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, 2021

☐ **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**

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 (§232.405 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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, 2021, was $2,884,796,345 (based on the closing price on that date of $17.61). 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, 2021, 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, 2022, was 165,845,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2022 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

OLD NATIONAL BANCORP
2021 ANNUAL REPORT ON FORM 10-K
TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	5
Item 1A.	Risk Factors	16
Item 1B.	Unresolved Staff Comments	28
Item 2.	Properties	28
Item 3.	Legal Proceedings	29
Item 4.	Mine Safety Disclosures	29
PART II		
Item 5.	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	30
Item 6.	[Reserved]	31
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	66
Item 8.	Financial Statements and Supplementary Data	67
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	134
Item 9A.	Controls and Procedures	134
Item 9B.	Other Information	134
Item 9C.	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	134
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	135
Item 11.	Executive Compensation	135
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	135
Item 13.	Certain Relationships and Related Transactions, and Director Independence	135
Item 14.	Principal Accounting Fees and Services	136
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	137
Item 16.	Form 10-K Summary	139
SIGNATURES		140

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

As used in this report, references to “Old National,” “the Company,” “we,” “our,” “us,” and similar terms refer to the consolidated entity consisting of Old National Bancorp and its wholly-owned subsidiaries. Old National Bancorp refers solely to the parent holding company, and Old National Bank refers to Old National Bancorp’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 (WI): Anchor BanCorp Wisconsin Inc.
AOCI: accumulated other comprehensive income (loss)
AQR: asset quality rating
ASC: Accounting Standards Codification
ASU: Accounting Standards Update
ATM: automated teller machine
BBCC: business banking credit center (small business)
CAA: Consolidated Appropriations Act
CARES Act: Coronavirus Aid, Relief and Economic Security Act
CECL: current expected credit loss
CFPB: Consumer Financial Protection Bureau
Common Stock: Old National Bancorp common stock, without par value
COVID-19: coronavirus disease 2019
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
First Midwest: First Midwest Bancorp, Inc.
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
NASDAQ: The NASDAQ Stock Market
NMTC: New Markets Tax Credit
NOW: negotiable order of withdrawal
OCC: Office of the Comptroller of the Currency
OTTI: other-than-temporary impairment
PCD: purchased credit deteriorated
PD: probability of default
PPP: Paycheck Protection Program
Renewable Energy: investment tax credits for solar projects
SBA: Small Business Administration
SEC: Securities and Exchange Commission
TBA: to be announced
TDR: troubled debt restructuring

OLD NATIONAL BANCORP
2021 ANNUAL REPORT ON FORM 10-K

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 "objective," "expect," "may," "could," "will," "intend," "project," "estimate," "believe," "anticipate," or the negative of those terms, 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:

- the occurrence of any event, change, or other circumstances that could give rise to the right of one or both of the parties to terminate the definitive merger agreement between First Midwest and Old National;
- the risk that any announcements relating to the merger could have adverse effects on the market price of the common stock of either or both parties to the transaction;
- the possibility that the merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events;
- the length, severity, magnitude, and duration of the COVID-19 pandemic and the direct and indirect impact of such pandemic, including its impact on the Company's financial conditions and business operations;
- changes in the economy, which could materially impact credit quality trends and the ability to generate loans and gather deposits, including the pace of recovery following the COVID-19 pandemic;
- market, economic, operational, liquidity, credit, and interest rate risks associated with our business;
- competition;
- government legislation and policies, including changes to address the impact of COVID-19 through the CARES Act and other legislative and regulatory responses to the COVID-19 pandemic;
- our ability to execute our business plan, including the anticipated impact from the ONB Way strategic plan that may differ from current estimates;
- unanticipated changes in our liquidity position, including but not limited to changes in our access to sources of liquidity and capital to address our liquidity needs;
- our ability to successfully manage our credit risk and the sufficiency of our allowance for credit losses;
- uncertainty about the discontinued use of LIBOR and the transition to an alternative rate;
- failure or circumvention of our internal controls;
- failure or disruption of our information systems;
- significant changes in accounting, tax, or regulatory practices or requirements;
- new legal obligations or liabilities or unfavorable resolutions of litigations;
- disruptive technologies in payment systems and other services traditionally provided by banks; and
- operational risks or risk management failures by us or critical third parties, including without limitation with respect to data processing, information systems, cybersecurity, technological changes, vendor problems, business interruption, and fraud risks.

Investors should consider these risks, uncertainties, and other factors in addition to the factors under the heading "Risk Factors" included in this filing and our other filings with the SEC.

