if at all, with assets that may not provide an adequate source of payment of the loan due to depreciation, damage, or loss.
- *Agricultural Loans.* Repayment is dependent upon the successful operation of the business, which is greatly dependent on many things outside the control of either Old National Bank or the borrowers. These factors include weather, input costs, commodity and land prices, and interest rates.

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

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

The soundness of other financial institutions could adversely affect Old National.

Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. Old National has exposure to many different industries and counterparties, and Old National and certain of its subsidiaries routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutions. Many of these transactions expose Old National to credit risk in the event of default of its counterparty. In addition, Old National's credit risk may be affected when collateral is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure. These types of losses could materially adversely affect Old National's results of operations or financial condition.

Market, Interest Rate, and Liquidity Risks

The price of Old National's Common Stock may be volatile, which may result in losses for investors.

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

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

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

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

Changes to LIBOR may adversely impact the value of, and the return on, our financial instruments that are indexed to LIBOR.

On July 27, 2017, the U.K. Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR to the LIBOR administrator after 2021. The announcement also indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Consequently, at this time, it is not possible to predict whether and to what extent banks will continue to provide LIBOR submissions to the LIBOR administrator or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable benchmark for certain financial instruments, what rate or rates may become accepted alternatives to LIBOR, or the effect of any such changes in views or alternatives on the values of the financial instruments, whose interest rates are tied to LIBOR. Uncertainty as to the nature of such potential changes, alternative reference rates, the elimination or replacement of LIBOR, or other reforms may adversely affect the value of, and the return on our financial instruments.

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

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

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

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

Operational Risks

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

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

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

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

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

Third party vendors provide key components of our business infrastructure, including certain data processing and information services. On our behalf, third parties may transmit confidential, propriety information. Although we require third party providers to maintain certain levels of information security, such providers may remain vulnerable to breaches, unauthorized access, misuse, computer viruses, or other malicious attacks that could ultimately compromise sensitive information. While we may contractually limit our liability in connection with attacks against third party providers, Old National remains exposed to the risk of loss associated with such vendors.

In addition, a number of our vendors are large national entities with dominant market presence in their respective fields. Their services could prove difficult to replace in a timely manner if a failure or other service interruption were to occur. Failures of certain vendors to provide contracted services could adversely affect our ability to deliver products and services to our customers and cause us to incur significant expense.

Failure to keep pace with technological change could adversely affect Old National's results of operations and financial condition.

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

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

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

Old National's controls and procedures may fail or be circumvented, and Old National's methods of reducing risk exposure may not be effective.

Old National regularly reviews and updates its internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Old National also maintains an Enterprise Risk Management program designed to identify, manage, mitigate, monitor, aggregate, and report risks. Any system of controls and any system to reduce risk exposure, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Additionally, instruments, systems, and strategies used to hedge or otherwise manage exposure to various types of market compliance, credit, liquidity, operational, and business risks and enterprise-wide risk could be less effective than anticipated. As a result, Old National may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk.

Legal, Regulatory, and Compliance Risks

We have risk related to legal proceedings.

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

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

Old National operates in a highly regulated environment and is subject to extensive regulation, supervision, and examination by, among others, the OCC, the FDIC, the CFPB, the Federal Reserve, and the State of Indiana. Such regulation and supervision of the activities in which an institution may engage is primarily intended for the protection of the depositors and federal deposit insurance funds. In addition, the Treasury has certain supervisory and oversight duties and responsibilities under EESA and the CPP. See “Business – Supervision and Regulation” herein. Applicable laws and regulations may change, and such changes may adversely affect Old National’s business. The Dodd-Frank Act, enacted in July 2010, mandated the most wide-ranging overhaul of financial industry regulation in decades. This legislation, among other things, weakened federal preemption of state consumer protection laws and established the CFPB with broad authority to administer and enforce a new federal regulatory framework of consumer financial regulation, including consumer mortgage banking. The scope and impact of many of the Dodd-Frank Act provisions were determined and issued over time. The impact of the Dodd-Frank Act on Old National has been substantial. Provisions in the legislation that affect the payment of interest on demand deposits and collection of interchange fees increased the costs associated with certain deposits and placed limitations on certain revenues those deposits generate. In addition, the Dodd-Frank Act required Old National to change certain of its business practices, intensified the regulatory supervision of Old National and the financial services industry, increased Old National’s capital requirements, and imposed additional assessments and costs on Old National. Requirements to maintain higher levels of capital or liquidity to address potential adverse stress scenarios could adversely impact the Company’s net income.

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

Changes in accounting policies, standards, and interpretations could materially affect how Old National reports its financial condition and results of operations.

The FASB periodically changes the financial accounting and reporting standards governing the preparation of Old National’s financial statements. Additionally, those bodies that establish and/or interpret the financial accounting and reporting standards (such as the FASB, SEC, and banking regulators) may change prior interpretations on how these standards should be applied. These changes can be difficult to predict and can materially affect how Old National records and reports its financial condition and results of operations. In some cases, Old National could be required to retroactively apply a new or revised standard, resulting in changes to previously reported financial results.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of December 31, 2019, Old National and its affiliates operated a total of 192 banking centers, primarily in the states of Indiana, Kentucky, Michigan, Wisconsin, and Minnesota. Of these facilities, 121 were owned. We lease 71 banking centers from unaffiliated third parties. The terms of these leases range from six months to twenty-five years. See Note 8 to the consolidated financial statements.

Old National also has several administrative offices located throughout its footprint, including the executive offices of Old National which are located at 1 Main Street, Evansville, Indiana. This building, which was previously leased, was purchased in 2016.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, Old National 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Old National's Common Stock is traded on the NASDAQ under the ticker symbol "ONB." There were 37,328 shareholders of record as of December 31, 2019.

The following table summarizes the purchases of equity securities made by Old National during the fourth quarter of 2019:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
10/01/19 - 10/31/19	427,641	$ 16.80	427,545	1,020,624
11/01/19 - 11/30/19	948	18.28	—	1,020,624
12/01/19 - 12/31/19	287	18.08	—	1,020,624
Total	428,876	$ 16.81	427,545	1,020,624

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 year ended December 31, 2019, Old National also repurchased a limited number of shares associated with employee share-based incentive programs.

On January 15, 2020, the Board of Directors declared an increase in its quarterly cash dividend to $0.14 per common share. The Board of Directors also approved the adoption of a stock repurchase plan that authorizes up to 7.0 million shares of the Company's stock to be repurchased, as conditions warrant, through January 31, 2021.

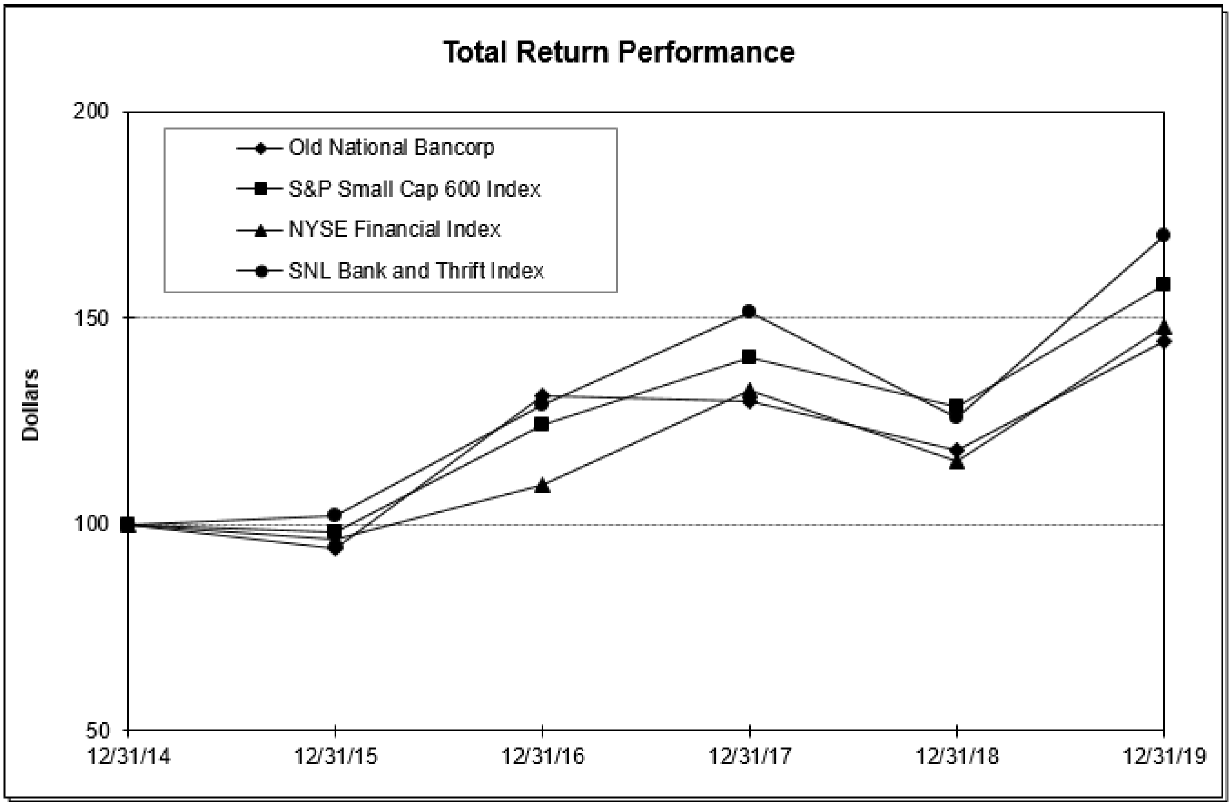
EQUITY COMPENSATION PLAN INFORMATION

The following table contains information concerning the Amended and Restated 2008 Incentive Compensation Plan approved by security holders, as of December 31, 2019.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Plan Category	**(a)**	**(b)**	**(c)**
Equity compensation plans approved by security holders	1,429,115	$ 14.50	3,707,704
Equity compensation plans not approved by security holders	—	—	—
Total	1,429,115	$ 14.50	3,707,704

At December 31, 2019, 3.7 million shares remain available for issuance under the Amended and Restated 2008 Incentive Compensation Plan.

The following table compares cumulative five-year total shareholder returns, assuming reinvestment of dividends, for our common stock to cumulative total returns of a broad-based equity market index and two published industry indices. The comparison of shareholder returns (change in December year end stock price plus reinvested dividends) for each of the periods assumes that $100 was invested on December 31, 2014, in common stock of each of the Company, the S&P Small Cap 600 Index, the NYSE Financial Index and the SNL Bank and Thrift Index with investment weighted on the basis of market capitalization.



ITEM 6. SELECTED FINANCIAL DATA

(dollars in thousands, except per share data)	2019	2018	2017	2016	2015
Operating Results					
Net interest income	**$ 604,273**	$ 537,602	$ 437,168	$ 402,703	$ 366,116
Conversion to fully taxable equivalent (1)	**12,940**	11,394	23,091	21,293	19,543
Net interest income - tax equivalent basis	**617,213**	548,996	460,259	423,996	385,659
Provision for loan losses	**4,747**	6,966	3,050	960	2,923
Noninterest income	**199,317**	195,305	183,382	252,830	230,632
Noninterest expense	**508,487**	517,261	448,836	454,147	430,932
Net income	**238,206**	190,830	95,725	134,264	116,716
Common Share Data (2)					
Weighted average diluted shares	**172,687**	156,539	138,513	128,301	116,255
Net income (diluted)	**$ 1.38**	$ 1.22	$ 0.69	$ 1.05	$ 1.00
Cash dividends	**0.52**	0.52	0.52	0.52	0.48
Common dividend payout ratio (3)	**37 %**	42 %	75 %	50 %	48 %
Book value at year-end	**16.82**	$ 15.36	$ 14.17	$ 13.42	$ 13.05
Stock price at year-end	**18.29**	15.40	17.45	18.15	13.56
Balance Sheet Data (at December 31)					
Loans (4)	**$ 12,164,422**	$ 12,258,803	$ 11,136,051	$ 9,101,194	$ 6,962,215
Total assets	**20,411,667**	19,728,435	17,518,292	14,860,237	11,991,527
Deposits	**14,553,397**	14,349,949	12,605,764	10,743,253	8,400,860
Borrowings	**2,744,728**	2,493,793	2,578,204	2,152,086	1,920,246
Shareholders' equity	**2,852,453**	2,689,570	2,154,397	1,814,417	1,491,170
Performance Ratios					
Return on average assets	**1.19 %**	1.07 %	0.63 %	0.98 %	0.98 %
Return on average common shareholders' equity	**8.57**	8.42	4.98	7.84	7.88
Net interest margin (5)	**3.55**	3.54	3.48	3.58	3.72
Efficiency ratio (5)	**60.35**	67.74	68.87	65.82	68.65
Asset Quality (6)					
Net charge-offs (recoveries) to average loans	**0.05 %**	0.02 %	0.03 %	0.04 %	(0.02) %
Allowance for loan losses to ending loans	**0.45**	0.45	0.45	0.55	0.75
Allowance for loan losses	**$ 54,619**	$ 55,461	$ 50,381	$ 49,808	$ 52,233
Underperforming assets (7)	**147,489**	179,425	154,220	164,657	160,072
Allowance for loan losses to nonaccrual loans (8)	**43.21 %**	35.22 %	40.33 %	37.90 %	39.46 %
Other Data					
Full-time equivalent employees	**2,709**	2,892	2,801	2,733	2,652
Banking centers	**192**	191	191	203	160

(1) Calculated using the federal statutory tax rate in effect of 21% for 2018 - 2019 and 35% for 2015 - 2017.
(2) Diluted data assumes the exercise of stock options and the vesting of restricted stock.
(3) Cash dividends per share divided by net income per share (basic).
(4) Includes loans held for sale.
(5) Represents a non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for reconciliations to GAAP financial measures.
(6) Excludes loans held for sale.
(7) Includes nonaccrual loans, renegotiated loans, loans 90 days past due still accruing, and other real estate owned. Includes $12.4 million of covered assets in 2015 acquired in an FDIC assisted transaction, which were covered by loss sharing agreements with the FDIC providing for specified loss protection. On June 22, 2016, Old National entered into an early termination agreement with the FDIC that terminated all loss share agreements.
(8) Includes approximately $7.9 million, $20.5 million, $12.6 million, $16.7 million, and $15.9 million for 2019, 2018, 2017, 2016, and 2015, respectively, of purchased credit impaired loans that are categorized as nonaccrual because the collection of principal or interest is doubtful. These loans are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

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

The following discussion is an analysis of our results of operations for the fiscal years ended December 31, 2019, 2018, and 2017, and financial condition as of December 31, 2019 and 2018. This discussion and analysis should be read in conjunction with our consolidated financial statements and related notes. This discussion contains forward-looking statements concerning our business. Readers are cautioned that, by their nature, forward-looking statements are based on estimates and assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from our expectations that are expressed or implied by any forward-looking statement. The discussion in Item 1A, "Risk Factors," lists some of the factors that could cause our actual results to vary materially from those expressed or implied by any forward-looking statements, and such discussion is incorporated into this discussion by reference.

GENERAL OVERVIEW

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

CORPORATE DEVELOPMENTS IN FISCAL 2019

Old National spent 2019 internally focused. This included an analysis of each business, department, and function within the company. We partnered with a leading consulting firm with the ultimate goal of improving the overall efficiency of the organization while serving our clients better. Key performance indicators experienced in 2019 included:

- net income of $238.2 million, or $1.38 per diluted share;
- record high commercial production of $2.4 billion;
- record mortgage production of $1.4 billion;
- strong credit quality metrics including charge-offs to average loans of 0.05%;
- low cost of total deposits at 0.48%; and
- improved efficiency ratio of 60.35% in 2019, compared to 67.74% in 2018.

During 2019, our net interest income increased to $604.3 million compared to $537.6 million in 2018, an increase of 12%. Noninterest income grew from $195.3 million in 2018 to $199.3 million in 2019 reflecting higher mortgage banking revenue and capital markets income. We also benefited from higher noninterest income attributable to a full year of Klein contribution as compared to 2018, which only reflected two months of the Klein operations. Our noninterest expenses were well controlled, declining from $517.3 million in 2018 to $508.5 million in 2019.

In January 2020, Old National commenced implementation of a strategic plan ("The ONB Way"), which has various detailed business objectives designed to keep the Company's clients at the center of all we do. The ONB Way includes realigning the geographic organization structure to streamline our operating model through integrated commercial, community banking, and wealth teams. We have also identified revenue and efficiency opportunities across the organization. Another component of The ONB Way is the optimization of our branch network. This optimization, which includes 31 banking centers scattered throughout the footprint that will be consolidated in April 2020, reflects an ongoing shift among our clients toward digital banking solutions. Many of the facilities to be consolidated are in smaller markets, several of which were added in recent years through partnership activity. By state, these consolidations include ten banking centers in both Wisconsin and Indiana, five in Michigan, four in Minnesota, and two in Kentucky. The Company expects to incur an estimated $25 million in costs associated with the branch optimization. In addition, Old National plans to close several non-branch facilities at a later date and incur related miscellaneous charges of approximately $8 million.

BUSINESS OUTLOOK

In 2019, the U.S. economy grew by approximately 2.3% as measured by the change in GDP. While the growth rate was slower than the rate in 2018, the general consensus among leading economists is that the worst of the slowdown in economic growth has passed. Their outlook for 2020 is for the U.S. economy GDP growth of approximately 2%. The projected drivers of this growth are from consumer spending, which is dependent on personal income growth and is expected to slow somewhat over the course of 2020, coupled with an offset of industrial production as its current decline is expected to bottom out in 2020 and bolster business investment. A strong start in residential housing is also expected to sustain U.S. economic growth over the coming quarters. An additional economic driver is the record-low unemployment. Potential threats to the expected fragile economic expansion include: increased personal debt that may choke off consumer spending, possible resurgence of a China trade dispute or foreign trade friction, energy price spikes, U.S. political infighting, and uncertainty in interest rates. Lastly, global geopolitical conflicts or natural disasters could also trigger a halt to the U.S. economic expansion.

We remain a community bank at heart, dedicated to serving and strengthening our communities as we evolve into a regional bank structure. As Old National implements this strategic plan, our mission has also evolved. Our objective is to transform Old National into a commercially-oriented regional bank that consistently delivers top quartile performance to clients, team members, shareholders, and communities.

As Old National moves from a generalist relationship management approach, based on geography, to a specialist relationship management approach, based on business segmentations, the fundamentals of basic banking do not change. Those fundamentals are loan growth, non-interest income growth, prudent capital deployment, and expense management.

Organic loan growth is a priority. Our loan production and pipeline are at high levels as we enter into 2020 and we are hopeful that the 2019 cycle of persistently high levels of prepayments has passed. Despite this, we continue to adhere to our disciplined underwriting process. Our practice of recognizing underperforming credits early, along with active engagement with these borrowers ultimately leads to lower credit losses. Credit quality remains strong, and we have not experienced any specific sector credit related weaknesses, yet are watching a small number of credits.

With the onset of The ONB Way, we have made investments in our non-interest income businesses, in technology and personnel. Accordingly, we are optimistic for continued expansion in 2020.

Our acquisition strategy has not changed. We remain an active looker in our target markets and a highly selective, disciplined buyer. We wait patiently for the perfect pitch while we remain focused on execution.

As we look ahead to 2020, we remain committed to generating positive operating leverage.

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 December 31, 2019	Three Months Ended September 30, 2019	Three Months Ended December 31, 2018	Years Ended December 31, 2019	Years Ended December 31, 2018
Income Statement:					
Net interest income	**$ 148,899**	$ 153,096	$ 146,225	**$ 604,273**	$ 537,602
Taxable equivalent adjustment (1)	**3,282**	3,171	3,049	**12,940**	11,394
Net interest income - tax equivalent basis	**152,181**	156,267	149,274	**617,213**	548,996
Provision for loan losses	**1,264**	1,437	3,390	**4,747**	6,966
Noninterest income	**47,726**	53,961	58,154	**199,317**	195,305
Noninterest expense	**134,743**	122,585	150,268	**508,487**	517,261
Net income (loss)	**49,185**	69,781	47,498	**238,206**	190,830
Common Share Data:					
Weighted average diluted shares	**170,186**	171,551	167,992	**172,687**	156,539
Net income (loss) (diluted)	**$ 0.29**	$ 0.41	$ 0.28	**$ 1.38**	$ 1.22
Cash dividends	**0.13**	0.13	0.13	**$ 0.52**	$ 0.52
Common dividend payout ratio (2)	**45 %**	32 %	46 %	**37 %**	42 %
Book value	**$ 16.82**	$ 16.66	$ 15.36	**$ 16.82**	$ 15.36
Stock price	**18.29**	17.20	15.40	**18.29**	15.40
Tangible common book value (3)	**10.35**	10.18	9.00	**10.35**	9.00
Performance Ratios:					
Return on average assets	**0.97 %**	1.39 %	1.01 %	**1.19 %**	1.07 %
Return on average common equity	**6.94**	9.91	7.59	**8.57**	8.42
Return on tangible common equity (3)	**11.89**	16.85	12.88	**14.30**	12.83
Return on average tangible common equity (3)	**12.03**	17.01	13.84	**14.97**	14.97
Net interest margin (3)	**3.46**	3.57	3.64	**3.55**	3.54
Efficiency ratio (3)	**65.57**	56.44	70.33	**60.35**	67.74
Net charge-offs (recoveries) to average loans	**0.12**	0.03	0.02	**0.05**	0.02
Allowance for loan losses to ending loans	**0.45**	0.47	0.45	**0.45**	0.45
Non-performing loans to ending loans	**1.19**	1.31	1.43	**1.19**	1.43
Balance Sheet:					
Total loans	**$12,117,524**	$12,017,648	$12,243,892	**$12,117,524**	$12,243,892
Total assets	**20,411,667**	20,438,788	19,728,435	**20,411,667**	19,728,435
Total deposits	**14,553,397**	14,448,352	14,349,949	**14,553,397**	14,349,949
Total borrowed funds	**2,744,728**	2,831,863	2,493,793	**2,744,728**	2,493,793
Total shareholders' equity	**2,852,453**	2,832,530	2,689,570	**2,852,453**	2,689,570
Nonfinancial Data:					
Full-time equivalent employees	**2,709**	2,778	2,892	**2,709**	2,892
Banking centers	**192**	192	191	**192**	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 December 31, 2019	Three Months Ended December 31, 2018	Years Ended December 31, 2019	Years Ended December 31, 2018
Tangible common book value:				
Shareholders' equity (GAAP)	**$ 2,852,453**	$ 2,689,570	**$ 2,852,453**	$ 2,689,570
Deduct: Goodwill	**1,036,994**	1,036,258	**1,036,994**	1,036,258
Intangible assets	**60,105**	77,016	**60,105**	77,016
Tangible shareholders' equity (non-GAAP)	**$ 1,755,354**	$ 1,576,296	**$ 1,755,354**	$ 1,576,296
Period end common shares	**169,616**	175,141	**169,616**	175,141
Tangible common book value	**10.35**	9.00	**10.35**	9.00
Return on tangible common equity:				
Net income (GAAP)	**$ 49,185**	$ 47,498	**$ 238,206**	$ 190,830
Add: Intangible amortization (net of tax)	**2,976**	3,266	**12,756**	11,410
Tangible net income (non-GAAP)	**$ 52,161**	$ 50,764	**$ 250,962**	$ 202,240
Tangible shareholders' equity (non-GAAP) (see above)	**$ 1,755,354**	$ 1,576,296	**$ 1,755,354**	$ 1,576,296
Return on tangible common equity	**11.89 %**	12.88 %	**14.30 %**	12.83 %
Return on average tangible common equity:				
Tangible net income (non-GAAP) (see above)	**$ 52,161**	$ 50,764	**$ 250,962**	$ 202,240
Average shareholders' equity (GAAP)	**$ 2,832,938**	$ 2,503,835	**$ 2,781,132**	$ 2,267,327
Deduct: Average goodwill	**1,036,994**	969,403	**1,036,456**	864,079
Average intangible assets	**61,963**	66,927	**68,244**	52,209
Average tangible shareholders' equity (non-GAAP)	**$ 1,733,981**	$ 1,467,505	**$ 1,676,432**	$ 1,351,039
Return on average tangible common equity	**12.03 %**	13.84 %	**14.97 %**	14.97 %
Net interest margin:				
Net interest income (GAAP)	**$ 148,899**	$ 146,225	**$ 604,273**	$ 537,602
Taxable equivalent adjustment	**3,282**	3,049	**12,940**	11,394
Net interest income - taxable equivalent basis (non-GAAP)	**$ 152,181**	$ 149,274	**$ 617,213**	$ 548,996
Average earning assets	**$ 17,577,821**	$ 16,398,288	**$ 17,385,180**	$ 15,501,053
Net interest margin	**3.46 %**	3.64 %	**3.55 %**	3.54 %
Efficiency ratio:				
Noninterest expense (GAAP)	**$ 134,743**	$ 150,268	**$ 508,487**	$ 517,261
Deduct: Intangible amortization expense	**3,946**	4,134	**16,911**	14,442
Adjusted noninterest expense (non-GAAP)	**$ 130,797**	$ 146,134	**$ 491,576**	$ 502,819
Net interest income - taxable equivalent basis (non-GAAP) (see above)	**$ 152,181**	$ 149,274	**$ 617,213**	$ 548,996
Noninterest income	**47,726**	58,154	**199,317**	195,305
Deduct: Net debt securities gains (losses)	**437**	(357)	**1,923**	2,060
Adjusted total revenue (non-GAAP)	**$ 199,470**	$ 207,785	**$ 814,607**	$ 742,241
Efficiency ratio	**65.57 %**	70.33 %	**60.35 %**	67.74 %

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.

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National for the years ended December 31, 2019, 2018, and 2017:

	Years Ended December 31,		
(dollars in thousands)	**2019**	2018	2017
Income Statement Summary:			
Net interest income	**$ 604,273**	$ 537,602	$ 437,168
Provision for loan losses	**4,747**	6,966	3,050
Noninterest income	**199,317**	195,305	183,382
Noninterest expense	**508,487**	517,261	448,836
Other Data:			
Return on average common equity	**8.57 %**	8.42 %	4.98 %
Return on tangible common equity (1)	**14.30 %**	12.83 %	8.12 %
Return on average tangible common equity (1)	**14.97 %**	14.97 %	8.59 %
Efficiency ratio (1)	**60.35 %**	67.74 %	68.87 %
Tier 1 leverage ratio	**8.88 %**	9.17 %	8.28 %
Net charge-offs (recoveries) to average loans	**0.05 %**	0.02 %	0.03 %

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

Comparison of Fiscal Years 2019 and 2018

Net Interest Income

Net interest income is the most significant component of our earnings, comprising 75% of 2019 revenues. Net interest income and margin are influenced by many factors, primarily the volume and mix of earning assets, funding sources, and interest rate fluctuations. Other factors include the level of accretion income on purchased loans, prepayment risk on mortgage and investment-related assets, and the composition and maturity of earning assets and interest-bearing liabilities.

The Federal Reserve lowered the discount rate by 75 basis points in the second half of 2019. At December 31, 2019, the Treasury yield curve was flat from the 3-month Treasury to the 5-year Treasury with a spread of 12 basis points. Continued flatness of the yield curve could cause our interest rate spread to decline, which may result in a decrease in our net interest income. However, management has taken balance sheet restructuring, derivative, and deposit pricing actions to help mitigate this risk.

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 2019 and 2018 and 35% for 2017. 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.

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Net interest income	**$ 604,273**	$ 537,602	$ 437,168
Conversion to fully taxable equivalent	**12,940**	11,394	23,091
Net interest income - taxable equivalent basis	**$ 617,213**	$ 548,996	$ 460,259
Average earning assets	**$ 17,385,180**	$ 15,501,053	$ 13,237,906
Net interest margin	**3.48 %**	3.47 %	3.30 %
Net interest margin - taxable equivalent basis	**3.55 %**	3.54 %	3.48 %

Net interest income was $604.3 million in 2019, a $66.7 million increase from $537.6 million in 2018. Taxable equivalent net interest income was $617.2 million in 2019, a 12% increase from $549.0 million in 2018. The net interest margin on a fully taxable equivalent basis was 3.55% in 2019, a 1 basis point increase compared to 3.54% in 2018. The increase in net interest income in 2019 when compared to 2018 was primarily due to higher average earning assets of $1.884 billion in 2019. Partially offsetting higher average earning assets were higher average interest-bearing liabilities of $1.398 billion. Net interest income in both 2019 and 2018 included accretion income (interest income in excess of contractual interest income) associated with acquired loans. Accretion income totaled $43.6 million in 2019, compared to $41.1 million in 2018. We expect accretion income on loans to decrease over time, but this may be offset by future acquisitions.

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

	2019			2018			2017		
(tax equivalent basis, dollars in thousands)	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Earning Assets									
Money market and other interest-earning investments (1)	**$ 67,069**	**$ 1,670**	**2.49 %**	$ 48,240	$ 630	1.31 %	$ 35,584	$ 258	0.72 %
Investment securities: (2)									
Treasury and government-sponsored agencies (3)	**3,523,833**	**89,926**	**2.55**	2,380,817	55,926	2.35	2,085,317	42,235	2.03
States and political subdivisions (4)	**1,202,210**	**44,716**	**3.72**	1,153,315	42,326	3.67	1,134,532	53,359	4.70
Other securities	**495,847**	**16,138**	**3.25**	490,464	15,633	3.19	450,127	11,863	2.64
Total investment securities	**5,221,890**	**150,780**	**2.89**	4,024,596	113,885	2.83	3,669,976	107,457	2.93
Loans (including loans held for sale): (5)									
Commercial (4)	**3,023,421**	**141,215**	**4.67**	2,924,878	131,471	4.49	2,083,779	85,747	4.11
Commercial real estate	**5,044,623**	**275,853**	**5.47**	4,536,897	235,876	5.20	3,426,757	171,483	5.00
Residential real estate	**2,281,047**	**96,613**	**4.24**	2,195,078	89,888	4.09	2,146,279	85,340	3.98
Consumer	**1,747,130**	**77,196**	**4.42**	1,771,364	71,689	4.05	1,875,531	68,142	3.63
Total loans	**12,096,221**	**590,877**	**4.88**	11,428,217	528,924	4.63	9,532,346	410,712	4.31
Total earning assets	**17,385,180**	**$743,327**	**4.28 %**	15,501,053	$643,439	4.15 %	13,237,906	$518,427	3.92 %
Less: Allowance for loan losses	**(56,624)**			(52,316)			(50,845)		
Non-Earning Assets									
Cash and due from banks	**251,857**			210,716			207,677		
Other assets	**2,453,001**			2,130,588			1,907,963		
Total assets	**$20,033,414**			$17,790,041			$15,302,701		
Interest-Bearing Liabilities									
Checking and NOW accounts	**$ 3,902,765**	**$ 15,598**	**0.40 %**	$ 3,146,309	$ 4,973	0.16 %	$ 2,676,760	$ 2,224	0.08 %
Savings accounts	**2,878,135**	**8,142**	**0.28**	2,995,484	7,464	0.25	2,964,875	4,980	0.17
Money market accounts	**1,789,065**	**14,130**	**0.79**	1,225,220	4,424	0.36	762,540	831	0.11
Time deposits	**1,921,991**	**31,494**	**1.64**	1,839,974	24,416	1.33	1,487,077	12,321	0.83
Total interest-bearing deposits	**10,491,956**	**69,364**	**0.66**	9,206,987	41,277	0.45	7,891,252	20,356	0.26
Federal funds purchased and interbank borrowings	**241,618**	**5,656**	**2.34**	238,408	4,793	2.01	187,426	1,966	1.05
Securities sold under agreements to repurchase	**342,654**	**2,517**	**0.73**	344,964	1,962	0.57	336,539	1,270	0.38
Federal Home Loan Bank advances	**1,775,987**	**37,452**	**2.11**	1,665,689	34,925	2.10	1,481,314	24,818	1.68
Other borrowings	**251,194**	**11,125**	**4.43**	249,832	11,486	4.60	224,793	9,758	4.34
Total interest-bearing liabilities	**$13,103,409**	**$126,114**	**0.96 %**	$11,705,880	$ 94,443	0.81 %	$10,121,324	$ 58,168	0.57 %
Noninterest-Bearing Liabilities and Shareholders' Equity									
Demand deposits	**3,887,470**			3,657,234			3,111,672		
Other liabilities	**261,403**			159,600			146,060		
Shareholders' equity	**2,781,132**			2,267,327			1,923,645		
Total liabilities and shareholders' equity	**$20,033,414**			$17,790,041			$15,302,701		
Interest Margin Recap									
Interest income/average earning assets		**$743,327**	**4.28 %**		$643,439	4.15 %		$518,427	3.92 %
Interest expense/average earning assets		**126,114**	**0.73**		94,443	0.61		58,168	0.44
Net interest income and margin		**$617,213**	**3.55 %**		$548,996	3.54 %		$460,259	3.48 %

(1) The 2019, 2018, and 2017 average balances include $46.3 million, $31.0 million, and $21.2 million, respectively, of required and excess balances held at the Federal Reserve.

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

(3) Includes U.S. government-sponsored entities and agency mortgage-backed securities at December 31, 2019.

(4) Interest on state and political subdivision investment securities and commercial loans includes the effect of taxable equivalent adjustments of $7.7 million and $5.2 million, respectively, in 2019; $7.1 million and $4.3 million, respectively, in 2018; and $15.6 million and $7.5 million, respectively, in 2017; using the federal statutory tax rate in effect of 21% in 2019 and 2018 and 35% in 2017.

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

The yield on average earning assets increased 13 basis points from 4.15% in 2018 to 4.28% in 2019 and the cost of interest-bearing liabilities increased 15 basis points from 0.81% in 2018 to 0.96% in 2019. Average earning assets increased by $1.884 billion, or 12%. The increase in average earning assets consisted of a $1.197 billion increase in investment securities, a $668.0 million increase in loans, and an $18.8 million increase in money market and other interest-earning investments. Average interest-bearing liabilities increased $1.398 billion, or 12%. The increase in average interest-bearing liabilities consisted of a $1.285 billion increase in interest-bearing deposits, a $3.2 million increase in federal funds purchased and interbank borrowings, a $2.3 million decrease in securities sold under agreements to repurchase, a $110.3 million increase in FHLB advances, and a $1.4 million increase in other borrowings. Average noninterest-bearing deposits increased by $230.2 million.

The increase in average earning assets in 2019 compared to 2018 was primarily due to our acquisition of Klein in November 2018. Including loans held for sale, the loan portfolio, which generally has an average yield higher than the investment portfolio, was approximately 70% of average interest earning assets in 2019 compared to 74% in 2018.

Average loans including loans held for sale increased $668.0 million in 2019 compared to 2018 reflecting loans acquired from Klein in November 2018, along with organic loan growth. 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 $1.197 billion in 2019 compared to 2018 reflecting the Klein acquisition. Excess liquidity generated in 2019 also resulted in higher investment securities.

Average non-interest-bearing deposits increased $230.2 million in 2019 compared to 2018 reflecting the Klein acquisition. Average interest-bearing deposits increased $1.285 billion in 2019 compared to 2018 reflecting the Klein acquisition.

Average borrowed funds increased $112.6 million in 2019 compared to 2018 primarily due to an increase in FHLB advances.

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

	From 2018 to 2019			From 2017 to 2018		
	Total	Attributed to		Total	Attributed to	
(dollars in thousands)	Change	Volume	Rate	Change	Volume	Rate
Interest Income						
Money market and other interest-earning investments	**$ 1,040**	**$ 358**	**$ 682**	$ 372	$ 129	$ 243
Investment securities (1)	**36,895**	**34,226**	**2,669**	6,428	10,208	(3,780)
Loans (1)	**61,953**	**31,774**	**30,179**	118,212	84,716	33,496
Total interest income	**99,888**	**66,358**	**33,530**	125,012	95,053	29,959
Interest Expense						
Checking and NOW deposits	**10,625**	**2,110**	**8,515**	2,749	566	2,183
Savings deposits	**678**	**(312)**	**990**	2,484	64	2,420
Money market deposits	**9,706**	**3,245**	**6,461**	3,593	1,087	2,506
Time deposits	**7,078**	**1,217**	**5,861**	12,095	3,804	8,291
Federal funds purchased and interbank borrowings	**863**	**70**	**793**	2,827	780	2,047
Securities sold under agreements to repurchase	**555**	**(15)**	**570**	692	40	652
Federal Home Loan Bank advances	**2,527**	**2,320**	**207**	10,107	3,478	6,629
Other borrowings	**(361)**	**61**	**(422)**	1,728	1,120	608
Total interest expense	**31,671**	**8,696**	**22,975**	36,275	10,939	25,336
Net interest income	**$ 68,217**	**$ 57,662**	**$ 10,555**	$ 88,737	$ 84,114	$ 4,623

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 $7.7 million and $5.2 million, respectively, in 2019; $7.1 million and $4.3 million, respectively, in 2018; and $15.6 million and $7.5 million, respectively, in 2017; using the federal statutory tax rate in effect of 21% in 2019 and 2018 and 35% in 2017.

Provision for Loan Losses

The provision for loan losses was an expense of $4.7 million in 2019, compared to an expense of $7.0 million in 2018. Net charge-offs totaled $5.6 million in 2019, compared to net charge-offs of $1.9 million in 2018. The lower provision for loan losses is the result of a decrease in specific reserves on loans individually evaluated for impairment, partially offset by 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. Additionally, with the adoption of CECL beginning on January 1, 2020, provision expense may become more volatile due to changes in CECL model assumptions of credit quality, macroeconomic factors and conditions, and loan composition, which drive the allowance for credit losses balance. For additional information about non-performing loans, charge-offs, and additional items impacting the provision, refer to the “Risk Management – Credit Risk” section of Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Noninterest Income

We generate revenues in the form of noninterest income through client fees, 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. This source of revenue as a percentage of total revenue was 25% in 2019 compared to 27% in 2018.

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

(dollars in thousands)	Years Ended December 31, 2019	2018	2017	% Change From Prior Year 2019	2018
Wealth management fees	**$ 37,072**	$ 36,863	$ 37,316	**0.6 %**	(1.2)%
Service charges on deposit accounts	**44,915**	44,026	41,331	**2.0**	6.5
Debit card and ATM fees	**21,652**	20,216	17,676	**7.1**	14.4
Mortgage banking revenue	**26,622**	17,657	18,449	**50.8**	(4.3)
Investment product fees	**21,785**	20,539	20,977	**6.1**	(2.1)
Capital markets income	**13,270**	4,934	6,544	**169.0**	(24.6)
Company-owned life insurance	**11,539**	10,584	8,654	**9.0**	22.3
Net debt securities gains (losses)	**1,923**	2,060	9,135	**(6.7)**	(77.4)
Net gain on branch divestitures	**—**	13,989	—	**(100.0)**	N/M
Other income	**20,539**	24,437	23,300	**(16.0)**	4.9
Total noninterest income	**$ 199,317**	$ 195,305	$ 183,382	**2.1 %**	6.5 %
Noninterest income to total revenue (1)	**24.4 %**	26.2 %	28.5 %		

(1) Total revenue includes the effect of a taxable equivalent adjustment of $12.9 million in 2019, $11.4 million in 2018, and $23.1 million in 2017.

The increase in noninterest income in 2019 compared to 2018 was primarily due to higher mortgage banking revenue, higher capital markets income, and higher noninterest income attributable to the full year impact of the Klein partnership. These increases were partially offset by a $14.0 million gain on the sale of 10 Wisconsin branches in the fourth quarter of 2018.

Service charges and overdraft fees increased $0.9 million in 2019 compared to 2018 primarily due to higher service charges and overdraft fees attributable to the Klein partnership.

Debit card and ATM fees increased $1.4 million in 2019 compared to 2018 primarily due to higher interchange income attributable to the Klein partnership.

Mortgage banking revenue increased $9.0 million in 2019 compared to 2018 primarily due to increased mortgage originations, sales, and strong pipeline growth in 2019.

Capital markets income is comprised of customer interest rate swap fees, debt placement fees, foreign currency exchange fees, and net gains (losses) on foreign currency adjustments. Capital markets income increased $8.3 million in 2019 compared to 2018 primarily due to higher customer interest rate swap fees.

Company-owned life insurance income increased $1.0 million in 2019 compared to 2018 primarily due to higher settlements in 2019.

In 2018, we recorded a net gain of $14.0 million in connection with the October 2018 divestiture of 10 Wisconsin branches, which included a deposit premium of $15.0 million, goodwill allocation of $0.6 million, and $0.4 million of other transaction expenses.

Other income decreased $3.9 million in 2019 compared to 2018 primarily due to a $2.2 million gain on the sale of our student loan portfolio in the second quarter of 2018. Also contributing to the decrease in other income was the recognition of deferred gains on sale leaseback transactions of $1.6 million in 2018. The deferred gains were eliminated as a cumulative-effect adjustment upon adoption of the new accounting guidance in Topic 842 effective January 1, 2019. These decreases were partially offset by higher other income attributable to the Klein partnership.

Noninterest Expense

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

	Years Ended December 31,			% Change From Prior Year	
(dollars in thousands)	**2019**	**2018**	**2017**	**2019**	**2018**
Salaries and employee benefits	**$ 289,452**	$ 281,275	$ 246,738	**2.9 %**	14.0 %
Occupancy	**55,255**	51,941	46,511	**6.4**	11.7
Equipment	**16,903**	14,861	13,560	**13.7**	9.6
Marketing	**15,898**	15,847	13,172	**0.3**	20.3
Data processing	**37,589**	36,170	32,306	**3.9**	12.0
Communication	**10,702**	10,846	9,284	**(1.3)**	16.8
Professional fees	**22,854**	14,503	16,840	**57.6**	(13.9)
Loan expenses	**7,253**	7,028	6,596	**3.2**	6.5
FDIC assessment	**6,030**	10,638	9,480	**(43.3)**	12.2
Amortization of intangibles	**16,911**	14,442	11,841	**17.1**	22.0
Amortization of tax credit investments	**2,749**	22,949	11,733	**(88.0)**	95.6
Other expense	**26,891**	36,761	30,775	**(26.8)**	19.5
Total noninterest expense	**$ 508,487**	$ 517,261	$ 448,836	**(1.7) %**	15.2 %

Noninterest expense decreased $8.8 million in 2019 compared to 2018 reflecting a decrease in amortization of tax credit investments and lower charitable contributions. These decreases were partially offset by higher professional fees, higher salaries and employee benefits, and higher operating expenses and acquisition and integration costs associated with the full year impact of the Klein partnership.

Salaries and employee benefits is the largest component of noninterest expense. Salaries and benefits increased $8.2 million in 2019 compared to 2018 primarily due to higher salaries and employee benefits attributable to the Klein partnership.

Equipment expenses increased $2.0 million in 2019 compared to 2018 primarily due to higher equipment expenses attributable to the Klein partnership and an increase in small equipment expenses.

Professional fees increased $8.4 million in 2019 compared to 2018 reflecting $10.3 million in consulting fees incurred in 2019 related to The ONB Way.

FDIC assessment expenses decreased $4.6 million in 2019 compared to 2018 primarily due to the elimination of an FDIC surcharge.

Amortization of intangibles increased $2.5 million in 2019 compared to 2018 primarily due to amortization of core deposit intangibles related to the Klein acquisition.

Amortization of tax credit investments decreased $20.2 million in 2019 compared to 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. See Note 11 to the consolidated financial statements for additional information on our tax credit investments.

Other expense decreased $9.9 million in 2019 compared to 2018 primarily due to lower charitable contributions of $7.7 million and writedowns on long-lived assets in 2018 related to branch consolidations.

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 effective tax rate was 18.0% in 2019 compared to 8.6% in 2018. The higher effective tax rate in 2019 compared to 2018 was primarily the result of a decrease in federal tax credits available as well as an increase in pre-tax book income. See Note 17 to the consolidated financial statements for additional details on Old National's income tax provision.

Comparison of Fiscal Years 2018 and 2017

In 2018, we generated net income of $190.8 million and diluted net income per share of $1.22 compared to $95.7 million and diluted net income per share of $0.69, respectively, in 2017. The 2018 earnings included a $100.4 million increase in net interest income, a $55.1 million decrease in income tax expense, and an $11.9 million increase in noninterest income. These favorable variances in net income were partially offset by a $68.4 million increase in noninterest expense and a $3.9 million increase in provision for loan losses. The successful conversion and integration of our acquisition of our Klein partnership in 2018, the highest loan production in our history, and consistently low credit metrics, all contributed to positive 2018 performance when compared to 2017.

Net interest income was $537.6 million in 2018, a $100.4 million increase from $437.2 million in 2017. Taxable equivalent net interest income was $549.0 million in 2018, a 19% increase from $460.3 million in 2017. The net interest margin on a fully taxable equivalent basis was 3.54% in 2018, a 6 basis point increase compared to 3.48% in 2017. Average earning assets increased by $2.263 billion in 2018 and the yield on average earning assets increased 23 basis points from 3.92% in 2017 to 4.15% in 2018.

The provision for loan losses was an expense of $7.0 million in 2018, compared to an expense of $3.1 million in 2017. Charge-offs remained low during 2018 and we continued to see positive trends in credit quality.

Noninterest income increased $11.9 million in 2018 compared to 2017 primarily due to a $14.0 million gain on the sale of 10 Wisconsin branches and higher noninterest income attributable to the Anchor (MN) and Klein partnerships. This increase was partially offset by lower net securities gains and 2017 recoveries on loans originated by AnchorBank (WI) that had been fully charged-off prior to the acquisition totaling $4.0 million.

Noninterest expense increased $68.4 million in 2018 compared to 2017 primarily due to higher operating expenses and acquisition and integration costs associated with Anchor (MN) and Klein. Also contributing to the increase in noninterest expense was higher amortization of tax credit investments in 2018 reflecting the completion of investment tax credit projects, higher salaries and benefits, and higher charitable contributions.

The provision for income taxes was $17.9 million in 2018 compared to $72.9 million in 2017. Old National's effective tax rate was 8.6% in 2018 compared to 43.3% in 2017. The lower effective tax rate in 2018 compared to 2017 is the result of $39.3 million of additional tax expense recorded in 2017 for the revaluation of deferred tax assets due to the lowering of the federal corporate tax rate to 21% and an increase in federal tax credits available.

FINANCIAL CONDITION

Overview

At December 31, 2019, our assets were $20.412 billion, a 3% increase compared to $19.728 billion at December 31, 2018. The increase was primarily due an increase in investment securities.

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 $17.762 billion at December 31, 2019, an increase of 4% compared to $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. During the fourth quarter of 2019, we inadvertently sold six held-to-maturity classified municipal bond investment securities valued at $9.7 million for a gain of $0.3 million. After the trade settled, we determined the sale of the held-to-maturity investment securities was not one of the permissible sale exceptions afforded by the current accounting guidance. Accordingly, we reclassified the entire held-to-maturity portfolio totaling $382.0 million into our available-for-sale portfolio, which increased capital by $19.4 million. Additionally, management does not expect to use the held-to-maturity category for at least the next two years. This action provides increased liquidity, which enables Old National to mitigate interest rate risk differently, but just as effectively, as the held-to-maturity category provided Old National.