PART I

ITEM 1. BUSINESS

GENERAL

Old National, the financial holding company of Old National Bank, our wholly-owned banking subsidiary ("Old National Bank"), is incorporated in the state of Indiana and maintains its principal executive office in Evansville, Indiana. Through our wholly-owned banking subsidiary, we 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.

On May 30, 2021, Old National and First Midwest entered into a definitive merger agreement to combine in an all-stock merger of equals transaction to create a premier Midwestern bank with approximately $45 billion of combined assets. Under the terms and subject to the conditions set forth in the merger agreement, First Midwest and Old National will merge, with Old National continuing as the surviving entity and dual headquarters in Evansville, Indiana and Chicago, Illinois. We received approval of the merger from the OCC, the Federal Reserve, and the shareholders of both Old National and First Midwest. The merger is expected to occur after the close of business and after the end of regular trading hours on the NASDAQ Stock Market on February 15, 2022, subject to customary closing conditions.

The merger of equals of Old National and First Midwest partners two highly compatible organizations with over 270 combined years of service and a shared relationship banking focus, consistent business models and credit cultures, and an unwavering commitment to community. The combined organization will have a presence in six of the largest metropolitan markets in the Midwest.

First Midwest Bank, which is First Midwest's principal subsidiary, currently provides a full range of commercial, treasury management, equipment leasing, consumer, wealth management, trust and private banking products and services through approximately 110 locations in metropolitan Chicago, southeast Wisconsin, northwest Indiana, central and western Illinois and eastern Iowa, and other markets in the Midwest.

COMPANY PROFILE

Old National Bank was founded in 1834 and is the oldest company in Evansville, Indiana. In 1982, Old National Bancorp was formed and in 2001 we became a financial holding company. We are currently the largest financial holding company headquartered in the state of Indiana with consolidated assets of $24.5 billion at December 31, 2021.

At December 31, 2021, Old National Bank operated 162 banking centers located primarily in Indiana, Kentucky, Michigan, Minnesota, and Wisconsin. Each of the banking centers 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 banking centers 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 intended to produce jobs and revitalize our communities.

During 2021, we implemented certain revenue initiatives for our technology, Commercial, Wealth, Treasury Management, and Community areas, as previously disclosed as part of our ONB Way strategic initiative.

HUMAN CAPITAL RESOURCES

At December 31, 2021, we employed 2,374 full-time equivalent team members. Old National respects, values, and welcomes diversity in our team members, clients, suppliers, and marketplace. We seek to recognize the unique contribution each individual brings to our company, and we are fully committed to supporting a rich culture of diversity as a cornerstone to our success. Old National provides professional development opportunities to team members and seeks to improve retention, development, and job satisfaction of team members from diverse groups by providing career skills training, peer mentoring, and opportunities to interact with senior leaders. In addition to our standard benefits, our team members have access to dedicated healthcare clinics and alternative work schedules for maternity, paternity, and foster-care leave.

Old National team members actively share their talents in their communities through volunteer activities in education, economic development, human and health services, and Community Reinvestment. We have a program that allows each team member to be paid up to 24 hours per year, with supervisory approval, to volunteer for activities in their community during normal work hours. During 2021, team members logged nearly 39,500 hours in support of more than 1,500 organizations. Even during the COVID-19 pandemic, Old National team members have found creative ways to give back to their communities by donating blood, making masks for healthcare workers, and serving on local boards, just to name a few. Team member volunteers are recognized for their efforts on our Corporate Portal. Team members with 25 hours or more of service each year join the "Volunteer Honor Roll" in Old National's annual communications.

We are committed and focused on the health and safety of our team members, clients, and communities. The COVID-19 pandemic has presented challenges to maintain team member and client safety while continuing to be open for business. Accordingly, we have taken a variety of steps to support individuals and businesses impacted by the economic shock of COVID-19. This includes policy and procedural changes for our team members, hardship support and PPP assistance for our clients, and monetary and volunteer help for our community partners.

We believe the merger with First Midwest will enable the combined entity to build on both organizations' longstanding history of service, enhance its ability to champion community initiatives and drive positive change throughout its footprint. From First Midwest's multiple recognitions as a Best Place to Work to Old National's 10-year run as one of the World's Most Ethical companies, the combined institution will remain committed to fostering a strong culture of collaboration and trust, empowering its employees to flourish.

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, Minnesota, and Wisconsin. 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.