Equity securities are recorded at fair value and totaled $6.8 million at December 31, 2019 compared to $5.6 million at December 31, 2018.

At December 31, 2019, the investment securities portfolio, including equity securities, was $5.556 billion compared to $4.778 billion at December 31, 2018, an increase of $777.7 million, or 16%. Investment securities represented 31% of earning assets at December 31, 2019, compared to 28% at December 31, 2018. Excess liquidity generated in 2019 resulted in a higher percentage of investment securities compared to December 31, 2018. Stronger commercial loan demand in the future could result in management's decision to reduce the securities portfolio. As of December 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 $71.9 million at December 31, 2019, compared to net unrealized losses of $49.2 million at December 31, 2018. Net unrealized gains (losses) increased from December 31, 2018 to December 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 increase in net unrealized gains also reflected the reclassification of the held-to-maturity portfolio, which included a net unrealized gain of $19.4 million.

The investment securities available-for-sale portfolio had an effective duration of 3.86 at December 31, 2019, compared to 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 weighted average yields on investment securities were 2.89% in 2019 and 2.83% in 2018.

At December 31, 2019, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: $400.2 million by Indiana, which represented 14.0% of shareholders' equity, and $165.7 million by Texas, which represented 5.8% of shareholders' equity. Of the Indiana municipal bonds, 99% are rated "A" or better, and the remaining 1% generally represent non-rated local interest bonds where Old National has a market presence. All of the Texas municipal bonds are rated "A" or better, and the majority of issues are backed by the "AAA" rated State of Texas Permanent School Fund Guarantee Program.

Loan Portfolio

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

The following table presents the composition of the loan portfolio at December 31.

(dollars in thousands)	**2019**	**2018**	**2017**	**2016**	**2015**	**Four- Year Growth Rate**
Commercial	**$ 2,890,296**	$ 3,232,970	$ 2,717,269	$1,917,099	$1,814,940	12.3 %
Commercial real estate	**5,166,792**	4,958,851	4,354,552	3,130,853	1,868,972	28.9
Consumer	**1,726,147**	1,803,667	1,879,247	1,875,030	1,603,158	1.9
Total loans excluding residential real estate	**9,783,235**	9,995,488	8,951,068	6,922,982	5,287,070	16.6
Residential real estate	**2,334,289**	2,248,404	2,167,053	2,087,530	1,661,335	8.9
Total loans	**12,117,524**	12,243,892	11,118,121	9,010,512	6,948,405	14.9 %
Less: Allowance for loan losses	**54,619**	55,461	50,381	49,808	52,233	
Net loans	**$12,062,905**	$12,188,431	$11,067,740	$8,960,704	$6,896,172	

Commercial and Commercial Real Estate Loans

At December 31, 2019, commercial and commercial real estate loans were $8.057 billion, a decrease of $134.7 million, or 2%, compared to December 31, 2018.

The following table presents the maturity distribution and rate sensitivity of commercial and commercial real estate loans at December 31, 2019 and an analysis of these loans that have predetermined and floating interest rates.

(dollars in thousands)	Within 1 Year	1 - 5 Years	Beyond 5 Years	Total	% of Total
Commercial					
Interest rates:					
Predetermined	$ 150,733	$ 790,838	$ 607,814	$ 1,549,385	54 %
Floating	632,428	449,599	258,884	1,340,911	46
Total	$ 783,161	$ 1,240,437	$ 866,698	$ 2,890,296	100 %
Commercial Real Estate					
Interest rates:					
Predetermined	$ 140,488	$ 1,544,610	$ 739,720	$ 2,424,818	47 %
Floating	258,867	1,153,539	1,329,568	2,741,974	53
Total	$ 399,355	$ 2,698,149	$ 2,069,288	$ 5,166,792	100 %

Residential Real Estate Loans

Residential real estate loans, primarily 1-4 family properties, increased $85.9 million, or 4%, at December 31, 2019 compared to December 31, 2018. 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 $77.5 million, or 4%, at December 31, 2019 compared to December 31, 2018. We continue to see runoff in our less profitable indirect consumer loan portfolio.

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. Additional information about our Allowance for Loan Losses is included in the "Risk Management – Credit Risk" section of Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 1 and 5 to the consolidated financial statements.

At December 31, 2019, the allowance for loan losses was $54.6 million, a decrease of $0.9 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. Additionally, with the adoption of CECL beginning on January 1, 2020, provision expense may become more volatile due to changes in CECL model assumptions of credit quality, macroeconomic factors and conditions, and loan composition, which drive the allowance for credit losses balance. As a percentage of total loans excluding loans held for sale, the allowance was 0.45% at December 31, 2019 and December 31, 2018. The provision for loan losses was an expense of $4.7 million in 2019 compared to an expense of $7.0 million in 2018.

For commercial loans, the allowance for loan losses increased by $0.8 million at December 31, 2019 compared to December 31, 2018. The allowance for loan losses as a percentage of the commercial loan portfolio increased to 0.78% at December 31, 2019, from 0.67% at December 31, 2018.

For commercial real estate loans, the allowance for loan losses decreased by $1.9 million at December 31, 2019 compared to December 31, 2018. The allowance for loan losses as a percentage of the commercial real estate loan portfolio decreased to 0.42% at December 31, 2019, from 0.47% at December 31, 2018.

The allowance for loan losses for residential real estate loans as a percentage of that portfolio was 0.10% at December 31, 2019 and December 31, 2018. The allowance for loan losses for consumer loans as a percentage of that portfolio increased to 0.47% at December 31, 2019, from 0.44% at December 31, 2018.

Old National will adopt ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("CECL") effective January 1, 2020. 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. Old National expects to recognize a one-time cumulative effect adjustment increasing the allowance for loan losses. Because we do not have final approval from our oversight and governance committees, we are estimating an increase to the allowance for credit losses of approximately $35 million to $45 million upon adoption, which includes a range of $3 million to $8 million for off-balance sheet exposures. The vast majority of this increase is related to the acquired loan portfolio. Under the current accounting guidance, any remaining unamortized loan discount on an individual loan can be used to offset a charge-off for that loan, so the allowance for loan losses needed for the acquired loans is reduced by the remaining loan discounts. The new accounting under the ASU removes the ability to offset a charge-off against the remaining loan discount and requires an allowance for credit losses to be recognized in addition to the loan discount. The ultimate impact of adopting the ASU, and at each subsequent reporting period, is highly dependent on credit quality, macroeconomic forecasts and conditions, composition of our loans and available-for-sale securities portfolio, along with other management judgements. The transition adjustment to record the allowance for credit losses may fall outside of management's estimated increase based on material changes in these dependencies, specifically the macroeconomic forecast and conditions and loan composition, used in calculating the allowance for credit losses upon the adoption of CECL.

Old National does not expect a material allowance for credit losses to be recorded on its available-for-sale debt securities under the newly codified available-for-sale debt security impairment model, as the majority of these securities are government agency-backed securities for which the risk of loss is minimal. See Note 1 to the consolidated financial statements for additional information on the Company's adoption of CECL.

Allowance for Losses on Unfunded Commitments

We maintain an allowance for losses on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the allowance for loan losses, modified to take into account the probability of a drawdown on the commitment. This allowance is classified as a liability on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these loan losses is recorded as a component of other expense. The allowance for losses on unfunded commitments was $2.7 million at December 31, 2019, compared to $2.5 million at December 31, 2018.

Loans Held for Sale

Mortgage loans held for immediate sale in the secondary market were $46.9 million at December 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 prospectively for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balance by $1.5 million at December 31, 2019 and $0.5 million at December 31, 2018.

Operating Lease Right-of-Use Assets

Old National adopted ASU No. 2016-02, *Leases (Topic 842)* on January 1, 2019, which required the recognition of operating lease right-of-use assets. Operating lease right-of-use assets represent the lessee's right to use, or control the use of, specified assets for the lease term. Operating lease right-of-use assets are recognized based on the present value of lease payments over the lease term. Operating lease right-of-use assets totaled $95.5 million at December 31, 2019.

Net Deferred Tax Assets

Net deferred tax assets decreased $57.3 million since 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, acquired loans, and net operating loss carryforwards. 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 17 to the consolidated financial statements for additional information.

Funding

Total funding, comprised of deposits and wholesale borrowings, was $17.298 billion at December 31, 2019, an increase of $454.4 million from $16.844 billion at December 31, 2018. Total deposits were $14.553 billion, including $12.871 billion in transaction accounts and $1.682 billion in time deposits at December 31, 2019. Total deposits increased $203.4 million, compared to December 31, 2018. Noninterest-bearing demand deposits increased $76.9 million from December 31, 2018 to December 31, 2019. Interest-bearing checking and NOW deposits increased $361.3 million from December 31, 2018 to December 31, 2019, while savings deposits decreased $98.7 million. Money market deposits increased $205.9 million from December 31, 2018 to December 31, 2019, while time deposits decreased $342.0 million.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At December 31, 2019, wholesale borrowings, including federal funds purchased and interbank borrowings, securities sold under agreements to repurchase, FHLB advances, and other borrowings, totaled $2.745 billion, an increase of $250.9 million, or 10%, from December 31, 2018. The increase in wholesale funding from December 31, 2018 to December 31, 2019 was primarily due to an increase in FHLB advances and federal funds purchased and interbank borrowings. Wholesale funding as a percentage of total funding was 16% at December 31, 2019, compared to 15% at December 31, 2018. See Notes 13, 14, and 15 to the consolidated financial statements for additional details on our financing activities.

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

				% Change From Prior Year	
(dollars in thousands)	**2019**	**2018**	**2017**	**2019**	**2018**
Demand deposits	**$ 3,887,470**	$ 3,657,234	$ 3,111,672	**6.3 %**	17.5 %
Interest-bearing checking and NOW deposits	**3,902,765**	3,146,309	2,676,760	**24.0**	17.5
Savings deposits	**2,878,135**	2,995,484	2,964,875	**(3.9)**	1.0
Money market deposits	**1,789,065**	1,225,220	762,540	**46.0**	60.7
Time deposits	**1,921,991**	1,839,974	1,487,077	**4.5**	23.7
Total deposits	**14,379,426**	12,864,221	11,002,924	**11.8**	16.9
Federal funds purchased and interbank borrowings	**241,618**	238,408	187,426	**1.3**	27.2
Securities sold under agreements to repurchase	**342,654**	344,964	336,539	**(0.7)**	2.5
Federal Home Loan Bank advances	**1,775,987**	1,665,689	1,481,314	**6.6**	12.4
Other borrowings	**251,194**	249,832	224,793	**0.5**	11.1
Total funding sources	**$16,990,879**	$15,363,114	$13,232,996	**10.6 %**	16.1 %

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

		Maturity Distribution			
(dollars in thousands)	Year-End Balance	1-90 Days	91-180 Days	181-365 Days	Beyond 1 Year
2019	**$ 983,598**	**$ 445,434**	**$ 214,412**	**$ 209,075**	**$ 114,677**
2018	1,133,130	397,990	265,232	280,402	189,506
2017	727,496	265,872	109,584	171,877	180,163

Operating Lease Liabilities

The adoption of ASU No. 2016-02, *Leases (Topic 842)* on January 1, 2019 also required the recognition of operating lease liabilities. Operating lease liabilities represent a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. Operating lease liabilities totaled $99.5 million at December 31, 2019.

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities decreased $33.5 million, or 17%, from December 31, 2018 primarily due to decreases in unfunded commitments on various tax credit investments and lower accrued expenses related to the Klein acquisition.

Capital

Shareholders' equity totaled $2.852 billion, or 14% of total assets, at December 31, 2019 and $2.690 billion, or 14% of total assets, at December 31, 2018. The change in unrealized gains (losses) on available-for-sale investment securities increased equity by $93.5 million during 2019. Old National repurchased 6.0 million shares of Common Stock in 2019 under a stock repurchase plan that was approved by the Company's Board of Directors, which reduced equity by $99.1 million. We also paid cash dividends of $0.52 per share in 2019, which reduced equity by $89.5 million. Old National's Common Stock is traded on the NASDAQ under the symbol "ONB" with 37,328 shareholders of record at December 31, 2019.

Capital Adequacy

Old National and the banking industry are subject to various regulatory capital requirements administered by the federal banking agencies. Management routinely analyzes Old National's capital to ensure an optimized capital structure. Accordingly, such evaluations may result in Old National taking a capital action. For additional information on capital adequacy see Note 26 to the consolidated financial statements.

RISK MANAGEMENT

Overview

Old National has adopted a Risk Appetite Statement to enable the Board of Directors, Executive Leadership Group, and Senior Management to better assess, understand, and mitigate the risks of 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 December 31, 2019, we had pooled trust preferred securities with a fair value of $8.2 million, or less than 1% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and at December 31, 2019, the unrealized loss on our pooled trust preferred securities was $5.6 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 in 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 3 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 a liability of $6.1 million at December 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, 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 permit 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 December 31, 2019, our average commercial loan size was under $300,000 and our average commercial real estate loan size was under $675,000. 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 December 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.

Summary of under-performing, criticized, and classified assets at December 31:

(dollars in thousands)	2019	2018	2017	2016	2015
Nonaccrual loans:					
Commercial	**$ 39,036**	$ 38,648	$ 27,202	$ 56,585	$ 57,536
Commercial real estate	**57,967**	86,601	62,425	44,026	47,350
Residential real estate	**21,023**	24,954	22,171	17,674	14,953
Consumer	**8,386**	7,281	13,129	13,122	5,198
Covered loans (1)	**—**	—	—	—	7,336
Total nonaccrual loans (2)	**126,412**	157,484	124,927	131,407	132,373
Renegotiated loans not on nonaccrual:					
Noncovered loans	**18,338**	17,356	19,589	14,376	14,147
Covered loans (1)	**—**	—	—	—	138
Past due loans (90 days or more and still accruing):					
Commercial	**—**	52	144	23	565
Commercial real estate	**181**	40	—	—	—
Residential real estate	**20**	258	—	2	114
Consumer	**369**	1,003	750	303	227
Covered loans (1)	**—**	—	—	—	10
Total past due loans	**570**	1,353	894	328	916
Other real estate owned	**2,169**	3,232	8,810	18,546	7,594
Other real estate owned, covered (1)	**—**	—	—	—	4,904
Total under-performing assets	**$ 147,489**	$ 179,425	$ 154,220	$ 164,657	$ 160,072
Classified loans (includes nonaccrual, renegotiated, past due 90 days, and other problem loans)	**$ 296,671**	$ 334,785	$ 226,583	$ 220,429	$ 204,710
Classified loans, covered (1)	**—**	—	—	—	8,584
Other classified assets (3)	**2,933**	2,820	4,556	7,063	6,857
Criticized loans	**234,841**	238,752	188,085	95,462	132,898
Criticized loans, covered (1)	**—**	—	—	—	1,449
Total criticized and classified assets	**$ 534,445**	$ 576,357	$ 419,224	$ 322,954	$ 354,498
Asset Quality Ratios including covered assets:					
Non-performing loans/total loans (4) (5)	**1.19 %**	1.43 %	1.30 %	1.62 %	2.11 %
Under-performing assets/total loans and other real estate owned (4)	**1.22**	1.47	1.39	1.82	2.30
Under-performing assets/total assets	**0.72**	0.91	0.88	1.11	1.33
Allowance for loan losses/under-performing assets (6)	**37.03**	30.91	32.67	30.25	32.63
Allowance for loan losses/nonaccrual loans (2)	**43.21**	35.22	40.33	37.90	39.46

(1) Old National entered into separate loss sharing agreements with the FDIC providing for specified credit loss protection for substantially all acquired single family residential loans, commercial loans, and other real estate owned. On June 22, 2016, Old National entered into an early termination agreement with the FDIC that terminated all loss share agreements. Old National reclassified all covered assets to noncovered assets effective June 22, 2016.

(2) Includes purchased credit impaired loans of $7.9 million, $20.5 million, $12.6 million, $16.7 million, and $15.9 million for 2019, 2018, 2017, 2016, and 2015, respectively, 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.

(3) Includes one pooled trust preferred securities and one insurance policy at December 31, 2019.

(4) Loans exclude loans held for sale.

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

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

Under-performing assets totaled $147.5 million at December 31, 2019, compared to $179.4 million at December 31, 2018. Under-performing assets as a percentage of total loans and other real estate owned at December 31, 2019 were 1.22%, a 25 basis point improvement from 1.47% at December 31, 2018.

Nonaccrual loans decreased $31.1 million from December 31, 2018 to December 31, 2019 primarily due to a decrease in nonaccrual commercial real estate loans. As a percentage of nonaccrual loans, the allowance for loan losses was 43.21% at December 31, 2019, compared to 35.22% at December 31, 2018. PCI loans that were included in the nonaccrual category because the collection of principal or interest is doubtful totaled $7.9 million at December 31, 2019, compared to $20.5 million at December 31, 2018. However, they are accounted for under FASB ASC 310-30 and accordingly treated as performing assets.

If nonaccrual and renegotiated loans outstanding at December 31, 2019 and 2018, respectively, had been accruing interest throughout the year in accordance with their original terms, interest income of approximately $4.4 million in 2019 and $5.6 million in 2018 would have been recorded on these loans. Excluding PCI loans, the amount of interest income actually recorded on nonaccrual and renegotiated loans was $2.8 million in 2019 and 2018. We had $13.8 million of renegotiated loans included in nonaccrual loans at December 31, 2019, compared to $26.3 million at December 31, 2018.

Total criticized and classified assets were $534.4 million at December 31, 2019, a decrease of $41.9 million from December 31, 2018. Other classified assets include investment securities that fell below investment grade rating totaling $2.9 million at December 31, 2019, compared to $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 December 31, 2019, our TDRs consisted of $14.8 million of commercial loans, $12.4 million of commercial real estate loans, $3.0 million of residential loans, and $1.5 million of consumer loans totaling $31.7 million. Approximately $13.8 million of the TDRs at December 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 $0.9 million at December 31, 2019 and $3.0 million at December 31, 2018. As of December 31, 2019, Old National had committed to lend an additional $2.3 million to customers with outstanding loans that are classified as TDRs, compared to $4.4 million at December 31, 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. At December 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.

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

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

(dollars in thousands)	2019	2018	2017	2016	2015
Balance at beginning of period	**$ 55,461**	$ 50,381	$ 49,808	$ 52,233	$ 47,849
Loans charged-off:					
Commercial	**3,819**	3,087	1,108	5,047	3,513
Commercial real estate	**2,846**	879	3,700	2,632	1,921
Residential real estate	**661**	1,100	985	800	1,039
Consumer credit	**7,463**	7,903	6,924	6,131	6,404
Total charge-offs	**14,789**	12,969	12,717	14,610	12,877
Recoveries on charged-off loans:					
Commercial	**1,650**	1,519	2,281	3,102	5,218
Commercial real estate	**3,774**	2,740	3,777	4,763	4,685
Residential real estate	**146**	2,118	255	174	354
Consumer credit	**3,630**	4,706	3,927	3,186	4,081
Total recoveries	**9,200**	11,083	10,240	11,225	14,338
Net charge-offs (recoveries)	**5,589**	1,886	2,477	3,385	(1,461)
Provision for loan losses	**4,747**	6,966	3,050	960	2,923
Balance at end of period	**$ 54,619**	$ 55,461	$ 50,381	$ 49,808	$ 52,233
Average loans for the year (1)	**$12,087,429**	$11,422,967	$ 9,525,888	$ 8,265,169	$ 6,756,135
Asset Quality Ratios:					
Allowance/year-end loans (1)	**0.45 %**	0.45 %	0.45 %	0.55 %	0.75 %
Allowance/average loans (1)	**0.45**	0.49	0.53	0.60	0.77
Net charge-offs (recoveries)/average loans (2)	**0.05**	0.02	0.03	0.04	(0.02)

(1) Loans exclude loans held for sale.

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

The allowance for loan losses decreased $0.8 million from December 31, 2018 to December 31, 2019. Net charge-offs totaled $5.6 million in 2019 compared to net charge-offs of $1.9 million in 2018. There were no industry segments representing a significant share of total net charge-offs. Net charge-offs (recoveries) to average loans was 0.05% in 2019 compared to 0.02% in 2018. Over the last twelve months, net charge-offs have remained low. 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, the allowance ranged from 0.45% to 0.75% for the last five years, and was 0.45% at December 31, 2019. Our ratio of allowance for loan losses to total loans remained the same as of December 31, 2019 compared to December 31, 2018.

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 Impairment	Individually Evaluated for Impairment	Acquired with Deteriorated Credit Quality	Total
Originated loans	$ 9,694,083	$ 85,982	$ —	$ 9,780,065
Acquired loans	2,345,179	19,889	50,159	2,415,227
Total loans	$ 12,039,262	$ 105,871	$ 50,159	$ 12,195,292
Remaining purchase discount	(60,367)	(1,104)	(16,297)	(77,768)
Loans, net of discount	$ 11,978,895	$ 104,767	$ 33,862	$ 12,117,524
Allowance, January 1, 2019	$ 40,642	$ 14,341	$ 478	$ 55,461
Charge-offs	(8,108)	(6,571)	(110)	(14,789)
Recoveries	3,742	5,107	351	9,200
Provision expense	9,251	(3,980)	(524)	4,747
Allowance, December 31, 2019	$ 45,527	$ 8,897	$ 195	$ 54,619

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 $2.7 million at December 31, 2019, compared to $2.5 million at December 31, 2018.

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

	2019		2018		2017		2016		2015	
(dollars in thousands)	Allowance Amount	% of Loans to Total Loans	Allowance Amount	% of Loans to Total Loans	Allowance Amount	% of Loans to Total Loans	Allowance Amount	% of Loans to Total Loans	Allowance Amount	% of Loans to Total Loans
Commercial	**$ 22,585**	**23.9 %**	$ 21,742	26.4 %	$ 19,246	24.4 %	$ 21,481	21.3 %	$ 25,568	26.0 %
Commercial real estate	**21,588**	**42.6**	23,470	40.5	21,436	39.2	18,173	34.7	15,993	26.6
Residential real estate	**2,299**	**19.3**	2,277	18.4	1,763	19.5	1,643	23.2	2,051	23.7
Consumer credit	**8,147**	**14.2**	7,972	14.7	7,936	16.9	8,511	20.8	7,684	22.2
Covered loans	**—**	**—**	—	—	—	—	—	—	937	1.5
Total	**$ 54,619**	**100.0 %**	$ 55,461	100.0 %	$ 50,381	100.0 %	$ 49,808	100.0 %	$ 52,233	100.0 %

Market Risk

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

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

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

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. The model shows our projected net interest income sensitivity based on interest rate changes only and does not consider other forecast assumptions.

The following table illustrates our projected net interest income sensitivity over a two-year cumulative horizon based on the asset/liability model as of December 31, 2019 and 2018:

	Immediate Rate Decrease		Immediate Rate Increase		
(dollars in thousands)	-50 Basis Points	Base	+100 Basis Points	+200 Basis Points	+300 Basis Points
December 31, 2019					
Projected interest income:					
Money market, other interest earning investments, and investment securities	**$ 311,737**	**$ 327,770**	**$ 348,556**	**$ 361,001**	**$ 373,190**
Loans	**966,207**	**1,023,627**	**1,142,583**	**1,259,598**	**1,373,727**
Total interest income	**1,277,944**	**1,351,397**	**1,491,139**	**1,620,599**	**1,746,917**
Projected interest expense:					
Deposits	**82,128**	**120,402**	**217,131**	**313,848**	**410,565**
Borrowings	**100,057**	**111,917**	**140,046**	**169,277**	**198,800**
Total interest expense	**182,185**	**232,319**	**357,177**	**483,125**	**609,365**
Net interest income	**$ 1,095,759**	**$ 1,119,078**	**$ 1,133,962**	**$ 1,137,474**	**$ 1,137,552**
Change from base	**$ (23,319)**		**$ 14,884**	**$ 18,396**	**$ 18,474**
% change from base	**-2.08%**		**1.33%**	**1.64%**	**1.65%**
December 31, 2018					
Projected interest income:					
Money market, other interest earning investments, and investment securities	$ 300,290	$ 308,302	$ 322,252	$ 335,523	$ 347,517
Loans	1,074,017	1,133,140	1,253,101	1,368,890	1,484,341
Total interest income	1,374,307	1,441,442	1,575,353	1,704,413	1,831,858
Projected interest expense:					
Deposits	87,031	127,300	217,029	306,754	396,473
Borrowings	113,737	130,971	165,406	199,865	234,336
Total interest expense	200,768	258,271	382,435	506,619	630,809
Net interest income	$ 1,173,539	$ 1,183,171	$ 1,192,918	$ 1,197,794	$ 1,201,049
Change from base	$ (9,632)		$ 9,747	$ 14,623	$ 17,878
% change from base	-0.81%		0.82%	1.24%	1.51%

Our asset sensitivity increased 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. 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, ramps, yield curve flattening, yield curve steepening, as well as forecasts of likely interest rate scenarios tested. At December 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, collars, and floor spreads, to mitigate interest rate risk, including certain cash flow hedges on variable-rate assets and liabilities with a notional amount of $535 million at December 31, 2019. Our derivatives had an estimated fair value gain of $38.9 million at December 31, 2019, compared to an estimated fair value gain of $16.5 million at December 31, 2018. See Note 22 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 December 31, 2019.

(dollars in thousands) **Maturity Bucket**	**Amount**	**Rate**
2020	$ 1,294,106	1.47 %
2021	184,939	1.27
2022	99,390	1.35
2023	55,794	1.72
2024	36,599	1.68
2025 and beyond	11,402	1.74
Total	$ 1,682,230	1.46 %

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 3, 2020.
- Moody's Investor Service affirmed Old National Bank's long-term deposit rating of Aa3 on February 3, 2020. 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 stable. Moody's Investor Service concluded a rating review of Old National Bank on February 3, 2020.

The credit ratings of Old National and Old National Bank at December 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 December 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	$ 45,147	$ 231,190
Unencumbered government-issued debt securities	—	2,350,861
Unencumbered investment grade municipal securities	—	772,504
Unencumbered corporate securities	—	148,761
Availability of borrowings:		
Amount available from Federal Reserve discount window*	—	325,316
Amount available from Federal Home Loan Bank Indianapolis*	—	334,634
Total available funds	$ 45,147	$ 4,163,266

* 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 December 31, 2019, Old National Bancorp's other borrowings outstanding were $223.8 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 or 2019 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 $2.779 billion and standby letters of credit of $87.8 million at December 31, 2019. At December 31, 2019, approximately $2.545 billion of the loan commitments had fixed rates and $234.5 million had floating rates, with the floating interest rates ranging from 1% to 15%. At December 31, 2018, loan commitments were $3.566 billion and standby letters of credit of $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 $37.0 million at December 31, 2019.

CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND CONTINGENT LIABILITIES

The following table presents our significant fixed and determinable contractual obligations and significant commitments at December 31, 2019. Further discussion of each obligation or commitment is included in the referenced note to the consolidated financial statements.

		Payments Due In				
(dollars in thousands)	Note Reference	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without stated maturity		$12,871,167	$ —	$ —	$ —	$12,871,167
IRAs, consumer, and brokered certificates of deposit	12	1,294,106	284,329	92,393	11,402	1,682,230
Federal funds purchased and interbank borrowings		350,414	—	—	—	350,414
Securities sold under agreements to repurchase	13	327,782	—	—	—	327,782
Federal Home Loan Bank advances	14	75,000	175,500	350,164	1,222,183	1,822,847
Other borrowings	15	499	1,077	176,234	65,875	243,685
Fixed interest payments (1)		48,071	93,175	80,493	83,757	305,496
Operating leases	8	16,449	29,376	17,255	56,818	119,898
Other long-term liabilities (2)		19,549	6,315	36	26	25,926

(1) Our senior notes, subordinated notes, certain trust preferred securities, and certain FHLB advances have fixed rates ranging from 0.68% to 4.96%. All of our other long-term debt is at LIBOR based variable rates at December 31, 2019. The projected variable interest assumes no increase in LIBOR rates from December 31, 2019.

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

We rent certain premises and equipment under operating leases. See Note 8 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 22 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 23 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 is included in Note 17 to the consolidated financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Goodwill

- **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. 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 collectability of principal or interest. We monitor the quality of our loan portfolio on an on-going basis and use a combination of detailed credit assessments by relationship managers and credit officers, historic loss trends, and economic and business environment factors in determining the allowance for loan losses. We record provisions for loan losses based on current loans outstanding, grade changes, mix of loans, and expected losses. A detailed loan loss evaluation on an individual loan basis for our highest risk loans is performed quarterly. Management follows the progress of the economy and how it might affect our borrowers in both the near and the intermediate term. We have a formalized and disciplined independent loan review program to evaluate loan administration, credit quality, and compliance with corporate loan standards. This program includes periodic, 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 December 31, 2019 resulted in a range for allowance for loan losses of $19.1 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 $2.1 million and an increase of $12.3 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, 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, 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 17 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.”

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF MANAGEMENT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Old National's management assessed the effectiveness of Old National's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria established in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control - Integrated Framework*. Based on that assessment Old National has concluded that, as of December 31, 2019, Old National's internal control over financial reporting is effective. Old National's independent registered public accounting firm has audited the effectiveness of Old National's internal control over financial reporting as of December 31, 2019 as stated in their report which follows.

Crowe LLP
Independent Member Crowe Global

Report of Independent Registered Public Accounting Firm

Shareholders and the Board of Directors of Old National Bancorp
Evansville, Indiana

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Old National Bancorp (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosures to which it relates.

Allowance and Provision for Loan Losses

As described in Notes 1 and 5 to the consolidated financial statements, the Company utilizes a probability of default (PD)/loss given default (LGD) model as a tool to determine the adequacy of the allowance for loan losses for performing commercial and commercial real estate loans. The expected loss derived from the model considers the probability of default, loss given default, and exposure at default. Loss rates are then adjusted by qualitative factors such as changes in lending policies or procedures and economic business conditions. For residential real estate and consumer loans, management uses historical loss ratios adjusted for economic conditions to determine the appropriate level of allowance for residential real estate and consumer loans.

The audit of the estimate of the allowance for loan losses was identified by us as a critical audit matter because the necessary judgments applied by us to evaluate the significant subjective and complex judgments made by management. The principal considerations resulting in our determination included judgments related to the:

- Accuracy of the loan risk rating for the performing commercial and commercial real estate portfolio. The PD is calculated using a transition matrix to determine the likelihood of a customer's asset quality rating migrating from its current rating to any other rating. The calculation relies on the accuracy of the loan risk rating at a point in time as well as the accuracy of the movement for loans to the correct risk rating category.
- Adjustments to the loss rates from the PD/LGD model and to the historical loss ratios for qualitative factors. The selection of qualitative factors and the magnitude of such adjustments is based on management's judgments regarding factors which impact asset quality.
- Completeness and accuracy of data used in PD/LGD model due to the volume of loan data used in the calculation.

The primary procedures performed to address the critical audit matter included:

- Testing the effectiveness of controls over the Company's asset quality rating; controls over the preparation and review of the allowance for loan loss calculation, including data used as the basis for adjustments related to the qualitative factors, completeness and accuracy of loan data used in the computations, the development and reasonableness of qualitative factors and mathematical accuracy of the overall calculation;
- Substantively testing the accuracy of both the asset quality ratings as well as testing the accuracy of the transition matrix for commercial and commercial real estate loans
- Substantively testing management's process for developing the qualitative factors and assessing relevance of data used to develop factors, including evaluating their judgments and assumptions for reasonableness.
- Substantively testing the mathematical accuracy of the PD/LGD calculations including the completeness and accuracy of loan data used in the model.

Crowe LLP

Crowe LLP

We have served as the Company's auditor since 2005, which is the year the engagement letter was signed for the audit of the 2006 financial statements.

Louisville, Kentucky
February 12, 2020

OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	December 31, 2019	December 31, 2018
Assets		
Cash and due from banks	**$ 234,766**	$ 284,003
Money market and other interest-earning investments	**41,571**	33,162
Total cash and cash equivalents	**276,337**	317,165
Equity securities	**6,842**	5,582
Investment securities - available-for-sale, at fair value:		
U.S. Treasury	**17,682**	5,301
U.S. government-sponsored entities and agencies	**592,984**	628,151
Mortgage-backed securities	**3,183,861**	2,209,295
States and political subdivisions	**1,275,643**	940,429
Other securities	**314,921**	340,240
Total investment securities - available-for-sale	**5,385,091**	4,123,416
Investment securities - held-to-maturity, at amortized cost (fair value $0 and $506,103, respectively)	**—**	506,334
Federal Home Loan Bank/Federal Reserve Bank stock, at cost	**164,099**	142,980
Loans held for sale, at fair value	**46,898**	14,911
Loans:		
Commercial	**2,890,296**	3,232,970
Commercial real estate	**5,166,792**	4,958,851
Residential real estate	**2,334,289**	2,248,404
Consumer credit, net of unearned income	**1,726,147**	1,803,667
Total loans, net of unearned income	**12,117,524**	12,243,892
Allowance for loan losses	**(54,619)**	(55,461)
Net loans	**12,062,905**	12,188,431
Premises and equipment, net	**490,925**	485,912
Operating lease right-of-use assets	**95,477**	—
Accrued interest receivable	**85,123**	89,464
Goodwill	**1,036,994**	1,036,258
Other intangible assets	**60,105**	77,016
Company-owned life insurance	**448,967**	444,224
Net deferred tax assets	**29,705**	87,048
Loan servicing rights	**25,368**	24,497
Other assets	**196,831**	185,197
Total assets	**$ 20,411,667**	$ 19,728,435
Liabilities		
Deposits:		
Noninterest-bearing demand	**$ 4,042,286**	$ 3,965,380
Interest-bearing:		
Checking and NOW	**4,149,639**	3,788,339
Savings	**2,845,423**	2,944,092
Money market	**1,833,819**	1,627,882
Time	**1,682,230**	2,024,256
Total deposits	**14,553,397**	14,349,949
Federal funds purchased and interbank borrowings	**350,414**	270,135
Securities sold under agreements to repurchase	**327,782**	362,294
Federal Home Loan Bank advances	**1,822,847**	1,613,481
Other borrowings	**243,685**	247,883
Operating lease liabilities	**99,500**	—
Accrued expenses and other liabilities	**161,589**	195,123
Total liabilities	**17,559,214**	17,038,865
Commitments and contingencies (Note 23)		
Shareholders' Equity		
Preferred stock, series A, 2,000 shares authorized, no shares issued or outstanding	**—**	—
Common stock, $1.00 per share stated value, 300,000 shares authorized, 169,616 and 175,141 shares issued and outstanding, respectively	**169,616**	175,141
Capital surplus	**1,944,445**	2,031,695
Retained earnings	**682,185**	527,684
Accumulated other comprehensive income (loss), net of tax	**56,207**	(44,950)
Total shareholders' equity	**2,852,453**	2,689,570
Total liabilities and shareholders' equity	**$ 20,411,667**	$ 19,728,435

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

OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,		
(dollars and shares in thousands, except per share data)	**2019**	**2018**	**2017**
Interest Income			
Loans including fees:			
Taxable	**$ 569,718**	$ 508,293	$ 389,219
Nontaxable	**15,919**	16,299	13,970
Investment securities:			
Taxable	**113,832**	80,168	63,031
Nontaxable	**29,248**	26,655	28,858
Money market and other interest-earning investments	**1,670**	630	258
Total interest income	**730,387**	632,045	495,336
Interest Expense			
Deposits	**69,364**	41,277	20,356
Federal funds purchased and interbank borrowings	**5,656**	4,793	1,966
Securities sold under agreements to repurchase	**2,517**	1,962	1,270
Federal Home Loan Bank advances	**37,452**	34,925	24,818
Other borrowings	**11,125**	11,486	9,758
Total interest expense	**126,114**	94,443	58,168
Net interest income	**604,273**	537,602	437,168
Provision for loan losses	**4,747**	6,966	3,050
Net interest income after provision for loan losses	**599,526**	530,636	434,118
Noninterest Income			
Wealth management fees	**37,072**	36,863	37,316
Service charges on deposit accounts	**44,915**	44,026	41,331
Debit card and ATM fees	**21,652**	20,216	17,676
Mortgage banking revenue	**26,622**	17,657	18,449
Investment product fees	**21,785**	20,539	20,977
Capital markets income	**13,270**	4,934	6,544
Company-owned life insurance	**11,539**	10,584	8,654
Net debt securities gains (losses)	**1,923**	2,060	9,135
Net gain on branch divestitures	**—**	13,989	—
Other income	**20,539**	24,437	23,300
Total noninterest income	**199,317**	195,305	183,382
Noninterest Expense			
Salaries and employee benefits	**289,452**	281,275	246,738
Occupancy	**55,255**	51,941	46,511
Equipment	**16,903**	14,861	13,560
Marketing	**15,898**	15,847	13,172
Data processing	**37,589**	36,170	32,306
Communication	**10,702**	10,846	9,284
Professional fees	**22,854**	14,503	16,840
Loan expenses	**7,253**	7,028	6,596
FDIC assessment	**6,030**	10,638	9,480
Amortization of intangibles	**16,911**	14,442	11,841
Amortization of tax credit investments	**2,749**	22,949	11,733
Other expense	**26,891**	36,761	30,775
Total noninterest expense	**508,487**	517,261	448,836
Income before income taxes	**290,356**	208,680	168,664
Income tax expense	**52,150**	17,850	72,939
Net income	**$ 238,206**	$ 190,830	$ 95,725
Net income per common share - basic	**$ 1.39**	$ 1.23	$ 0.69
Net income per common share - diluted	**1.38**	1.22	0.69
Weighted average number of common shares outstanding - basic	**171,907**	155,675	137,821
Weighted average number of common shares outstanding - diluted	**172,687**	156,539	138,513
Dividends per common share	**$ 0.52**	$ 0.52	$ 0.52

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

OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Net income	**$ 238,206**	$ 190,830	$ 95,725
Other comprehensive income (loss):			
Change in debt securities available-for-sale:			
Unrealized holding gains (losses) for the period	**123,006**	(4,769)	14,259
Reclassification for securities transferred to held-to-maturity	**—**	14,007	—
Reclassification adjustment for securities gains realized in income	**(1,923)**	(2,060)	(9,135)
Income tax effect	**(27,604)**	(1,386)	(1,669)
Unrealized gains (losses) on available-for-sale debt securities	**93,479**	5,792	3,455
Change in securities held-to-maturity:			
Adjustment for securities transferred to available-for-sale	**8,200**	19,412	—
Adjustment for securities transferred from available-for-sale	**—**	(14,007)	—
Amortization of unrealized losses on securities transferred from available-for-sale	**2,812**	2,181	1,830
Income tax effect	**(2,497)**	(1,394)	(627)
Changes from securities held-to-maturity	**8,515**	6,192	1,203
Cash flow hedges:			
Net unrealized derivative gains (losses) on cash flow hedges	**(543)**	5,145	927
Reclassification adjustment for (gains) losses realized in net income	**(596)**	150	6,135
Income tax effect	**280**	(1,298)	(2,684)
Changes from cash flow hedges	**(859)**	3,997	4,378
Defined benefit pension plans:			
Amortization of net loss recognized in income	**30**	191	159
Income tax effect	**(8)**	(47)	(95)
Changes from defined benefit pension plans	**22**	144	64
Other comprehensive income (loss), net of tax	**101,157**	16,125	9,100
Comprehensive income	**$ 339,363**	$ 206,955	$ 104,825

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

OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(dollars in thousands, except per share data)	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, January 1, 2017	$ 135,159	$1,348,338	$ 390,292	$ (59,372)	$ 1,814,417
Net income	—	—	95,725	—	95,725
Other comprehensive income (loss)	—	—	—	9,100	9,100
Acquisition of Anchor Bancorp, Inc.	16,527	284,301	—	—	300,828
Dividends - common stock ($0.52 per share)	—	—	(72,604)	—	(72,604)
Common stock issued	24	380	—	—	404
Common stock repurchased	(153)	(2,608)	—	—	(2,761)
Share-based compensation expense	—	6,275	—	—	6,275
Stock activity under incentive compensation plans	483	2,813	(283)	—	3,013
Balance, 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	—	—	190,830	—	190,830
Other comprehensive income (loss)	—	—	—	16,125	16,125
Acquisition of Klein Financial, Inc.	22,772	383,702	—	—	406,474
Dividends - common stock ($0.52 per share)	—	—	(82,161)	—	(82,161)
Common stock issued	29	468	—	—	497
Common stock repurchased	(104)	(1,701)	—	—	(1,805)
Share-based compensation expense	—	8,118	—	—	8,118
Stock activity under incentive compensation plans	404	1,609	(739)	—	1,274
Balance, December 31, 2018	**175,141**	**2,031,695**	**527,684**	**(44,950)**	**2,689,570**
Cumulative effect of change in accounting principles (Note 1)	**—**	**—**	**6,322**	**—**	**6,322**
Balance, January 1, 2019	**175,141**	**2,031,695**	**534,006**	**(44,950)**	**2,695,892**
Net income	**—**	**—**	**238,206**	**—**	**238,206**
Other comprehensive income (loss)	**—**	**—**	**—**	**101,157**	**101,157**
Dividends - common stock ($0.52 per share)	**—**	—	**(89,474)**	**—**	**(89,474)**
Common stock issued	**36**	**531**	—	**—**	**567**
Common stock repurchased	**(6,174)**	**(96,239)**	—	**—**	**(102,413)**
Share-based compensation expense	**—**	**7,993**	—	**—**	**7,993**
Stock activity under incentive compensation plans	**613**	**465**	**(553)**	**—**	**525**
Balance, December 31, 2019	**$ 169,616**	**$1,944,445**	**$ 682,185**	**$ 56,207**	**$ 2,852,453**

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

OLD NATIONAL BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Cash Flows From Operating Activities			
Net income	**$ 238,206**	$ 190,830	$ 95,725
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**26,719**	23,773	22,183
Amortization of other intangible assets	**16,911**	14,442	11,841
Amortization of tax credit investments	**2,749**	22,949	11,733
Net premium amortization on investment securities	**19,210**	14,384	15,302
Accretion income related to acquired loans	**(42,772)**	(40,598)	(40,576)
Share-based compensation expense	**7,993**	8,118	6,275
Excess tax (benefit) expense on share-based compensation	**(1,069)**	401	79
Provision for loan losses	**4,747**	6,966	3,050
Net debt securities (gains) losses	**(1,923)**	(2,060)	(9,135)
Net gain on branch divestitures	**—**	(13,989)	—
Net (gains) losses on sales of loans and other assets	**(7,370)**	(2,290)	(6,421)
Increase in cash surrender value of company-owned life insurance	**(11,539)**	(10,584)	(8,654)
Residential real estate loans originated for sale	**(854,848)**	(501,999)	(452,604)
Proceeds from sales of residential real estate loans	**834,024**	514,891	535,271
(Increase) decrease in interest receivable	**4,340**	2,038	151
(Increase) decrease in other assets	**23,322**	8,578	55,802
Increase (decrease) in accrued expenses and other liabilities	**(24,944)**	(1,443)	10,061
Net cash flows provided by (used in) operating activities	**233,756**	234,407	250,083
Cash Flows From Investing Activities			
Cash received (paid) from acquisitions, net	**—**	60,759	2,564
Payments related to branch divestitures	**—**	(210,659)	—
Purchases of investment securities available-for-sale	**(2,366,089)**	(663,338)	(874,555)
Purchases of Federal Home Loan Bank/Federal Reserve Bank stock	**(21,142)**	(23,066)	(17,979)
Proceeds from maturities, prepayments, and calls of investment securities available-for-sale	**1,175,272**	419,270	438,818
Proceeds from sales of investment securities available-for-sale	**424,140**	139,364	342,233
Proceeds from maturities, prepayments, and calls of investment securities held-to-maturity	**115,648**	55,520	57,682
Proceeds from sales of investment securities held-to-maturity	**9,921**	—	—
Proceeds from sales of Federal Home Loan Bank/Federal Reserve Bank stock	**23**	2,409	6,594
Proceeds from sales of equity securities	**130**	128	127
Proceeds from sale of student loan portfolio	**—**	70,674	—
Loan originations and payments, net	**163,551**	(102,928)	(475,519)
Proceeds from company-owned life insurance death benefits	**6,796**	6,501	2,347
Proceeds from sale of premises and equipment and other assets	**3,769**	7,341	18,592
Purchases of premises and equipment and other assets	**(37,423)**	(33,391)	(37,303)
Net cash flows provided by (used in) investing activities	**(525,404)**	(271,416)	(536,399)
Cash Flows From Financing Activities			
Net increase (decrease) in:			
Deposits	**203,448**	261,551	85,062
Federal funds purchased and interbank borrowings	**80,279**	(64,898)	76,430
Securities sold under agreements to repurchase	**(34,512)**	(41,997)	(5,207)
Other borrowings	**(4,377)**	(1,505)	(20,056)
Payments for maturities of Federal Home Loan Bank advances	**(377,978)**	(1,001,888)	(947,694)
Proceeds from Federal Home Loan Bank advances	**575,000**	995,000	1,205,000
Cash dividends paid on common stock	**(89,474)**	(82,161)	(72,604)
Common stock repurchased	**(102,413)**	(1,805)	(2,761)
Proceeds from exercise of stock options	**280**	948	2,655
Common stock issued	**567**	497	404
Net cash flows provided by (used in) financing activities	**250,820**	63,742	321,229
Net increase (decrease) in cash and cash equivalents	**(40,828)**	26,733	34,913
Cash and cash equivalents at beginning of period	**317,165**	290,432	255,519
Cash and cash equivalents at end of period	**$ 276,337**	$ 317,165	$ 290,432

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

OLD NATIONAL BANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATURE OF OPERATIONS

Old National Bancorp, a financial holding company headquartered in Evansville, Indiana, operates primarily in Indiana, Kentucky, Michigan, Wisconsin, and Minnesota. Its principal subsidiary is Old National Bank. Through its bank and non-bank affiliates, Old National Bancorp provides to its clients an array of financial services including loan, deposit, wealth management, investment consulting, and investment products.

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as "Old National") and have been prepared in conformity with accounting principles generally accepted in the United States 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.

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

Equity Securities

Equity securities consist of mutual funds held in trusts associated with deferred compensation plans for former directors and executives. These mutual funds are recorded as equity securities at fair value. Gains and losses are included in other income in the current year and net securities gains in 2018 and 2017.

Investment Securities

Old National classified all of its debt investment securities as available-for-sale at December 31, 2019. Debt securities classified as available-for-sale are recorded at fair value with the unrealized gains and losses, net of tax effect, recorded in other comprehensive income. Realized gains and losses affect income and the prior fair value adjustments are reclassified within shareholders' equity. Prior to the fourth quarter of 2019, Old National also had debt securities classified as held-to-maturity. Debt securities classified as held-to-maturity, which management had the intent and ability to hold to maturity, were reported at amortized cost. Interest income included amortization of purchase premiums or discounts. Premiums and discounts were amortized on the level-yield method. Anticipated prepayments were considered when amortizing premiums and discounts on mortgage backed securities. Gains and losses on the sale of available-for-sale debt securities are determined using the specific-identification method.