Metropolitan Statistical Area	Deposits as a Percent of Old National Bank Franchise (%)	Deposits Per Branch ($M)	2010-2022 Population Change (%)	2022-2027 Projected Population Change (%)	2022 Median Household Income ($)	2022-2027 Projected Household Income Change (%)
Minneapolis-St. Paul-Bloomington, MN-WI	21.6	138.8	12.2	4.5	92,084	10.6
Evansville, IN-KY	16.5	185.3	2.0	1.6	61,866	8.5
Indianapolis-Carmel-Anderson, IN	10.0	89.4	12.9	4.0	71,008	13.5
Bloomington, IN	5.1	183.6	7.0	2.7	59,439	13.1
Madison, WI	4.8	78.3	13.4	4.2	83,342	10.6
Terre Haute, IN	3.2	113.0	(2.1)	0.4	55,050	8.8
Ann Arbor, MI	2.5	111.3	7.6	2.2	84,529	11.7
Jasper, IN	2.3	82.0	0.9	1.4	64,218	6.4
Fort Wayne, IN	2.3	102.0	8.9	3.6	65,047	11.6
Grand Rapids-Kentwood, MI	2.2	96.4	11.1	3.4	71,891	10.4
National average			**8.3**	**3.2**	**72,465**	**12.1**
Weighted average total Old National Bank			**6.3**	**2.6**	**70,601**	**10.2**

Source: S&P Global Market Intelligence

STRATEGIC TRANSACTIONS

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.

On May 30, 2021, Old National entered into a definitive merger agreement with First Midwest to combine in an all-stock merger of equals transaction. Under the terms of the merger agreement, which were unanimously approved by the Boards of Directors of both companies and subsequently approved by the shareholders of both companies, First Midwest stockholders will receive 1.1336 shares of Old National common stock for each share of First Midwest common stock they own. Holders of First Midwest Common Stock will receive cash in lieu of fractional shares. Each share of 7.000% fixed-rate non-cumulative perpetual preferred stock, Series A, no par value, and each share of 7.000% fixed-rate non-cumulative perpetual preferred stock, Series C, no par value, of First Midwest will be converted into the right to receive one share of a newly created series of preferred stock of Old National having terms that are not materially less favorable than the outstanding First Midwest preferred stock. Following completion of the transaction, former First Midwest stockholders are expected to collectively represent approximately 44% of the combined company. The new organization will operate under the Old National Bancorp and Old National Bank names, with corporate headquarters located in Evansville, Indiana and commercial and consumer banking operations headquartered in Chicago, Illinois. With all necessary regulatory and shareholder approvals received, the merger is expected to occur after the close of business and after the end of regular trading hours on the NASDAQ Stock Market on February 15, 2022, subject to customary closing conditions.

Our other most recent acquisitions included the following:

- Anchor Bank, N.A., headquartered in the Twin Cities, through a stock and cash consideration merger on November 1, 2017 that added 17 banking centers in Minnesota; and
- Minnesota-based Klein through a 100% stock consideration merger on November 1, 2018 that added 18 banking centers serving the Twin Cities and its western communities in Minnesota.

Divestitures

Since the beginning of 2011 through the end of 2021, we consolidated or sold over 230 banking centers as part of our continued banking center rationalization. Over the same period, we more than tripled our assets and increased our average total deposits per banking center from $34 million to approximately $115 million, while only increasing our number of banking centers by one from 161 to 162.

Another component of The ONB Way is the optimization of our banking center network. As part of The ONB Way, we consolidated 31 banking centers scattered throughout the footprint in April 2020, reflecting an ongoing shift among our clients toward digital banking solutions. Many of the facilities consolidated were in smaller markets, several of which were added in recent years through acquisition and partnership activity.

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, Financial Technology, or "FinTech," companies, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds, and other financial intermediaries.

Some of our nonfinancial institution competitors may have fewer regulatory constraints, broader geographic service areas, greater capital, and, in some cases, lower cost structures. In addition, competition for quality clients 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 and comprehensive 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 or creditors.

Significant elements of certain 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 their 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 and subject to change. 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.

Bank Holding Company Regulation. Old National is registered as a bank 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"). Generally, the BHC Act governs the acquisition and control of banks and non-banking companies by bank holding companies and requires bank holding companies to register with the Federal Reserve. The BHC Act also regulates the business activities of non-bank subsidiaries of bank holding companies as well as the business activities and other relationships of the bank holding company and its non-bank affiliates with the bank holding company's bank subsidiaries. The BHC Act requires a bank holding company to file an annual report of its operations and such additional information as the Federal Reserve may require. A bank holding company and its subsidiaries are subject to examination and supervision by the Federal Reserve.