Other-Than-Temporary Impairment – Management evaluates debt securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such 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. If Old National intends to sell an impaired debt security, Old National records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. If a debt security is determined to be other-than-temporarily impaired, but Old National does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security, only the credit portion of the estimated loss is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. See Note 3 to the consolidated financial statements for a detailed description of the quarterly evaluation process.

Federal Home Loan Bank Stock

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

Loans Held for Sale

Loans that Old National has originated with an intent to sell are classified as loans held for sale and are recorded at fair value, determined individually, as of the balance sheet date. The loan's fair value includes the servicing value of the loans as well as any accrued interest.

Loans

Loans that Old National intends to hold for investment purposes are classified as portfolio loans. Portfolio loans are carried at the principal balance outstanding, net of earned interest, purchase premiums or discounts, deferred loan fees and costs, and an allowance for loan losses. Interest income is accrued on the principal balances of loans outstanding. For all loan classes, a loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectability of principal or interest. Interest accrued during the current year on such loans is reversed against earnings. Interest accrued in the prior year, if any, is charged to the allowance for loan losses. Cash interest received on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans may be returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for a prescribed period, and future payments are reasonably assured.

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

Allowance for Loan Losses

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

For all loan classes, a loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National's policy, for all but PCI loans, is to recognize interest income on impaired loans unless the loan is placed on nonaccrual status.

Acquired loans accounted for under ASC Topic 310-30 accrue interest, even though they may be contractually past due, as any nonpayment of contractual principal or interest is considered in the periodic re-estimation of expected cash flows and is included in the resulting recognition of current period loan loss provision or prospective yield adjustments.

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

Further information regarding Old National's policies and methodology used to estimate the allowance for loan losses is presented in Note 5.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Land is stated at cost. Depreciation is charged to operating expense over the useful lives of the assets, principally on the straight-line method. Useful lives for premises and equipment are as follows: buildings and building improvements – 15 to 39 years; and furniture and equipment – 3 to 7 years. Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Interest costs on construction of qualifying assets are capitalized.

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

Goodwill and Other Intangible Assets

The excess of the cost of acquired entities over the fair value of identifiable assets acquired less liabilities assumed is recorded as goodwill. Amortization of goodwill and indefinite-lived assets is not recorded. However, the recoverability of goodwill and other intangible assets are annually tested for impairment. Other intangible assets, including core deposits and customer business relationships, are amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of 5 to 15 years.

Company-Owned Life Insurance

Old National has purchased, as well as obtained through acquisitions, life insurance policies on certain key executives. Old National records company-owned life insurance at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Loan Servicing Rights

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

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

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

Derivative Financial Instruments

As part of Old National's overall interest rate risk management, Old National uses derivative instruments, including TBA forward agreements and interest rate swaps, collars, caps, and floors. All derivative instruments are recognized on the balance sheet at their fair value. At the inception of the derivative contract, Old National designates the derivative as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the change in value of the derivative, as well as the offsetting change in value of the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. For a cash flow hedge, the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, in noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income.

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

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

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

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

Credit-Related Financial Instruments

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

Repossessed Collateral

Other real estate owned and repossessed personal property are initially recorded at the fair value of the property less estimated cost to sell. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through the completion of a deed in lieu of foreclosure or through a similar legal agreement Any excess recorded investment over the fair value of the property received is charged to the allowance for loan losses. Any subsequent write-downs are recorded in noninterest expense, as are the costs of operating the properties. Gains or losses resulting from the sale of collateral are recognized in noninterest expense at the date of sale.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

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

Share-Based Compensation

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

Income Taxes

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

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

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

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. These investments are included in other assets on the balance sheet, with any unfunded commitments included with other liabilities. Certain of these assets qualify for the proportional amortization method and are amortized over the period that Old National expects to receive the tax credits, with the expense included within income tax expense on the consolidated statements of income. The other investments are accounted for under the equity method, with the expense included within noninterest expense on the consolidated statements of income. All of our tax credit investments are evaluated for impairment at the end of each reporting period.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the normal course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. See Note 23 to the consolidated financial statements for further disclosure.

Cash Equivalents and Cash Flows

For the purpose of presentation in the accompanying consolidated statement of cash flows, cash and cash equivalents are defined as cash, due from banks, federal funds sold and resell agreements, and money market investments, which have maturities less than 90 days. Cash flows from loans, either originated or acquired, are classified at that time according to management's intent to either sell or hold the loan for the foreseeable future. When management's intent is to sell the loan, the cash flows of that loan are presented as operating cash flows. When management's intent is to hold the loan for the foreseeable future, the cash flows of that loan are presented as investing cash flows.

The following table summarizes the supplemental cash flow information for the years ended December 31:

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Cash payments:			
Interest	**$ 127,713**	$ 91,813	$ 56,682
Income taxes (net of refunds)	**5,494**	(2,505)	4,326
Noncash Investing and Financing Activities:			
Securities transferred from held-to-maturity to available-for-sale	**381,992**	447,026	—
Securities transferred from available-for-sale to held-to-maturity	**—**	323,990	—
Transfer of premises and equipment to assets held for sale	**2,689**	9,634	16,617
Operating lease right-of-use assets obtained in exchange for lease obligations	**113,498**	—	—
Finance lease right-of-use assets obtained in exchange for lease obligations	**7,871**	—	—

The following table summarizes the common shares issued and resultant value of total shareholders' equity associated with acquisitions for the years ended December 31:

(dollars and shares in thousands)	**Shares of Common Stock**	**Total Shareholders' Equity**
2018		
Acquisition of Klein	22,772	$ 406,474
2017		
Acquisition of Anchor (MN)	16,527	$ 300,828

There were no acquisitions during 2019.

Business Combinations

Old National accounts for business combinations using the acquisition method of accounting. The accounts of an acquired entity are included as of the date of acquisition, and any excess of purchase price over the fair value of the net assets acquired is capitalized as goodwill. Old National typically issues common stock and/or pays cash for an acquisition, depending on the terms of the acquisition agreement. The value of common shares issued is determined based on the market price of the stock as of the closing of the acquisition. Acquisition costs are expensed when incurred.

Impact of Accounting Changes

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. The Company has identified contracts that reflect exposure associated with LIBOR-indexed financial instruments that mature beyond 2021 in an aggregate notional amount of $4.8 billion. 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. The associated risks identified include dependence on third parties for critical decisions regarding SOFR index calculations, spread adjustments, term rate development, and product development, which may impact the bank's ability to establish more detailed timelines for action.

Codification Updates to SEC Sections – In July 2019, the FASB issued ASU No. 2019-07, *Codification Updates to SEC Sections*, which amends certain SEC sections or paragraphs within the Accounting Standards Codification to reflect changes in SEC Final Rule Releases No. 33-10532, "Disclosure Update and Simplification," and 33-10231 and 33-10442, "Investment Company Reporting Modernization." Other revisions in ASU No. 2019-07 update language in the codification to match the electronic Code of Federal Regulations. The amendments became effective upon addition to the FASB Codification and there is no impact on the consolidated financial statements.

Accounting Guidance Issued But Not Yet Adopted in 2019

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 was permitted beginning after December 15, 2018.

As previously disclosed, Old National formed a cross functional committee to oversee the adoption of the ASU and a working group was also formed to implement provisions of the ASU. The working group identified and developed seven distinct loan segments for which models have been developed. Management monitors and assesses credit risk based on these loan segments.

Old National has completed data and model validation testing, model sensitivity analysis, the determination of qualitative adjustments, other supporting analytics, and the development of related internal controls over model inputs (data and assumptions) and model operations. While the models are operationally complete, other required processes are being finalized.

The CECL modeling measurements for estimating the current expected life-time credit losses for loans and debt securities includes the following major items:

- Initial forecast – using 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 – using two 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 as a TDR.

Old National has not completed finalizing the results of the CECL estimate as of year-end. The required financial reporting disclosures are being further refined and internally validated. Internal controls over financial reporting specifically related to CECL have been designed and are being evaluated; however, all internal controls related to CECL implementation are not operational. Old National is in the final stages of completing the formal governance and approval process.

During the first quarter of 2020, Old National expects formal approval from all internal committees and governance processes related to CECL. At that time, the cross functional committee will be disbanded, along with the current Allowance for Loan Losses Committee and replaced with an Allowance for Credit Losses Committee who will provide oversight for the entire CECL model and allowance process.

Old National expects to recognize a one-time cumulative effect adjustment increasing the allowance for loan losses. Because we do not have final approval from our oversight and governance committees, we are estimating an increase to the allowance for credit losses of approximately $35 million to $45 million upon adoption, which includes a range of $3 million to $8 million for off-balance sheet exposures. The vast majority of this increase is related to the acquired loan portfolio. Under the current accounting guidance, any remaining unamortized loan discount on an individual loan can be used to offset a charge-off for that loan, so the allowance for loan losses needed for the acquired loans is reduced by the remaining loan discounts. The new accounting under the ASU removes the ability to offset a charge-off against the remaining loan discount and requires an allowance for credit losses to be recognized in addition to the loan discount. The ultimate impact of adopting the ASU, and at each subsequent reporting period, is highly dependent on credit quality, macroeconomic forecasts and conditions, composition of our loans and available-for-sale securities portfolio, along with other management judgements. The transition adjustment to record the allowance for credit losses may fall outside of management's estimated increase based on material changes in these dependencies, specifically the macroeconomic forecast and conditions and loan composition, used in calculating the allowance for credit losses upon the adoption of CECL.

Old National does not expect a material allowance for credit losses to be recorded on its available-for-sale debt securities under the newly codified available-for-sale debt security impairment model, as the majority of these securities are government agency-backed securities for which the risk of loss is minimal.

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. Old National is planning on adopting the capital transition relief over the permissible three-year period.

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 and will not have a material impact on the financial statements.

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 and will not have a material impact on the financial statements.

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 and will not have a material impact on the 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 and will not have a material impact on the financial statements.

***FASB ASC 326, 815, and 825* –** In April 2019, the FASB issued ASU No. 2019-04, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.* The amendments related to Topic 326 address accrued interest, transfers between classifications or categories for loans and debt securities, recoveries, vintage disclosures, and contractual extensions and renewal options and will become effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. The improvements and clarifications related to Topic 815 address partial-term fair value hedges of interest-rate risk, amortization, and disclosure of fair value hedge basis adjustments and consideration of hedged contractually specified interest rate under the hypothetical method and will become effective for the annual reporting period beginning January 1, 2020. The amendments related to Topic 825 contain various improvements to ASU 2016-01, including scope; held-to-maturity debt securities fair value disclosures; and remeasurement of equity securities at historical exchange rates and will become effective for fiscal years and interim periods beginning after December 15, 2019. 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 326* –** In May 2019, the FASB issued ASU No. 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief.* These amendments provide targeted transition relief allowing entities to irrevocably elect the fair value option, on an instrument-by-instrument basis, for certain financial assets (excluding held-to-maturity debt securities) previously measured at amortized cost.

In November 2019, the FASB issued 2019-11, *Codification Improvements to Topic 326, Financial Instruments—Credit Losses*, to make improvements to the credit losses standard. Most significantly, the standard clarifies guidance around how to report expected recoveries for PCD assets. "Expected recoveries" describes a situation in which an organization recognizes a full or partial writeoff of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. This ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recognizing negative allowances for available-for-sale debt securities.

The amendments in these updates become effective for annual periods and interim periods within those annual periods beginning after December 15, 2019 and will not have a material impact on the consolidated financial statements.

***FASB ASC 718* –** In November 2019, the FASB issued ASU No. 2019-08, *Compensation – Stock Compensation (Topic 718)* and *Revenue from Contracts with Customers (Topic 606): Codification Improvements—Share-Based Consideration Payable to a Customer.* This ASU requires companies to measure and classify (on the balance sheet) share-based payments to customers by applying the guidance in Topic 718, *Compensation—Stock Compensation*. As a result, the amount recorded as a reduction in revenue would be measured based on the grant-date fair value of the share-based payment. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2019 and will not have a material impact on the consolidated financial statements.

FASB ASC 740 – In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes.* This ASU removes specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: (1) exception to the incremental approach for intraperiod tax allocation; (2) exceptions to accounting for basis differences when there are ownership changes in foreign investments; and (3) exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also improves financial statement preparers' application of income tax-related guidance and simplifies GAAP for: (1) franchise taxes that are partially based on income; (2) transactions with a government that result in a step up in the tax basis of goodwill; (3) separate financial statements of legal entities that are not subject to tax; and (4) enacted changes in tax laws in interim periods. The amendments in this update become effective for fiscal years beginning after December 15, 2020, 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.

NOTE 2 – ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

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 achieved cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions, which enabled 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 December 31, 2019, transaction and integration costs of $20.3 million associated with this acquisition have been expensed. Old National does not anticipate additional expenses related to this acquisition.

As of September 30, 2019, Old National finalized its valuation of all assets acquired and liabilities assumed, resulting in immaterial changes to acquisition accounting adjustments. A summary of the fair values of the acquired assets, liabilities assumed, and resulting goodwill follows (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	32,408
Accrued interest receivable	7,896
Company-owned life insurance	36,380
Net deferred tax assets	6,746
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	158,401
Definite-lived intangible assets acquired	39,017
Loan servicing rights	285
Goodwill	208,771
Total consideration	$ 406,474

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 Amounts Receivable at Acquisition Date	Best Estimate at Acquisition Date of Contractual Cash Flows Not Expected to be Collected
Acquired receivables subject to ASC 310-30	$ 11,663	$ 18,568	$ 4,521
Acquired receivables not subject to ASC 310-30	$ 1,037,410	$ 1,252,954	$ 76,534

Divestitures

On October 26, 2018, Old National divested ten branches in Wisconsin to Marine Credit Union of La Crosse, Wisconsin. At closing, the purchasers assumed $230.6 million in deposits and no loans. Old National recorded a net pre-tax gain of $14.0 million in the fourth quarter of 2018, which included a deposit premium of $15.0 million, goodwill allocation of $0.6 million, and $0.4 million of other transaction expenses.

Based on an ongoing assessment of our service and delivery network, Old National consolidated ten banking centers in 2018 and one additional banking center in 2019. On January 21, 2020, Old National announced a plan to close 31 banking centers throughout its footprint: ten banking centers in each of Wisconsin and Indiana, five in Michigan, four in Minnesota and two in Kentucky. The Company expects to complete the optimization during the second quarter of 2020. In addition, Old National plans to close several non-branch facilities at a later date.

NOTE 3 – INVESTMENT SECURITIES

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

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2019				
Available-for-Sale				
U.S. Treasury	**$ 17,567**	**$ 117**	**$ (2)**	**$ 17,682**
U.S. government-sponsored entities and agencies	**596,595**	**1,027**	**(4,638)**	**592,984**
Mortgage-backed securities - Agency	**3,151,550**	**41,363**	**(9,052)**	**3,183,861**
States and political subdivisions	**1,232,497**	**44,193**	**(1,047)**	**1,275,643**
Pooled trust preferred securities	**13,811**	**—**	**(5,589)**	**8,222**
Other securities	**301,189**	**6,842**	**(1,332)**	**306,699**
Total available-for-sale securities	**$5,313,209**	**$ 93,542**	**$ (21,660)**	**$5,385,091**
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

During the fourth quarter of 2019, Old National inadvertently sold six held-to-maturity classified municipal bond investment securities valued at $9.7 million for a gain of $0.3 million. After the trade settled, Old National determined the sale of the held-to-maturity investment securities was not one of the permissible sale exceptions afforded by the current accounting guidance. Accordingly, Old National reclassified the entire held-to-maturity portfolio totaling $382.0 million into the available-for-sale portfolio, which increased capital by $19.4 million. The increase in capital included $13.0 million of unrealized holding gains at the date of transfer, net of tax, which is included on the consolidated statement of comprehensive income in unrealized holding gains (losses) on available-for-sale debt securities of $93.5 million for the year ended December 31, 2019. Management does not expect to use the held-to-maturity category for at least the next two years.

Proceeds from sales or calls of available-for-sale investment securities, the resulting realized gains and realized losses, and other securities gains or losses were as follows for the years ended December 31:

(dollars in thousands)	Years Ended December 31, 2019	2018	2017
Proceeds from sales of available-for-sale debt securities	**$ 424,140**	$ 139,364	$ 342,233
Proceeds from calls of available-for-sale debt securities	**441,851**	32,437	88,233
Total	**$ 865,991**	$ 171,801	$ 430,466
Realized gains on sales of available-for-sale debt securities	**$ 4,620**	$ 3,259	$ 8,710
Realized gains on calls of available-for-sale debt securities	**93**	283	29
Realized losses on sales of available-for-sale debt securities	**(2,760)**	(1,469)	(263)
Realized losses on calls of available-for-sale debt securities	**(30)**	(63)	(8)
Other securities gains (losses) (1)	**—**	50	667
Net debt securities gains (losses)	**$ 1,923**	$ 2,060	$ 9,135

(1) Other securities gains (losses) in 2018 and 2017 included realized gains and losses of equity securities previously classified as trading securities. For 2019, gains (losses) on equity securities are included in other income.

Investment securities pledged to secure public and other funds had a carrying value of $2.104 billion at December 31, 2019 and $2.404 billion at December 31, 2018.

At December 31, 2019, Old National had a concentration of investment securities issued by certain states and their political subdivisions with the following aggregate market values: $400.2 million by Indiana, which represented 14.0% of shareholders' equity, and $165.7 million by Texas, which represented 5.8% of shareholders' equity. Of the Indiana municipal bonds, 99% are rated "A" or better, and the remaining 1% generally represent non-rated local interest bonds where Old National has a market presence. All of the Texas municipal bonds are rated "A" or better, and the majority of issues are backed by the "AAA" rated State of Texas Permanent School Fund Guarantee Program.

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 contractual 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) Maturity	At December 31, 2019 Amortized Cost	Fair Value	Weighted Average Yield
Available-for-Sale			
Within one year	**$ 356,218**	**$ 357,345**	**2.28 %**
One to five years	**2,714,931**	**2,747,339**	**2.81**
Five to ten years	**1,016,686**	**1,033,597**	**3.11**
Beyond ten years	**1,225,374**	**1,246,810**	**3.35**
Total	**$ 5,313,209**	**$ 5,385,091**	**2.96 %**

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

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019						
Available-for-Sale						
U.S. Treasury	**$ 999**	**$ (2)**	**$ —**	**$ —**	**$ 999**	**$ (2)**
U.S. government-sponsored entities and agencies	**357,647**	**(4,638)**	**—**	**—**	**357,647**	**(4,638)**
Mortgage-backed securities - Agency	**786,245**	**(6,122)**	**212,056**	**(2,930)**	**998,301**	**(9,052)**
States and political subdivisions	**120,166**	**(1,016)**	**7,006**	**(31)**	**127,172**	**(1,047)**
Pooled trust preferred securities	**—**	**—**	**8,222**	**(5,589)**	**8,222**	**(5,589)**
Other securities	**30,765**	**(182)**	**87,066**	**(1,150)**	**117,831**	**(1,332)**
Total available-for-sale	**$1,295,822**	**$ (11,960)**	**$ 314,350**	**$ (9,700)**	**$1,610,172**	**$ (21,660)**
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 December 31 by aggregated major security type and length of time in a continuous unrecognized loss position:

	Less than 12 months		12 months or longer		Total	
(dollars in thousands)	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses	Fair Value	Unrecognized Losses
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 $10.7 million at December 31, 2018. There were no held-to-maturity investment securities with unrecognized losses at December 31, 2019.

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.

We did not record OTTI in 2019, 2018, or 2017.

As of December 31, 2019, Old National's securities portfolio consisted of 1,892 securities, 249 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 December 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 the securities prior to their anticipated recovery.

Pooled Trust Preferred Securities

At December 31, 2019, our securities portfolio contained two pooled trust preferred securities with a fair value of $8.2 million and unrealized losses of $5.6 million. These securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. For the years ended December 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 December 31, 2019 (dollars in thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2019	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a % of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral
Pooled trust preferred securities:										
Pretsl XXVII LTD	B	B	4,287	2,510	(1,777)	$ —	32/41	14.6%	9.9%	34.8%
Trapeza Ser 13A	A2A	BBB	9,524	5,712	(3,812)	—	39/41	4.5%	6.6%	51.5%
			13,811	8,222	(5,589)	—				
Single Issuer trust preferred securities:										
JP Morgan Chase Cap XIII		BBB-	4,798	4,475	(323)	—				
			4,798	4,475	(323)	—				
Total			$ 18,609	$12,697	$ (5,912)	$ —				

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

Equity Securities

Equity securities are recorded at fair value and totaled $6.8 million at December 31, 2019 and $5.6 million at December 31, 2018. There were gains on equity securities of $0.7 million during 2019, $0.1 million during 2018, and $0.7 million during 2017. Old National also has equity securities without readily determinable fair values that are included in other assets that totaled $91.4 million at December 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 2019 or 2018.

NOTE 4 – LOANS HELD FOR SALE

Mortgage loans held for immediate sale in the secondary market were $46.9 million at December 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. 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 5 – 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 at December 31 by lending classification was as follows:

	December 31,	
(dollars in thousands)	**2019**	**2018**
Commercial (1)	**$ 2,890,296**	$ 3,232,970
Commercial real estate:		
Construction	**713,092**	504,625
Other	**4,453,700**	4,454,226
Residential real estate	**2,334,289**	2,248,404
Consumer credit:		
Home equity	**559,021**	589,322
Auto	**1,017,287**	1,059,633
Other	**149,839**	154,712
Total loans	**12,117,524**	12,243,892
Allowance for loan losses	**(54,619)**	(55,461)
Net loans	**$ 12,062,905**	$ 12,188,431

(1) Includes direct finance leases of $47.2 million at December 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

Commercial real estate 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 December 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.

Related Party Loans

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

Activity in related party loans for the years ended December 31, 2019, 2018, and 2017 is presented in the following table:

	Years Ended December 31,		
(dollars in thousands)	**2019**	2018	2017
Balance at beginning of period	**$ 9,310**	$ 9,481	$ 8,494
New loans	**1,218**	9,152	6,041
Repayments	**(2,063)**	(8,721)	(4,885)
Officer and director changes	**(6,120)**	(602)	(169)
Balance at end of period	**$ 2,345**	$ 9,310	$ 9,481

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.

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 years ended December 31, 2019, 2018, and 2017 was as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
2019					
Allowance for loan losses:					
Balance at beginning of period	**$ 21,742**	**$ 23,470**	**$ 2,277**	**$ 7,972**	**$ 55,461**
Charge-offs	**(3,819)**	**(2,846)**	**(661)**	**(7,463)**	**(14,789)**
Recoveries	**1,650**	**3,774**	**146**	**3,630**	**9,200**
Provision	**3,012**	**(2,810)**	**537**	**4,008**	**4,747**
Balance at end of period	**$ 22,585**	**$ 21,588**	**$ 2,299**	**$ 8,147**	**$ 54,619**
2018					
Allowance for loan losses:					
Balance at beginning of period	$ 19,246	$ 21,436	$ 1,763	$ 7,936	$ 50,381
Charge-offs	(3,087)	(879)	(1,100)	(7,903)	(12,969)
Recoveries	1,519	2,740	2,118	4,706	11,083
Provision	4,064	173	(504)	3,233	6,966
Balance at end of period	$ 21,742	$ 23,470	$ 2,277	$ 7,972	$ 55,461
2017					
Allowance for loan losses:					
Balance at beginning of period	$ 21,481	$ 18,173	$ 1,643	$ 8,511	$ 49,808
Charge-offs	(1,108)	(3,700)	(985)	(6,924)	(12,717)
Recoveries	2,281	3,777	255	3,927	10,240
Provision	(3,408)	3,186	850	2,422	3,050
Balance at end of period	$ 19,246	$ 21,436	$ 1,763	$ 7,936	$ 50,381

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

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
December 31, 2019					
Allowance for loan losses:					
Individually evaluated for impairment	**$ 7,891**	**$ 1,006**	**$ —**	**$ —**	**$ 8,897**
Collectively evaluated for impairment	**14,692**	**20,582**	**2,299**	**7,954**	**45,527**
Loans acquired with deteriorated credit quality	**2**	**—**	**—**	**193**	**195**
Total allowance for loan losses	**$ 22,585**	**$ 21,588**	**$ 2,299**	**$ 8,147**	**$ 54,619**
Loans and leases outstanding:					
Individually evaluated for impairment	**$ 41,479**	**$ 63,288**	**$ —**	**$ —**	**$ 104,767**
Collectively evaluated for impairment	**2,843,536**	**5,084,737**	**2,326,907**	**1,723,715**	**11,978,895**
Loans acquired with deteriorated credit quality	**5,281**	**18,767**	**7,382**	**2,432**	**33,862**
Total loans and leases outstanding	**$ 2,890,296**	**$ 5,166,792**	**$ 2,334,289**	**$ 1,726,147**	**$12,117,524**
December 31, 2018					
Allowance for loan losses:					
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 or liquidation 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 December 31, 2019 and 2018 was as follows:

(dollars in thousands) **Corporate Credit Exposure** **Credit Risk Profile by**	**Commercial**		**Commercial Real Estate - Construction**		**Commercial Real Estate - Other**	
Internally Assigned Grade	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Grade:						
Pass	**$2,702,605**	$3,029,130	**$ 665,512**	$ 460,158	**$4,191,455**	$4,167,902
Criticized	**84,676**	98,798	**34,651**	29,368	**115,514**	110,586
Classified - substandard	**63,979**	66,394	**—**	1,275	**101,693**	102,961
Classified - nonaccrual	**22,240**	29,003	**12,929**	13,824	**38,822**	37,441
Classified - doubtful	**16,796**	9,645	**—**	—	**6,216**	35,336
Total	**$2,890,296**	$3,232,970	**$ 713,092**	$ 504,625	**$4,453,700**	$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 December 31, 2019 and 2018:

		Consumer		
(dollars in thousands)	**Residential**	**Home Equity**	**Auto**	**Other**
December 31, 2019				
Performing	**$ 2,311,670**	**$ 555,025**	**$ 1,013,760**	**$ 147,383**
Nonperforming	**22,619**	**3,996**	**3,527**	**2,456**
Total	**$ 2,334,289**	**$ 559,021**	**$ 1,017,287**	**$ 149,839**
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.

The following table shows Old National's impaired loans at December 31, 2019 and 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
December 31, 2019			
With no related allowance recorded:			
Commercial	**$ 23,227**	**$ 23,665**	**$ —**
Commercial Real Estate - Construction	**12,929**	**12,929**	**—**
Commercial Real Estate - Other	**37,674**	**38,112**	**—**
Residential	**1,774**	**1,794**	**—**
Consumer	**403**	**568**	**—**
With an allowance recorded:			
Commercial	**18,252**	**18,305**	**7,891**
Commercial Real Estate - Construction	**—**	**—**	**—**
Commercial Real Estate - Other	**12,685**	**12,685**	**1,006**
Residential	**1,201**	**1,201**	**39**
Consumer	**1,094**	**1,094**	**55**
Total	**$ 109,239**	**$ 110,353**	**$ 8,991**
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 for the years ended December 31, 2019, 2018, and 2017 are included in the table below.

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Average Recorded Investment			
With no related allowance recorded:			
Commercial	**$ 22,629**	$ 21,295	$ 24,780
Commercial Real Estate - Construction	**6,465**	—	—
Commercial Real Estate - Other	**39,401**	39,902	34,632
Residential	**2,052**	2,305	2,415
Consumer	**923**	832	1,761
With an allowance recorded:			
Commercial	**15,816**	9,546	7,002
Commercial Real Estate - Construction	**6,912**	7,365	453
Commercial Real Estate - Other	**20,420**	27,317	26,562
Residential	**981**	840	1,012
Consumer	**1,219**	1,957	2,155
Total	**$ 116,818**	$ 111,359	$ 100,772

Old National does not record interest on nonaccrual loans until principal is recovered. Interest income recognized on impaired loans during 2019, 2018, and 2017 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 collectability 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 as of December 31 were as follows:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More and Accruing	Nonaccrual (1)	Total Past Due	Current
December 31, 2019						
Commercial	**$ 1,489**	**$ 498**	**$ —**	**$ 39,036**	**$ 41,023**	**$ 2,849,273**
Commercial Real Estate:						
Construction	**187**	**—**	**—**	**12,929**	**13,116**	**699,976**
Other	**2,223**	**665**	**181**	**45,038**	**48,107**	**4,405,593**
Residential	**11,054**	**2,426**	**20**	**21,023**	**34,523**	**2,299,766**
Consumer:						
Home equity	**1,020**	**554**	**107**	**3,785**	**5,466**	**553,555**
Auto	**7,704**	**919**	**154**	**3,527**	**12,304**	**1,004,983**
Other	**1,372**	**147**	**108**	**1,074**	**2,701**	**147,138**
Total	**$ 25,049**	**$ 5,209**	**$ 570**	**$ 126,412**	**$ 157,240**	**$ 11,960,284**
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	$ 40,443	$ 7,289	$ 1,353	$ 157,484	$ 206,569	$ 12,037,323

(1) Includes purchased credit impaired loans of $7.9 million at December 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.

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At December 31, 2019, these loans totaled $868.1 million, of which $405.2 million had been sold to other financial institutions and $462.9 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.

The following table presents activity in TDRs for the years ended December 31, 2019, 2018, and 2017:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
2019					
Balance at beginning of period	**$ 10,275**	**$ 27,671**	**$ 3,390**	**$ 2,374**	**$ 43,710**
(Charge-offs)/recoveries	**(1,911)**	**(2,112)**	**—**	**13**	**(4,010)**
(Payments)/disbursements	**(3,733)**	**(23,182)**	**(971)**	**(1,207)**	**(29,093)**
Additions	**10,231**	**10,027**	**557**	**316**	**21,131**
Balance at end of period	**$ 14,862**	**$ 12,404**	**$ 2,976**	**$ 1,496**	**$ 31,738**
2018					
Balance at beginning of period	$ 12,088	$ 34,705	$ 3,315	$ 3,895	$ 54,003
(Charge-offs)/recoveries	(169)	561	23	16	431
(Payments)/disbursements	(5,188)	(8,808)	(450)	(1,969)	(16,415)
Additions	3,544	1,213	502	432	5,691
Balance at end of period	$ 10,275	$ 27,671	$ 3,390	$ 2,374	$ 43,710
2017					
Balance at beginning of period	$ 16,802	$ 18,327	$ 2,985	$ 2,602	$ 40,716
(Charge-offs)/recoveries	417	381	—	(294)	504
(Payments)/disbursements	(18,519)	(11,752)	(608)	(981)	(31,860)
Additions	13,388	27,749	938	2,568	44,643
Balance at end of period	$ 12,088	$ 34,705	$ 3,315	$ 3,895	$ 54,003

TDRs included with nonaccrual loans totaled $13.8 million at December 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 $0.9 million at December 31, 2019 and $3.0 million at December 31, 2018. At December 31, 2019, Old National had committed to lend an additional $2.3 million to customers with outstanding loans that are classified as TDRs, compared to $4.4 million at December 31, 2018.

The pre-modification and post-modification outstanding recorded investments of loans modified as TDRs during the years ended December 31, 2019, 2018, and 2017 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 years ended December 31, 2019, 2018, and 2017:

(dollars in thousands)	Number of Loans	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
2019			
Troubled Debt Restructuring:			
Commercial	**8**	**$ 10,231**	**$ 10,231**
Commercial Real Estate - Other	**4**	**10,027**	**10,027**
Residential	**1**	**557**	**557**
Consumer	**1**	**316**	**316**
Total	**14**	**$ 21,131**	**$ 21,131**
2018			
Troubled Debt Restructuring:			
Commercial	6	$ 3,544	$ 3,544
Commercial Real Estate - Other	2	1,213	1,213
Residential	1	502	502
Consumer	1	432	432
Total	10	$ 5,691	$ 5,691
2017			
Troubled Debt Restructuring:			
Commercial	11	$ 13,388	$ 13,388
Commercial Real Estate - Other	12	27,749	27,749
Residential	6	938	938
Consumer	7	2,568	2,568
Total	36	$ 44,643	$ 44,643

The TDRs that occurred during 2019 increased the allowance for loan losses by $2.0 million and resulted in $3.9 million in charge-offs during 2019. The TDRs that occurred during 2018 did not have a material impact on the allowance for loan losses and resulted in no charge-offs during 2018. The TDRs that occurred during 2017 increased the allowance for loan losses by $2.7 million and resulted in $0.2 million of charge-offs during 2017.

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 during the year were insignificant in 2019, 2018, and 2017.

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 December 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. The carrying amount of those loans was as follows:

	December 31,	
(dollars in thousands)	**2019**	**2018**
Commercial	**$ 5,281**	$ 6,193
Commercial real estate	**18,767**	25,391
Residential	**7,382**	9,257
Consumer	**2,432**	3,552
Carrying amount	**33,862**	44,393
Allowance for loan losses	**(195)**	(478)
Carrying amount, net of allowance	**$ 33,667**	$ 43,915

The outstanding balance of loans accounted for under ASC 310-30, including contractual principal, interest, fees and penalties, was $223.3 million at December 31, 2019 and $246.9 million at December 31, 2018.

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 $11.3 million during 2019 and $12.3 million during 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:

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Balance at beginning of period	**$ 25,051**	$ 27,835	$ 33,603
New loans purchased	**—**	2,384	1,556
Accretion of income	**(11,308)**	(12,252)	(15,217)
Reclassifications from (to) nonaccretable difference	**1,941**	6,133	7,614
Disposals/other adjustments	**591**	951	279
Balance at end of period	**$ 16,275**	$ 25,051	$ 27,835

Included in Old National's allowance for loan losses is $0.2 million related to the purchased loans disclosed above at December 31, 2019, compared to $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 is not recognized on PCI loans if Old National cannot reasonably estimate cash flows expected to be collected. Old National had no PCI loans for which it cannot reasonably estimate cash flows expected to be collected.

NOTE 6 – OTHER REAL ESTATE OWNED

The following table presents activity in other real estate owned:

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Balance at beginning of period	**$ 3,232**	$ 8,810	$ 18,546
Additions (1)	**1,192**	2,025	4,016
Sales	**(2,077)**	(6,689)	(11,160)
Impairments	**(178)**	(914)	(2,592)
Balance at end of period (2)	**$ 2,169**	$ 3,232	$ 8,810

(1) Additions in 2018 include other real estate owned of $1.0 million acquired from Klein in November 2018. Additions in 2017 include other real estate owned of $1.1 million acquired from Anchor (MN) in November 2017.

(2) Includes repossessed personal property of $0.4 million at December 31, 2019 and $0.3 million at December 31, 2018.

Foreclosed residential real estate property recorded as a result of obtaining physical possession of the property included in the table above totaled $0.5 million at December 31, 2019 and $1.3 million at December 31, 2018. Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $3.7 million at December 31, 2019 and $4.9 million at December 31, 2018.

NOTE 7 – PREMISES AND EQUIPMENT

The composition of premises and equipment was as follows at December 31:

(dollars in thousands)	December 31, 2019	2018
Land	**$ 79,569**	$ 79,231
Buildings	**380,925**	365,102
Furniture, fixtures, and equipment	**112,654**	107,862
Leasehold improvements	**44,136**	42,288
Total	**617,284**	594,483
Accumulated depreciation	**(126,359)**	(108,571)
Premises and equipment, net	**$ 490,925**	$ 485,912

Depreciation expense was $26.7 million in 2019, $23.8 million in 2018, and $22.2 million in 2017.

Finance Leases

Old National leases certain branch buildings under finance leases that are included in premises and equipment. See Notes 8 and 15 to the consolidated financial statements for detail regarding these leases.

NOTE 8 – LEASES

Old National adopted FASB Topic 842 as of January 1, 2019. See Note 1 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 December 31, 2019. Finance leases are included in premises and equipment and other borrowings in our consolidated balance sheets at December 31, 2019 and 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. 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 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.

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

The components of lease expense were as follows:

(dollars in thousands)	Affected Line Item in the Statement of Income	Year Ended December 31, 2019
Operating lease cost	occupancy/equipment expense	$ 17,001
Finance lease cost:		
Amortization of right-of-use assets	occupancy expense	651
Interest on lease liabilities	interest expense	320
Short-term lease cost	occupancy expense	6
Sub-lease income	occupancy expense	(703)
Total		$ 17,275

Lease expense for operating leases was $17.9 million in 2018 and $15.8 million in 2017.

Supplemental balance sheet information related to leases was as follows:

(dollars in thousands)	December 31, 2019
Operating Leases	
Operating lease right-of-use assets	$ 95,477
Operating lease liabilities	99,500
Finance Leases	
Premises and equipment, net	7,170
Other borrowings	7,406
Weighted-Average Remaining Lease Term (in Years)	
Operating leases	10.6
Finance leases	11.3
Weighted-Average Discount Rate	
Operating leases	3.45 %
Finance leases	4.43 %

Supplemental cash flow information related to leases was as follows:

(dollars in thousands)	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 17,493
Operating cash flows from finance leases	320
Financing cash flows from finance leases	465

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

(dollars in thousands)	Operating Leases	Finance Leases
2020	$ 16,449	$ 803
2021	15,470	809
2022	13,906	815
2023	9,216	830
2024	8,039	858
Thereafter	56,818	5,374
Total undiscounted lease payments	119,898	9,489
Amounts representing interest	(20,398)	(2,083)
Lease liability	$ 99,500	$ 7,406

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 December 31, 2019:

(dollars in thousands)	Tenant Leases
2020	$ 2,571
2021	2,273
2022	1,908
2023	1,506
2024	1,385
Thereafter	2,509
Total undiscounted lease payments	$ 12,152

NOTE 9 – GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the changes in the carrying amount of goodwill:

	Years Ended December 31,		
(dollars in thousands)	2019	2018	2017
Balance at beginning of period	**$ 1,036,258**	$ 828,051	$ 655,018
Acquisitions and adjustments	**736**	208,787	173,033
Divestitures	**—**	(580)	—
Balance at end of period	**$ 1,036,994**	$ 1,036,258	$ 828,051

Old National performed the required annual goodwill impairment test as of August 31, 2019 and there was no impairment. No events or circumstances since the August 31, 2019 annual impairment test were noted that would indicate it was more likely than not a goodwill impairment exists. See Note 2 to the consolidated financial statements for detail regarding changes in goodwill associated with acquisitions and divestitures.

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

(dollars in thousands)	Gross Carrying Amount	Accumulated Amortization and Impairment	Net Carrying Amount
December 31, 2019			
Core deposit	**$ 119,051**	**$ (63,020)**	**$ 56,031**
Customer trust relationships	**16,547**	**(12,473)**	**4,074**
Total intangible assets	**$ 135,598**	**$ (75,493)**	**$ 60,105**
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 in 2019, 2018, or 2017. Total amortization expense associated with intangible assets was $16.9 million in 2019, $14.4 million in 2018, and $11.8 million in 2017.

Estimated amortization expense for future years is as follows:

(dollars in thousands)	
2020	$ 14,091
2021	11,336
2022	9,014
2023	7,053
2024	5,645
Thereafter	12,966
Total	$ 60,105

NOTE 10 – LOAN SERVICING RIGHTS

At December 31, 2019, loan servicing rights derived from loans sold with servicing retained totaled $25.4 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 $3.445 billion at December 31, 2019, compared to $3.306 billion at December 31, 2018. Approximately 99.8% of the loans serviced for others at December 31, 2019 were residential mortgage loans. Custodial escrow balances maintained in connection with serviced loans were $12.7 million at December 31, 2019 and $10.7 million at December 31, 2018.

The following table summarizes the activity related to loan servicing rights and the related valuation allowance in 2019, 2018, and 2017:

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Balance at beginning of period	**$ 24,512**	$ 24,690	$ 25,629
Additions (1)	**6,499**	4,264	4,206
Amortization	**(5,612)**	(4,442)	(5,145)
Balance before valuation allowance at end of period	**25,399**	24,512	24,690
Valuation allowance:			
Balance at beginning of period	**(15)**	(29)	(68)
(Additions)/recoveries	**(16)**	14	39
Balance at end of period	**(31)**	(15)	(29)
Loan servicing rights, net	**$ 25,368**	$ 24,497	$ 24,661

(1) Additions in 2018 include loan servicing rights of $0.3 million acquired from Klein in November 2018.

At December 31, 2019, the fair value of servicing rights was $26.5 million, which was determined using a discount rate of 12% and a weighted average prepayment speed of 167% 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 11 – 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. These investments are included in other assets on the balance sheet, with any unfunded commitments included with other liabilities. As of December 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 December 31, 2019 and 2018:

(dollars in thousands)		December 31, 2019		December 31, 2018	
Investment	**Accounting Method**	**Investment**	**Unfunded Commitment (1)**	**Investment**	**Unfunded Commitment**
LIHTC	Proportional amortization	**$ 29,735**	**$ 3,911**	$ 28,396	$ 2,238
FHTC	Equity	**22,403**	**17,886**	16,815	17,945
CReED	Equity	**—**	**—**	17	538
Renewable Energy	Equity	**7,523**	**4,129**	9,176	17,827
Total		**$ 59,661**	**$ 25,926**	$ 54,404	$ 38,548

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

The following table summarizes the amortization expense and tax benefit recognized for Old National's qualified affordable housing projects and other tax credit investments during 2019, 2018, and 2017:

(dollars in thousands)	Amortization Expense (1)	Tax Expense (Benefit) Recognized (2)
Year Ended December 31, 2019		
LIHTC	**$ 3,168**	**$ (4,102)**
FHTC	**1,113**	**(1,244)**
CReED (3)	**13**	**—**
Renewable Energy	**1,623**	**(1,740)**
Total	**$ 5,917**	**$ (7,086)**
Year Ended December 31, 2018		
LIHTC	$ 2,585	$ (3,349)
FHTC	9,206	(10,775)
CReED (3)	687	(687)
Renewable Energy	13,056	(14,566)
Total	$ 25,534	$ (29,377)
Year Ended December 31, 2017		
LIHTC	$ 1,922	$ (2,666)
FHTC	10,441	(11,348)
CReED (3)	800	(1,074)
Renewable Energy	492	(613)
Total	$ 13,655	$ (15,701)

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

(3) The CReED tax credit investment qualifies for an Indiana state tax credit.

NOTE 12 – DEPOSITS

Time deposits that meet or exceed the FDIC insurance limit of $250,000 totaled $546.0 million at December 31, 2019 and $612.7 million at December 31, 2018. At December 31, 2019, the scheduled maturities of total time deposits were as follows:

(dollars in thousands)	
Due in 2020	$ 1,294,106
Due in 2021	184,939
Due in 2022	99,390
Due in 2023	55,794
Due in 2024	36,599
Thereafter	11,402
Total	$ 1,682,230

NOTE 13 – 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 for each of the years ended December 31:

(dollars in thousands)	2019	2018
Outstanding at year-end	**$ 327,782**	$ 362,294
Average amount outstanding	**342,654**	344,964
Maximum amount outstanding at any month-end	**367,884**	364,001
Weighted-average interest rate:		
During year	**0.73 %**	0.57 %
End of year	**0.53**	0.75

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

	At December 31, 2019				
	Remaining Contractual Maturity of the Agreements				
(dollars in thousands)	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater Than 90 days	Total
Repurchase Agreements:					
U.S. Treasury and agency securities	**$ 327,782**	**$ —**	**$ —**	**$ —**	**$ 327,782**
Total	**$ 327,782**	**$ —**	**$ —**	**$ —**	**$ 327,782**

The fair value of securities pledged to secure repurchase agreements may decline. Old National has pledged securities valued at 103% of the gross outstanding balance of repurchase agreements at December 31, 2019 to manage this risk.

NOTE 14 – FEDERAL HOME LOAN BANK ADVANCES

The following table summarizes Old National Bank's FHLB advances at December 31:

	December 31,	
(dollars in thousands)	2019	2018
FHLB advances (fixed rates 0.68% to 4.96% and variable rates 2.04% to 2.45%) maturing January 2020 to August 2029	**$ 1,800,664**	$ 1,603,643
ASC 815 fair value hedge and other basis adjustments	**22,183**	9,838
Total other borrowings	**$ 1,822,847**	$ 1,613,481

FHLB advances had weighted-average rates of 2.19% at December 31, 2019 and 2.56% at December 31, 2018. These borrowings are collateralized by investment securities and residential real estate loans up to 140% of outstanding debt.

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

(dollars in thousands)	
Due in 2020	$ 75,000
Due in 2021	20,000
Due in 2022	155,500
Due in 2023	164
Due in 2024	350,000
Thereafter	1,200,000
ASC 815 fair value hedge and other basis adjustments	22,183
Total	$ 1,822,847

NOTE 15 – OTHER BORROWINGS

The following table summarizes Old National's other borrowings at December 31:

(dollars in thousands)	December 31, 2019	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 unsecured bank notes	**(715)**	(870)
Junior subordinated debentures (variable rates of 3.49% to 5.62%) maturing April 2032 to June 2037	**52,310**	60,310
Other basis adjustments	**(2,833)**	(3,046)
Old National Bank:		
Finance lease liabilities	**7,406**	5,262
Subordinated debentures (fixed rate 5.75%)	**12,000**	12,000
Other	**517**	(773)
Total other borrowings	**$ 243,685**	$ 247,883

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

(dollars in thousands)	
Due in 2020	$ 499
Due in 2021	524
Due in 2022	553
Due in 2023	591
Due in 2024	175,643
Thereafter	68,906
Unamortized debt issuance costs and other basis adjustments	(3,031)
Total	$ 243,685

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. In December 2019, Old National redeemed at par $8.0 million of junior subordinated debentures issued in December 2005 by Tower Financial Corporation, which was acquired by Old National in 2014. This subsequently caused the redemption of all of the common and capital (preferred) securities issued by Tower Capital Trust 2 by the same amount in aggregate. At the time of redemption, the rate on this floating rate instrument was 3.44%.

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

(dollars in thousands) Name of Trust	Issuance Date	Issuance Amount	Rate	Rate at December 31, 2019	Maturity Date
VFSC Capital Trust I	April 2002	$ 3,093	6-month LIBOR plus 3.70%	5.62%	April 22, 2032
VFSC Capital Trust II	October 2002	4,124	3-month LIBOR plus 3.45%	5.36%	November 7, 2032
VFSC Capital Trust III	April 2004	3,093	3-month LIBOR plus 2.80%	4.71%	September 8, 2034
St. Joseph Capital Trust II	March 2005	5,000	3-month LIBOR plus 1.75%	3.65%	March 17, 2035
Anchor Capital Trust III	August 2005	5,000	3-month LIBOR plus 1.55%	3.49%	September 30, 2035
Home Federal Statutory Trust I	September 2006	15,000	3-month LIBOR plus 1.65%	3.54%	September 15, 2036
Monroe Bancorp Capital Trust I	July 2006	3,000	3-month LIBOR plus 1.60%	3.59%	October 7, 2036
Tower Capital Trust 3	December 2006	9,000	3-month LIBOR plus 1.69%	3.60%	March 1, 2037
Monroe Bancorp Statutory Trust II	March 2007	5,000	3-month LIBOR plus 1.60%	3.49%	June 15, 2037
Total		$ 52,310			

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 Obligations

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 8 to the consolidated financial statements for a maturity analysis of the Company's finance lease liabilities.

NOTE 16 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes within each classification of AOCI, net of tax, for the years ended December 31, 2019, 2018, and 2017:

(dollars in thousands)	Unrealized Gains and Losses on Available-for-Sale Debt Securities	Unrealized Gains and Losses on Held-to-Maturity Securities	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension Plans	Total
2019					
Balance at beginning of period	**$ (37,348)**	**$ (8,515)**	**$ 1,099**	**$ (186)**	**$ (44,950)**
Other comprehensive income (loss) before reclassifications	**94,964**	**6,419**	**(410)**	**—**	**100,973**
Amounts reclassified from AOCI to income (1)	**(1,485)**	**2,096**	**(449)**	**22**	**184**
Balance at end of period	**$ 56,131**	**$ —**	**$ 240**	**$ (164)**	**$ 56,207**
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 earnings related to the Tax Cuts and Jobs Act of 2017	(7,583)	(2,600)	(509)	(59)	(10,751)
Other comprehensive income (loss) before reclassifications	7,454	4,514	3,884	—	15,852
Amounts reclassified from AOCI (1)	(1,662)	1,678	113	144	273
Balance at end of period	$ (37,348)	$ (8,515)	$ 1,099	$ (186)	$ (44,950)
2017					
Balance at beginning of period	$ (39,012)	$ (13,310)	$ (6,715)	$ (335)	$ (59,372)
Other comprehensive income (loss) before reclassifications	9,615	—	575	—	10,190
Amounts reclassified from AOCI (1)	(6,160)	1,203	3,803	64	(1,090)
Balance at end of period	$ (35,557)	$ (12,107)	$ (2,337)	$ (271)	$ (50,272)

(1) See table below for details about reclassifications.

The following tables summarize the significant amounts reclassified out of each component of AOCI for the years ended December 31, 2019, 2018, and 2017:

Details about AOCI Components	Amount Reclassified from AOCI			Affected Line Item in the Statement of Income
	Years Ended December 31,			
(dollars in thousands)	**2019**	2018	2017	
Unrealized gains and losses on available-for-sale debt securities	**$ 1,923**	$ 2,060	$ 9,135	Net securities gains
	(438)	(398)	(2,975)	Income tax (expense) benefit
	$ 1,485	$ 1,662	$ 6,160	Net income
Unrealized gains and losses on held-to-maturity securities	**$ (2,812)**	$ (2,181)	$ (1,830)	Interest income (expense)
	716	503	627	Income tax (expense) benefit
	$ (2,096)	$ (1,678)	$ (1,203)	Net income
Gains and losses on cash flow hedges				
Interest rate contracts	**$ 596**	$ (150)	$ (6,135)	Interest income (expense)
	(147)	37	2,332	Income tax (expense) benefit
	$ 449	$ (113)	$ (3,803)	Net income
Amortization of defined benefit pension items				
Actuarial gains (losses)	**$ (30)**	$ (191)	$ (159)	Salaries and employee benefits
	8	47	95	Income tax (expense) benefit
	$ (22)	$ (144)	$ (64)	Net income
Total reclassifications for the period	**$ (184)**	$ (273)	$ 1,090	Net income

NOTE 17 – INCOME TAXES

Following is a summary of the major items comprising the differences in taxes from continuing operations computed at the federal statutory rate and as recorded in the consolidated statement of income:

	Years Ended December 31,		
(dollars in thousands)	**2019**	2018	2017
Provision at statutory rate (1)	**$ 60,975**	$ 43,823	$ 59,032
Tax-exempt income:			
Tax-exempt interest	**(10,243)**	(9,021)	(15,026)
Section 291/265 interest disallowance	**435**	321	289
Company-owned life insurance income	**(2,423)**	(2,223)	(3,029)
Tax-exempt income	**(12,231)**	(10,923)	(17,766)
State income taxes	**6,720**	5,621	998
Tax credit investments - federal	**(4,411)**	(21,576)	(8,500)
Revaluation of deferred tax assets	**—**	—	39,300
Other, net	**1,097**	905	(125)
Income tax expense	**$ 52,150**	$ 17,850	$ 72,939
Effective tax rate	**18.0 %**	8.6 %	43.3 %

(1) The statutory rate in effect was 21% for 2019 and 2018, compared to 35% for 2017.

The higher effective tax rate in 2019 when compared to 2018 was primarily the result of a decrease in federal tax credits available as well as an increase in pre-tax book income.

The lower effective tax rate in 2018 when compared to 2017 was primarily the result of the lowering of the federal corporate tax rate to 21% in 2018 and an increase in federal tax credits available. Old National recorded $39.3 million of additional tax expense in 2017 due to the revaluation of deferred tax assets reflecting the lowering of the federal corporate tax rate to 21%. On December 22, 2017, the Tax Cuts and Jobs Act ("H.R. 1") was enacted into legislation. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted.

Shortly after the enactment date, the SEC issued SAB 118, which addresses the situations where the accounting for changes in tax laws is complete, incomplete but can be reasonably estimated, and incomplete and cannot be reasonably estimated. SAB 118 also permits a measurement period of up to one year from the date of enactment to refine the provisional accounting. Old National completed its analysis of H.R. 1 during the second quarter of 2018 and there were immaterial adjustments made to the revaluation of Old National's deferred tax assets.

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

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Income taxes currently payable:			
Federal	**$ 22,908**	$ 12,256	$ —
State	**4,490**	4,601	—
Deferred income taxes related to:			
Federal	**20,402**	(1,513)	31,915
Revaluation of deferred tax assets	**—**	—	39,300
State	**4,350**	2,506	1,724
Deferred income tax expense	**24,752**	993	72,939
Income tax expense	**$ 52,150**	$ 17,850	$ 72,939

Net Deferred Tax Assets

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

(dollars in thousands)	**2019**	**2018**
Deferred Tax Assets		
Allowance for loan losses, net of recapture	**$ 14,179**	$ 14,514
Benefit plan accruals	**19,673**	21,754
Alternative minimum tax credit	**1,272**	2,545
Net operating loss carryforwards	**25,336**	31,765
Federal tax credits	**—**	1,779
Deferred gain on securities	**3,754**	1,976
Acquired loans	**16,784**	26,956
Operating lease liabilities	**26,503**	—
Lease exit obligation	**—**	1,025
Unrealized losses on available-for-sale investment securities	**—**	11,853
Unrealized losses on held-to-maturity investment securities	**—**	2,497
Tax credit investments and other partnerships	**1,765**	3,004
Other real estate owned	**141**	144
Other, net	**591**	3,167
Total deferred tax assets	**109,998**	122,979
Deferred Tax Liabilities		
Accretion on investment securities	**—**	(595)
Purchase accounting	**(17,564)**	(18,100)
Loan servicing rights	**(6,289)**	(6,141)
Premises and equipment	**(12,167)**	(8,507)
Prepaid expenses	**(973)**	(681)
Operating lease right-of-use assets	**(25,448)**	—
Unrealized gains on available-for-sale investment securities	**(15,751)**	—
Unrealized gains on hedges	**(78)**	(358)
Other, net	**(2,023)**	(1,549)
Total deferred tax liabilities	**(80,293)**	(35,931)
Net deferred tax assets	**$ 29,705**	$ 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 December 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 December 31, 2019 or 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 $78.5 million at December 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 2029 to 2033. Old National has alternative minimum tax credit carryforwards totaling $1.3 million at December 31, 2019 and $10.1 million at December 31, 2018. The enactment of H.R.1 eliminates the parallel tax system known as the alternative minimum tax and allows any existing alternative minimum tax credits to be used to reduce regular tax or be refunded from 2018 to 2021. ASC 740 allows for the reclassification of the alternative minimum tax credit from a deferred tax asset to a current tax asset, except for the amount limited by section 382. Old National has $1.3 million of alternative minimum tax credit carryforward subject to section 382 limitations, which is included in deferred tax assets. Old National has recorded state net operating loss carryforwards totaling $148.4 million at December 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. Old National had federal tax credit carryforwards of $1.8 million at December 31, 2018.

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.

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 after the Internal Revenue Service audit is finalized.

Old National and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. The 2016 through 2019 tax years are open and subject to examination. Old National is currently under audit by the Internal Revenue Service for the 2016 and 2017 tax years.

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. Effective as of April 1, 2010, we suspended safe harbor matching contributions to the 401(k) Plan. However, we may make discretionary matching contributions to the 401(k) Plan. 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. For 2017, we matched 50% of employee compensation deferral contributions, up to 6% of compensation. In addition to matching contributions, Old National may contribute to the 401(k) Plan an amount designated as a profit sharing contribution in the form of Old National stock or cash. Our Board of Directors designated no discretionary profit sharing contributions in 2019, 2018, or 2017. All contributions vest immediately and plan participants may elect to redirect funds among any of the investment options provided under the 401(k) Plan. The number of Old National shares in the 401(k) Plan were 0.6 million at December 31, 2019 and 0.7 million at December 31, 2018. All shares owned through the 401(k) Plan are included in the calculation of weighted-average shares outstanding for purposes of calculating diluted and basic earnings per share. Contribution expense under the 401(k) Plan was $9.8 million in 2019, $8.6 million in 2018, and $4.7 million in 2017.

NOTE 19 – SHARE-BASED COMPENSATION

Our Amended and Restated 2008 Incentive Compensation Plan (the “ICP”), which was shareholder-approved, permits the grant of share-based awards to its employees. At December 31, 2019, 3.7 million shares were available for issuance. The granting of awards to key employees is typically in the form of restricted stock awards or units. We believe that such awards better align the interests of our employees with those of our shareholders. Total compensation cost that has been charged against income for the ICP was $8.0 million in 2019, $8.1 million in 2018, and $6.3 million in 2017. The total income tax benefit was $2.0 million in 2019, $2.0 million in 2018, and $2.4 million in 2017.

Restricted Stock Awards

Restricted stock awards require certain service requirements and commonly have vesting periods of 3 years. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants.

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

(shares in thousands)	Shares	Weighted Average Grant-Date Fair Value
Year Ended December 31, 2019		
Nonvested balance at beginning of period	**419**	**$ 16.77**
Granted during the year	**214**	**16.50**
Vested during the year	**(201)**	**16.00**
Forfeited during the year	**(26)**	**17.19**
Nonvested balance at end of period	**406**	**$ 16.98**

As of December 31, 2019, there was $4.2 million of total unrecognized compensation cost related to nonvested shares granted under the ICP. The cost is expected to be recognized over a weighted-average period of 1.8 years. The total fair value of the shares vested was $3.4 million in 2019, 2018, and 2017.

Restricted Stock Units

Restricted stock units require certain performance requirements and have vesting periods of 3 years. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants.

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

(shares in thousands)	Shares	Weighted Average Grant-Date Fair Value
Year Ended December 31, 2019		
Nonvested balance at beginning of period	**893**	**$ 13.31**
Granted during the year	**375**	**12.67**
Vested during the year	**(308)**	**10.17**
Forfeited during the year	**(27)**	**13.61**
Dividend equivalents adjustment	**32**	**13.85**
Nonvested balance at end of period	**965**	**$ 14.07**

As of December 31, 2019, there was $4.1 million of total unrecognized compensation cost related to nonvested shares granted under the ICP. The cost is expected to be recognized over a weighted-average period of 1.7 years.

Stock Options

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

Old National has not granted stock options since 2009. However, Old National did acquire stock options and stock appreciation rights through prior year acquisitions. Old National recorded no incremental expense associated with the conversion of these options and stock appreciation rights.

A summary of the activity in the stock option plan in 2019 follows:

(shares in thousands)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (in thousands)
Year Ended December 31, 2019				
Outstanding at beginning of period	**92**	**$ 6.30**		
Exercised	**(29)**	**10.44**		
Forfeited/expired	**(6)**	**7.73**		
Outstanding at end of period	**57**	**$ 4.11**	**2.02**	**$ 814.2**
Options exercisable at end of year	**57**	**$ 4.11**	**2.02**	**$ 814.2**

At December 31, 2019, the outstanding shares consisted of stock appreciation rights acquired through prior year acquisitions.

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

	Years Ended December 31,		
(dollars in thousands)	2019	2018	2017
Intrinsic value of options exercised	**$ 178**	$ 385	$ 806
Cash received from option exercises	**280**	948	2,655
Tax benefit realized from option exercises	**71**	154	318

As of December 31, 2019, all options were fully vested and all compensation costs had been expensed.

Outside Director Stock Compensation Program

Old National maintains a director stock compensation program covering all outside directors. Compensation shares are earned semi-annually. Beginning in 2017, any shares awarded to directors are anticipated to be issued from the ICP. In 2019, 12 thousand shares were issued to directors, compared to 16 thousand shares in 2018, and 20 thousand shares in 2017.

NOTE 20 – SHAREHOLDERS' EQUITY

Dividend Reinvestment and Stock Purchase Plan

Old National has a dividend reinvestment and stock purchase plan under which common shares issued may be either repurchased shares or authorized and previously unissued shares. A new plan became effective on August 13, 2018, with total authorized and unissued common shares reserved for issuance of 3.3 million. At December 31, 2019, 3.3 million authorized and unissued common shares were available for issuance under the plan.

Employee Stock Purchase Plan

Old National has an employee stock purchase plan under which eligible employees can purchase common shares at a price not less than 95% of the fair market value of the common shares on the purchase date. The amount of common shares purchased cannot exceed 10% of the employee's compensation. The maximum number of shares that may be purchased under this plan is 500,000 shares. In 2019, 36,000 shares were issued related to this plan with proceeds of approximately $567,000. In 2018, 29,000 shares were issued related to this plan with proceeds of approximately $497,000.

Share Repurchase Plan

In the first quarter of 2019, the Board of Directors approved the repurchase of up to 7.0 million of the Company's common shares to be repurchased, as conditions warrant, through January 31, 2020. During 2019, Old National repurchased 6.0 million common shares under the plan, which reduced equity by $99.1 million.

On January 15, 2020, the Board of Directors approved the adoption of a stock repurchase plan that authorizes up to 7.0 million of the Company's common shares to be repurchased, as conditions warrant, through January 31, 2021.

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 years ended December 31.

(dollars and shares in thousands, except per share data)	Years Ended December 31, 2019	2018	2017
Basic Net Income Per Share			
Net income	**$ 238,206**	$ 190,830	$ 95,725
Weighted average common shares outstanding	**171,907**	155,675	137,821
Basic Net Income Per Share	**$ 1.39**	$ 1.23	$ 0.69
Diluted Net Income Per Share			
Net income	**$ 238,206**	$ 190,830	$ 95,725
Weighted average common shares outstanding	**171,907**	155,675	137,821
Effect of dilutive securities:			
Restricted stock	**733**	796	599
Stock options (1)	**47**	68	93
Weighted average shares outstanding	**172,687**	156,539	138,513
Diluted Net Income Per Share	**$ 1.38**	$ 1.22	$ 0.69

(1) Options to purchase 14 thousand shares, 14 thousand shares, and 0.1 million shares outstanding at December 31, 2019, 2018, and 2017, 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 21 – 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.

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

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

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

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

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

		Fair Value Measurements at December 31, 2019 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Equity securities	**$ 6,842**	**$ 6,842**	**$ —**	**$ —**
Investment securities available-for-sale:				
U.S. Treasury	**17,682**	**17,682**	**—**	**—**
U.S. government-sponsored entities and agencies	**592,984**	**—**	**592,984**	**—**
Mortgage-backed securities - Agency	**3,183,861**	**—**	**3,183,861**	**—**
States and political subdivisions	**1,275,643**	**—**	**1,275,603**	**40**
Pooled trust preferred securities	**8,222**	**—**	**—**	**8,222**
Other securities	**306,699**	**31,169**	**275,530**	**—**
Residential loans held for sale	**46,898**	**—**	**46,898**	**—**
Derivative assets	**51,301**	**—**	**51,301**	**—**
Financial Liabilities				
Derivative liabilities	**12,393**	**—**	**12,393**	**—**

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

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	State and Political Subdivisions
2019		
Balance at beginning of period	**$ 8,495**	**$ 4,108**
Accretion (amortization) of discount	**12**	**—**
Sales/payments received	**(62)**	**(35)**
Increase (decrease) in fair value of securities	**(223)**	**—**
Transfers out of Level 3	**—**	**(4,033)**
Balance at end of period	**$ 8,222**	**$ 40**
2018		
Balance at beginning of period	$ 8,448	$ —
Accretion (amortization) of discount	17	(56)
Sales/payments received	(338)	—
Increase (decrease) in fair value of securities	368	28
Transfers into Level 3	—	4,136
Balance at end of period	$ 8,495	$ 4,108
2017		
Balance at beginning of period	$ 8,119	$ —
Accretion (amortization) of discount	17	—
Sales/payments received	(424)	—
Increase (decrease) in fair value of securities	736	—
Balance at end of period	$ 8,448	$ —

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 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 $4.1 million of state and political subdivisions securities to Level 3 during 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)
December 31, 2019				
Pooled trust preferred securities	**$ 8,222**	Discounted cash flow	Constant prepayment rate (1)	0.00%
			Additional asset defaults (2)	6.2% - 8.0% (6.8%)
			Expected asset recoveries (3)	0.0% - 19.1% (6.0%)
State and political subdivisions	**40**	Discounted cash flow	No observable inputs	N/A
			Local municipality issuances	
			Old National owns 100%	
			Carried at par	
December 31, 2018				
Pooled trust preferred securities	$ 8,495	Discounted cash flow	Constant prepayment rate (1)	0.00%
			Additional asset defaults (2)	6.8% - 8.5% (7.3%)
			Expected asset recoveries (3)	0.00%
State and political subdivisions	4,108	Discounted cash flow	No observable inputs	N/A
			Local municipality issuances	
			Old National owns 100%	
			Carried at par	

(1) Assuming no prepayments.
(2) 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%.
(3) Each currently defaulted pool asset is assigned a recovery probability based on specific issuer evaluation of 0%, 25%, or 100%.

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

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

		Fair Value Measurements at December 31, 2019 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans:				
Commercial loans	**$ 10,361**	**$ —**	**$ —**	**$ 10,361**
Commercial real estate loans	**11,610**	**—**	**—**	**11,610**
Foreclosed Assets:				
Commercial real estate	**21**	**—**	**—**	**21**
Residential	**22**	**—**	**—**	**22**
Loan servicing rights	**4,662**	**—**	**4,662**	**—**

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 $30.9 million, with a valuation allowance of $8.9 million at December 31, 2019. Old National recorded provision expense associated with these loans totaling $4.1 million in 2019.

Other real estate owned and other repossessed property is measured at fair value less costs to sell and had a net carrying amount of $43 thousand at December 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 write-downs of other real estate owned of $60 thousand in 2019.

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 December 31, 2019 totaled $31 thousand. Old National recorded impairments associated with these loan servicing rights totaling $16 thousand in 2019.

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

		Fair Value Measurements at December 31, 2018 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral Dependent Impaired Loans:				
Commercial loans	$ 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. Old National recorded provision expense associated with these loans totaling $9.9 million in 2018.

Other real estate owned and other repossessed property had a net carrying amount of $68 thousand at December 31, 2018. There were write-downs of other real estate owned of $0.6 million in 2018.

The valuation allowance for loan servicing rights with impairments at December 31, 2018 totaled $15 thousand. There were recoveries associated with these loan servicing rights totaling $14 thousand in 2018.

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)
December 31, 2019				
Collateral Dependent Impaired Loans				
Commercial loans	**$ 10,361**	Fair value of collateral	Discount for type of property, age of appraisal, and current status	0% - 50% (13%)
Commercial real estate loans (1)	**11,610**	Fair value of collateral	Discount for type of property, age of appraisal, and current status	45%
Foreclosed Assets				
Commercial real estate (1)	**21**	Fair value of collateral	Discount for type of property, age of appraisal, and current status	43%
Residential (1)	**22**	Fair value of collateral	Discount for type of property, age of appraisal, and current status	21%
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%)

(1) There was only one collateral dependent impaired commercial real estate loan, one foreclosed commercial real estate asset, and one foreclosed residential asset at December 31, 2019, so no range or weighted average is reported.

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.

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 $1.4 million in 2019, $0.5 million in 2018, and $0.2 million in 2017.

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

The difference between the aggregate fair value and the aggregate remaining principal balance for loans for which the fair value option has been elected as of December 31, 2019 and 2018 was as follows:

(dollars in thousands)	Aggregate Fair Value	Difference	Contractual Principal
2019			
Residential loans held for sale	**$ 46,898**	**$ 1,529**	**$ 45,369**
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 for the years ended December 31:

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
2019				
Residential loans held for sale	**$ 1,036**	**$ 18**	**$ —**	**$ 1,054**
2018				
Residential loans held for sale	$ (67)	$ 6	$ (10)	$ (71)

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

		Fair Value Measurements at December 31, 2019 Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash, due from banks, money market, and other interest-earning investments	$ 276,337	$ 276,337	$ —	$ —
Loans, net:				
Commercial	2,867,711	—	—	2,831,298
Commercial real estate	5,145,204	—	—	5,130,848
Residential real estate	2,331,990	—	—	2,357,341
Consumer credit	1,718,000	—	—	1,676,253
Accrued interest receivable	85,123	15	28,185	56,923
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 4,042,286	$ 4,042,286	$ —	$ —
Checking, NOW, savings, and money market interest-bearing deposits	8,828,881	8,828,881	—	—
Time deposits	1,682,230	—	1,692,569	—
Federal funds purchased and interbank borrowings	350,414	350,414	—	—
Securities sold under agreements to repurchase	327,782	327,782	—	—
FHLB advances	1,822,847	—	1,875,089	—
Other borrowings	243,685	—	254,519	—
Accrued interest payable	8,272	—	8,272	—
Standby letters of credit	573	—	—	573
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$ —	$ —	$ —	$ 4,302

(dollars in thousands)	Carrying Value	Fair Value Measurements at December 31, 2018 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets				
Cash, due from banks, 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 estimate the fair value of financial instruments at December 31, 2019 and 2018 represent an approximation of exit price, however, an actual exit price may differ.

NOTE 22 – 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 does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual agreements. The notional amount of these derivative instruments was $665.5 million at December 31, 2019 and $1.482 billion at December 31, 2018. These derivative financial instruments at December 31, 2019 consisted of $130.5 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, $25.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances, and $510.0 million notional amount interest rate collars and floors related to variable-rate commercial loan pools. 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 are recognized as a component in other comprehensive income.
Fair value hedges: changes in fair value are 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 is no periodic measurement or recognition of ineffectiveness. Rather, the full impact of hedge gains and losses is recognized in the period in which the hedged transactions impact earnings.

While separate measurement and presentation of ineffectiveness is 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 December 31, 2019, the notional amount of the interest rate lock commitments was $65.7 million and forward commitments were $101.6 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 $1.298 billion at December 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.

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 $8.2 million at December 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 $1.0 million will be reclassified to interest income and $0.7 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
December 31, 2019				
Derivatives designated as hedging instruments				
Interest rate contracts	Other Assets	**$ 7,157**	Other Liabilities	**$ 1,046**
Total derivatives designated as hedging instruments		**$ 7,157**		**$ 1,046**
Derivatives not designated as hedging instruments				
Interest rate contracts (1)	Other Assets	**$ 42,224**	Other Liabilities	**$ 10,883**
Mortgage contracts	Other Assets	**1,702**	Other Liabilities	**354**
Foreign currency contracts	Other Assets	**218**	Other Liabilities	**110**
Total derivatives not designated as hedging instruments		**$ 44,144**		**$ 11,347**
Total		**$ 51,301**		**$ 12,393**
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 (1)	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

(1) The fair values of counterparty interest rate swaps are zero due to the settlement of centrally-cleared variation margin rules. The net adjustment was $31.6 million as of December 31, 2019 and $4.8 million as of December 31, 2018.

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

	December 31,	
(dollars in thousands)	**2019**	**2018**
Notional amounts	**$ 130,500**	$ 757,000
Weighted average pay rates	**1.82 %**	2.48 %
Weighted average receive rates	**2.20 %**	2.70 %
Weighted average maturity (in years)	**2.8**	3.9
Fair value of swaps	**$ 1,555**	$ 9,683

During 2019, Old National terminated seven fair value hedges in order to mitigate potential adverse changes in the fair values of fixed-rate debt attributable to the designated benchmark interest rate being hedged. The aggregate notional amount of the hedging instruments and hedged items was $825.0 million. The unamortized basis adjustments related to these terminations was $20.5 million at December 31, 2019.

The effect of derivative instruments in fair value hedging relationships on the consolidated statements of income for the years ended December 31 were as follows:

(dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in in Income on Derivative	Gain (Loss) Recognized in Income on Derivative	Hedged Items in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized in in Income on Related Hedged Item	Gain (Loss) Recognized in Income on Related Hedged Items
2019					
Interest rate contracts	Interest income / (expense)	**$ 12,577**	Fixed-rate debt	Interest income / (expense)	**$ (12,587)**
2018					
Interest rate contracts	Interest income / (expense)	$ 7,662	Fixed-rate debt	Interest income / (expense)	$ (7,634)
2017					
Interest rate contracts	Interest income / (expense)	$ (836)	Fixed-rate debt	Interest income / (expense)	$ 1,006

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

(dollars in thousands)	December 31, 2019	December 31, 2018
Notional amounts	**$ 25,000**	$ 525,000
Weighted average pay rates	**3.52 %**	2.21 %
Weighted average receive rates	**1.93 %**	2.63 %
Weighted average maturity (in years)	**2.1**	1.4
Unrealized gains (losses)	**$ (954)**	$ 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 the index 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)	December 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	**1.70 %**	2.35 %
Weighted average maturity (in years)	**1.9**	2.8
Unrealized gains (losses)	**$ 3,691**	$ 1,309

Old National has designated its interest rate floor spread transactions as cash flow hedges. The structure of these instruments is such that Old National receives an incremental amount if the index falls below the purchased floor strike rate. Old National pays an incremental amount if the index falls below the sold floor rate. Floor corridor protection is limited to the spread between the purchased floor strike rate and the sold floor rate. No payments are required if the index remains above the purchased floor strike rate. Summary information about the floor spread transactions designated as cash flow hedges is as follows:

(dollars in thousands)	December 31, 2019
Notional amounts	**$ 210,000**
Weighted average purchased floor strike rate	**2.00 %**
Weighted average sold floor rate	**1.00 %**
Weighted average rate	**1.70 %**
Weighted average maturity (in years)	**2.1**
Unrealized gains (losses)	**$ 1,820**

Old National had no interest rate floor spread transactions designated as cash flow hedges as of December 31, 2018.

The effect of derivative instruments in cash flow hedging relationships on the consolidated statements of income for the years ended December 31 were as follows:

(dollars in thousands)		Years Ended December 31, 2019	2018	2017	Years Ended December 31, 2019	2018	2017
Derivatives in Cash Flow Hedging Relationships	**Location of Gain or (Loss) Reclassified from AOCI into Income**	**Gain (Loss) Recognized in Other Comprehensive Income on Derivative**			**Gain (Loss) Reclassified from AOCI into Income**		
Interest rate contracts	Interest income/(expense)	**$ (543)**	$ 5,145	$ 927	**$ 596**	$ (150)	$ (6,135)

The effect of derivatives not designated as hedging instruments on the consolidated statements of income for the years ended December 31 were as follows:

		Years Ended December 31,		
(dollars in thousands)		2019	2018	2017
Derivatives Not Designated as Hedging Instruments	**Location of Gain or (Loss) Recognized in Income on Derivative**	**Gain (Loss) Recognized in Income on Derivative**		
Interest rate contracts (1)	Other income/(expense)	**$ (174)**	$ (7)	$ 56
Mortgage contracts	Mortgage banking revenue	**789**	(189)	(1,995)
Foreign currency contracts	Other income/(expense)	**50**	42	—
Total		**$ 665**	$ (154)	$ (1,939)

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

NOTE 23 – 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 $2.779 billion and standby letters of credit of $87.8 million at December 31, 2019. At December 31, 2019, approximately $2.545 billion of the loan commitments had fixed rates and $234.5 million had floating rates, with the floating interest rates ranging from 1% to 15%. 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 $2.7 million at December 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 $8.7 million at December 31, 2019 and $15.5 million at December 31, 2018. Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $7.7 million at December 31, 2019 and $7.8 million 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 December 31, 2019, the conversion ratio was 1.6228. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation, the 65,466 Class B shares that Old National owns at December 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 24 – 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 December 31, 2019, the notional amount of standby letters of credit was $87.8 million, which represented the maximum amount of future funding requirements, and the carrying value was $0.6 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 $37.0 million at December 31, 2019.

NOTE 25 – 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:

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Wealth management fees	**$ 37,072**	$ 36,863	$ 37,316
Service charges on deposit accounts	**44,915**	44,026	41,331
Debit card and ATM fees	**21,652**	20,216	17,676
Investment product fees	**21,785**	20,539	20,977
Other income:			
Merchant processing fees	**3,105**	2,927	2,634
Gain (loss) on other real estate owned	**254**	1,270	939
Safe deposit box fees	**1,206**	1,124	926
Insurance premiums and commissions	**815**	399	617
Total	**$ 130,804**	$ 127,364	$ 122,416

<u>Wealth management fees</u>: 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.

<u>Service charges on deposit accounts</u>: 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.

<u>Debit card and ATM fees</u>: 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.

NOTE 26 – REGULATORY RESTRICTIONS

Restrictions on Cash and Due from Banks

Old National's affiliate bank is required to maintain reserve balances on hand and with the Federal Reserve Bank that are interest-bearing and unavailable for investment purposes. The reserve balances were $115.3 million at December 31, 2019 and $108.1 million at December 31, 2018. In addition, Old National had cash and due from banks which was held as collateral for collateralized swap positions of $6.9 million at December 31, 2019. Old National did not have any cash and due from banks held as collateral for collateralized swap positions at December 31, 2018.

Restrictions on Transfers from Affiliate Bank

Regulations limit the amount of dividends an affiliate bank can declare in any year without obtaining prior regulatory approval. Prior regulatory approval is required if dividends to be declared in any year would exceed net earnings of the current year plus retained net profits for the preceding two years. Prior regulatory approval to pay dividends was not required in 2017, 2018, or 2019 and is not currently required.

Restrictions on the Payment of Dividends

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

Capital Adequacy

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

At December 31, 2019, Old National and Old National Bank exceeded the regulatory minimums and Old National Bank met the regulatory definition of well-capitalized based on the most recent regulatory notification. There have been no conditions or events since that notification that management believes have changed Old National Bank's category.

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

(dollars in thousands)	Actual Amount	Actual Ratio	Fully Phased-In Regulatory Guidelines Minimum (1) Amount	Fully Phased-In Regulatory Guidelines Minimum (1) Ratio	Prompt Corrective Action "Well Capitalized" Guidelines Amount	Prompt Corrective Action "Well Capitalized" Guidelines Ratio
2019						
Total capital to risk-weighted assets						
Old National Bancorp	**$1,828,312**	**12.99 %**	**$1,477,763**	**10.50 %**	**$ N/A**	**N/A %**
Old National Bank	**1,891,612**	**13.50**	**1,471,122**	**10.50**	**1,401,069**	**10.00**
Common equity Tier 1 capital to risk-weighted assets						
Old National Bancorp	**1,706,727**	**12.13**	**985,175**	**7.00**	**N/A**	**N/A**
Old National Bank	**1,822,337**	**13.01**	**980,748**	**7.00**	**910,695**	**6.50**
Tier 1 capital to risk-weighted assets						
Old National Bancorp	**1,706,727**	**12.13**	**1,196,284**	**8.50**	**N/A**	**N/A**
Old National Bank	**1,822,737**	**13.01**	**1,190,909**	**8.50**	**1,120,855**	**8.00**
Tier 1 capital to average assets						
Old National Bancorp	**1,706,727**	**8.88**	**768,537**	**4.00**	**N/A**	**N/A**
Old National Bank	**1,822,737**	**9.62**	**757,783**	**4.00**	**947,228**	**5.00**
2018						
Total capital to risk-weighted assets						
Old National Bancorp	$1,748,231	12.27 %	$1,496,099	10.50 %	$ N/A	N/A %
Old National Bank	1,769,930	12.47	1,489,938	10.50	1,418,989	10.00
Common equity Tier 1 capital to risk-weighted assets						
Old National Bancorp	1,617,936	11.36	997,399	7.00	N/A	N/A
Old National Bank	1,699,945	11.98	993,292	7.00	922,343	6.50
Tier 1 capital to risk-weighted assets						
Old National Bancorp	1,617,936	11.36	1,211,128	8.50	N/A	N/A
Old National Bank	1,699,945	11.98	1,206,141	8.50	1,135,191	8.00
Tier 1 capital to average assets						
Old National Bancorp	1,617,936	9.17	705,681	4.00	N/A	N/A
Old National Bank	1,699,945	9.58	709,929	4.00	887,412	5.00

(1) As of January 1, 2019, Basel III Capital Rules required banking organizations to maintain: a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer”; a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer; a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer; and a minimum ratio of Tier 1 capital to adjusted average consolidated assets of at least 4.0%.

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. Old National is planning on adopting the capital transition relief over the permissible three-year period.

NOTE 27 – PARENT COMPANY FINANCIAL STATEMENTS

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

OLD NATIONAL BANCORP (PARENT COMPANY ONLY)
CONDENSED BALANCE SHEETS

	December 31,	
(dollars in thousands)	**2019**	**2018**
Assets		
Deposits in affiliate bank	**$ 41,289**	$ 90,005
Equity securities	**6,724**	5,582
Investment securities - available-for-sale	**4,018**	1,527
Investment in affiliates:		
Banking subsidiaries	**2,966,575**	2,769,166
Non-banks	**4,885**	5,151
Other assets	**89,093**	87,096
Total assets	**$ 3,112,584**	$ 2,958,527
Liabilities and Shareholders' Equity		
Other liabilities	**$ 36,369**	$ 37,563
Other borrowings	**223,762**	231,394
Shareholders' equity	**2,852,453**	2,689,570
Total liabilities and shareholders' equity	**$ 3,112,584**	$ 2,958,527

OLD NATIONAL BANCORP (PARENT COMPANY ONLY)
CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Income			
Dividends from affiliates	**$ 165,000**	$ 105,000	$ 100,000
Net debt securities gains (losses)	**631**	49	667
Other income	**2,209**	2,126	1,966
Other income from affiliates	**5**	5	5
Total income	**167,845**	107,180	102,638
Expense			
Interest on borrowings	**10,203**	10,425	9,298
Other expenses	**15,505**	21,936	16,335
Total expense	**25,708**	32,361	25,633
Income before income taxes and equity in undistributed earnings of affiliates	**142,137**	74,819	77,005
Income tax expense (benefit)	**(6,165)**	(5,693)	(6,240)
Income before equity in undistributed earnings of affiliates	**148,302**	80,512	83,245
Equity in undistributed earnings of affiliates	**89,904**	110,318	12,480
Net income	**$ 238,206**	$ 190,830	$ 95,725

OLD NATIONAL BANCORP (PARENT COMPANY ONLY)
CONDENSED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
(dollars in thousands)	**2019**	**2018**	**2017**
Cash Flows From Operating Activities			
Net income	**$ 238,206**	$ 190,830	$ 95,725
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**52**	53	36
Net debt securities (gains) losses	**(631)**	(49)	(667)
Share-based compensation expense	**7,993**	8,118	6,275
(Increase) decrease in other assets	**(3,685)**	28,754	(24,005)
Increase (decrease) in other liabilities	**1,046**	3,147	3,968
Equity in undistributed earnings of affiliates	**(89,904)**	(110,318)	(12,480)
Net cash flows provided by (used in) operating activities	**153,077**	120,535	68,852
Cash Flows From Investing Activities			
Net cash and cash equivalents of acquisitions	**—**	8,281	(24,005)
Proceeds from dissolution of subsidiary	**224**	—	—
Proceeds from sales of equity securities	**130**	128	127
Purchases of investment securities	**(3,085)**	(76)	(62)
Net advances to affiliates	—	—	(250)
Proceeds from sales of premises and equipment	**847**	1,065	—
Purchases of premises and equipment	**(869)**	(945)	(612)
Net cash flows provided by (used in) investing activities	**(2,753)**	8,453	(24,802)
Cash Flows From Financing Activities			
Payments for maturities/redemptions of other borrowings	**(8,000)**	—	(19,856)
Cash dividends paid on common stock	**(89,474)**	(82,161)	(72,604)
Common stock repurchased	**(102,413)**	(1,805)	(2,761)
Proceeds from exercise of stock options	**280**	948	2,655
Common stock issued	**567**	497	404
Net cash flows provided by (used in) financing activities	**(199,040)**	(82,521)	(92,162)
Net increase (decrease) in cash and cash equivalents	**(48,716)**	46,467	(48,112)
Cash and cash equivalents at beginning of period	**90,005**	43,538	91,650
Cash and cash equivalents at end of period	**$ 41,289**	$ 90,005	$ 43,538

NOTE 28 – 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 29 – INTERIM FINANCIAL DATA (UNAUDITED)

The following table details the quarterly results of operations for the years ended December 31, 2019 and 2018.

(unaudited, dollars and shares in thousands, except per share data)	Three Months Ended				Three Months Ended			
	12/31/2019	**9/30/2019**	**6/30/2019**	**3/31/2019**	**12/31/2018**	**9/30/2018**	**6/30/2018**	**3/31/2018**
Interest income	**$ 176,553**	**$ 185,853**	**$ 189,063**	**$ 178,918**	$ 175,234	$ 155,369	$ 153,736	$ 147,706
Interest expense	**27,654**	**32,757**	**33,833**	**31,870**	29,009	24,527	21,773	19,134
Net interest income	**148,899**	**153,096**	**155,230**	**147,048**	146,225	130,842	131,963	128,572
Provision for loan losses	**1,264**	**1,437**	**1,003**	**1,043**	3,390	750	2,446	380
Noninterest income	**47,726**	**53,961**	**51,214**	**46,416**	58,154	45,957	49,289	41,905
Noninterest expense	**134,743**	**122,585**	**128,118**	**123,041**	150,268	119,376	130,460	117,157
Income before income taxes	**60,618**	**83,035**	**77,323**	**69,380**	50,721	56,673	48,346	52,940
Income tax expense	**11,433**	**13,254**	**14,359**	**13,104**	3,223	5,325	4,345	4,957
Net income	**$ 49,185**	**$ 69,781**	**$ 62,964**	**$ 56,276**	$ 47,498	$ 51,348	$ 44,001	$ 47,983
Net income per share:								
Basic	**$ 0.29**	**$ 0.41**	**$ 0.37**	**$ 0.32**	$ 0.28	$ 0.34	$ 0.29	$ 0.32
Diluted	**0.29**	**0.41**	**0.36**	**0.32**	0.28	0.34	0.29	0.31
Average shares:								
Basic	**169,235**	**170,746**	**172,985**	**174,734**	167,044	151,930	151,878	151,721
Diluted	**170,186**	**171,551**	**173,675**	**175,368**	167,992	152,784	152,568	152,370

Quarterly results, most notably interest income, noninterest income, and noninterest expense, were impacted by the acquisition of Klein in November 2018.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. 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 annual report on Form 10-K, 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 SEC 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.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the SEC its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2019. The applicable information appearing in the Proxy Statement for the 2020 annual meeting is incorporated by reference.

Old National has adopted a code of ethics that applies to directors, officers, and all other employees including Old National's principal executive officer, principal financial officer and principal accounting officer. The text of the code of ethics is available on Old National's Internet website at www.oldnational.com or in print to any shareholder who requests it. Old National intends to post information regarding any amendments to, or waivers from, its code of ethics on its Internet website.

ITEM 11. EXECUTIVE COMPENSATION

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the SEC its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2019. The applicable information appearing in our Proxy Statement for the 2020 annual meeting is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This information is omitted from this report, (with the exception of the "Equity Compensation Plan Information," which is reported in Item 5 of this report and is incorporated herein by reference) pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the SEC its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2019. The applicable information appearing in the Proxy Statement for the 2020 annual meeting is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the SEC its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2019. The applicable information appearing in the Proxy Statement for the 2020 annual meeting is incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

This information is omitted from this report pursuant to General Instruction G.(3) of Form 10-K as Old National will file with the SEC its definitive Proxy Statement pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, not later than 120 days after December 31, 2019. The applicable information appearing in the Proxy Statement for the 2020 annual meeting is incorporated by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

1. Financial Statements:

   The following consolidated financial statements of the registrant and its subsidiaries are filed as part of this document under "Item 8. Financial Statements and Supplementary Data."

   Report of Independent Registered Public Accounting Firm
   Consolidated Balance Sheets – December 31, 2019 and 2018
   Consolidated Statements of Income – Years Ended December 31, 2019, 2018, and 2017
   Consolidated Statements of Comprehensive Income – Years Ended December 31, 2019, 2018, and 2017
   Consolidated Statements of Changes in Shareholders' Equity – Years Ended December 31, 2019, 2018, and 2017
   Consolidated Statements of Cash Flows – Years Ended December 31, 2019, 2018, and 2017
   Notes to Consolidated Financial Statements

2. Financial Statement Schedules

   The schedules for Old National and its subsidiaries are omitted because of the absence of conditions under which they are required, or because the information is set forth in the consolidated financial statements or the notes thereto.

3. Exhibits

   The exhibits filed as part of this report and exhibits incorporated herein by reference to other documents are as follows:

Exhibit Number	
2.1	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).
3.1	Fourth Amended and Restated Articles of Incorporation of Old National, amended May 13, 2016 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 16, 2016).
3.2	Amended and Restated By-Laws of Old National, amended July 28, 2016 (incorporated by reference to Exhibit 3.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 1, 2016).
4.1	Description of Old National Bancorp capital stock
4.2	Description of Old National Bancorp debt securities
4.3	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).
4.4	Second Indenture Supplement, dated as of August 15, 2014, between Old National and The Bank of New York Mellon Trust Company, N.A., as trustee, providing for the issuance of its 4.125% Senior Notes due 2024 (incorporated by reference to Exhibit 4.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 15, 2014).

10.1	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 February 1, 2011).*
10.2	Form of Employment Agreement for Daryl D. Moore (incorporated by reference to Exhibit 10.2 of Old National's Current Report on Form 8-K with the Securities and Exchange Commission on February 1, 2011).*
10.3	Form of Amended Severance/Change of Control Agreement for Jeffrey L. Knight (incorporated by reference to Exhibit 10(bb) of Old National's Annual Report on Form 10-K for the year ended December 31, 2011).*
10.4	Form of 2016 Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(av) of Old National's Annual Report on Form 10-K for the year ended December 31, 2015).*
10.5	Form of 2016 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(aw) of Old National's Annual Report on Form 10-K for the year ended December 31, 2015).*
10.6	Employment Agreement dated as of March 18, 2014, as amended and effective as of May 12, 2016 between Old National Bancorp and James A. Sandgren (incorporated by reference to Exhibit 10.1 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 12, 2016).*
10.7	Employment Agreement dated as of January 1, 2008, as amended and effective as of January 1, 2009, January 1, 2011, and May 12, 2016 between Old National Bancorp and Christopher A. Wolking (incorporated by reference to Exhibit 10.3 of Old National's Current Report on Form 8-K with the Securities and Exchange Commission on May 12, 2016).*
10.8	Form of 2017 Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(n) of Old National's Annual Report on Form 10-K for the year ended December 31, 2016).*
10.9	Form of 2017 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(o) of Old National's Annual Report on Form 10-K for the year ended December 31, 2016).*
10.10	Old National Bancorp Amended and Restated 2008 Incentive Compensation Plan (incorporated by reference to Appendix I of Old National's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 6, 2017).*
10.11	Form of 2018 Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(s) of Old National's Annual Report on Form 10-K for the year ended December 31, 2017).*
10.12	Form of 2018 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(t) of Old National's Annual Report on Form 10-K for the year ended December 31, 2017).*
10.13	Form of 2019 Internal Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(r) of Old National's Annual Report on Form 10-K for the year ended December 31, 2018).*
10.14	Form of 2019 Relative Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(s) of Old National's Annual Report on Form 10-K for the year ended December 31, 2018).*
10.15	Form of 2019 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10(t) of Old National's Annual Report on Form 10-K for the year ended December 31, 2018).*

10.16 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).*

10.17 Employment Agreement dated as of May 2, 2019 between Old National Bancorp and James C. Ryan, III (incorporated by reference to Exhibit 10.3 of Old National's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 2, 2019).*

10.18 Employment Agreement dated as of May 2, 2019 between Old National Bancorp and Brendon B. Falconer (incorporated by reference to Exhibit 10.4 of Old National's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on May 2, 2019).*

10.19 Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National's Registration Statement on Form S-3, Registration No. 333-226817 filed with the Securities and Exchange Commission on August 13, 2018 and amended on May 20, 2019).

10.20 Form of 2020 Internal Performance Units Award Agreement between Old National and certain key associates is filed herewith.*

10.21 Form of 2020 Relative Performance Units Award Agreement between Old National and certain key associates is filed herewith.*

10.22 Form of 2020 Restricted Stock Award Agreement between Old National and certain key associates is filed herewith.*

10.23 Old National Bancorp Amended and Restated 2020 Director Deferred Compensation Plan is filed herewith.*

10.24 Old National Bancorp Amended and Restated 2020 Executive Deferred Compensation Plan is filed herewith.*

21 Subsidiaries of Old National Bancorp

23.1 Consent of Crowe LLP

31.1 Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from Old National Bancorp's Annual Report on Form 10-K Report for the year ended December 31, 2019, formatted in inline XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Shareholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to Consolidated Financial Statements.

104 The cover page from Old National's Annual Report on Form 10-K Report for the year ended December 31, 2019, formatted in inline XBRL and contained in Exhibit 101.

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* Management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Old National has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

OLD NATIONAL BANCORP

By: /s/ James C. Ryan, III
James C. Ryan, III,
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: February 12, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 12, 2020, by the following persons on behalf of Old National and in the capacities indicated.

By: /s/ Alan W. Braun
Alan W. Braun, Director

By: /s/ Brendon B. Falconer
Brendon B. Falconer,
Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)

By: /s/ Andrew E. Goebel
Andrew E. Goebel, Director

By: /s/ Jerome F. Henry Jr.
Jerome F. Henry Jr., Director

By: /s/ Ryan C. Kitchell
Ryan C. Kitchell, Director

By: /s/ Phelps L. Lambert
Phelps L. Lambert, Director

By: /s/ James C. Ryan, III
James C. Ryan, III,
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Thomas E. Salmon
Thomas E. Salmon, Director

By: /s/ Randall T. Shepard
Randall T. Shepard, Director

By: /s/ Rebecca S. Skillman
Rebecca S. Skillman, Lead Director

By: /s/ Derrick J. Stewart
Derrick J. Stewart, Director

By: /s/ Katherine E. White
Katherine E. White, Director

By: /s/ Linda E. White
Linda E. White, Director

By: /s/ Michael W. Woods
Michael W. Woods,
Senior Vice President and Corporate Controller
(Principal Accounting Officer)