The BHC Act, the Bank Merger Act, and other federal and state statutes regulate acquisitions of commercial banks. The BHC Act requires the prior approval of the Federal Reserve for the direct or indirect acquisition by a bank holding company of more than 5.0% of the voting shares of a commercial bank or its holding company. Under the BHC Act or the Bank Merger Act, the prior approval of the Federal Reserve or other appropriate bank regulatory authority is required for a bank holding company to acquire control of another bank or for a member bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant's managerial and financial resources, the applicant's performance record under the Community Reinvestment Act of 1977, as amended (the "CRA"), fair housing laws and other laws, including consumer compliance laws, and the effectiveness of the banks in combating money laundering activities.

In addition, the BHC Act prohibits (with certain exceptions) a bank holding company that has not elected to become a financial holding company from acquiring direct or indirect control or ownership of more than 5.0% of the voting shares of any "non-banking" company unless the non-banking activities are found by the Federal Reserve to be "so closely related to banking as to be a proper incident thereto." Under current regulations of the Federal Reserve, a bank holding company and its non-bank subsidiaries are permitted to engage in such banking-related business ventures as consumer finance, equipment leasing, data processing, mortgage banking, financial and investment advice, securities brokerage services, and other activities.

The Gramm-Leach-Bliley Act of 1999, as amended (the "GLB Act"), allows certain bank holding companies to elect to be treated as a financial holding company (an "FHC") that may offer clients a more comprehensive array of financial products and services. At this time, the Company has not elected to be a FHC.

Transactions with Affiliates. Any transactions between Old National Bank and any of its affiliates are regulated by the Federal Reserve. The Federal Reserve's regulations limit the types and amounts of covered transactions permissible for Old National and Old National Bank to engage in and require those transactions to be on terms at least as favorable to Old National Bank as would be a transaction conducted between unaffiliated third-parties. Covered transactions are defined by statute to include:

- A loan or extension of credit by a commercial bank to an affiliate, as well as a purchase of securities issued by an affiliate on arm's length terms.
- The purchase of assets by a commercial bank from an affiliate, unless otherwise exempted by the Federal Reserve.
- Certain derivative transactions involving a commercial bank that create a credit exposure to an affiliate.
- The acceptance by a commercial bank of securities issued by an affiliate as collateral for any loan.
- The issuance of a guarantee, acceptance, or letter of credit by a commercial bank on behalf of or for the benefit of an affiliate.

In general, these regulations require that any extension of credit by Old National Bank (or its subsidiaries) to or for the benefit of an affiliate must be secured by designated amounts of specified collateral and must be limited to certain thresholds on an individual credit and aggregate basis.

Old National Bank is also limited as to how much and on what terms it may lend to its insiders and the insiders of its affiliates, including its affiliates and its affiliates' executive officers and directors.

Source of Strength. Federal Reserve policy and federal law require bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, a bank holding company is expected to commit financial resources to support its bank subsidiary even at times when the holding company may not be in a financial position to provide such resources or when the holding company may not be inclined to provide it. Any loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. 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 bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

Community Reinvestment Act. The CRA requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practices. 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-income and moderate-income individuals and small businesses in those communities. Federal and state regulators conduct CRA examinations on a regular basis to assess the performance of financial institutions and assign one of four ratings to the institution's record of meeting the credit needs of its community. Bank regulators take into account CRA ratings when considering approval of a proposed merger or acquisition. Old National Bank received a rating of "satisfactory" in its latest CRA examination. In December 2019, the OCC and the FDIC issued a notice of proposed rulemaking intended to (i) clarify which activities qualify for CRA credit; (ii) update where activities count for CRA credit; (iii) create a more transparent and objective method for measuring CRA performance; and (iv) provide for more transparent, consistent, and timely CRA-related data collection, recordkeeping, and reporting. However, the Federal Reserve has not joined the proposed rulemaking. In May 2020, the OCC issued its final CRA rule, which was later rescinded in December 2021. The FDIC has not finalized any revisions to its CRA rule. In September 2020, the Federal Reserve issued an advance notice of proposed rulemaking that seeks public comment on ways to modernize the Federal Reserve's CRA regulations. The effects on the Company and Old National Bank of any potential change to the CRA rules will depend on the final form of any federal rulemaking and cannot be predicted at this time. Management will continue to evaluate any changes to the CRA's regulations and their impact to the Company's and Old National Bank's financial condition, results of operations, or liquidity.

Financial Privacy. Under the GLB Act, a financial institution may not disclose non-public personal information about a consumer to unaffiliated third-parties unless the institution satisfies various disclosure requirements and the consumer has not elected to opt out of the information sharing. The financial institution must provide its clients with a notice of its privacy policies and practices. The Federal Reserve, the FDIC, and other financial regulatory agencies issued regulations implementing notice requirements and restrictions on a financial institution's ability to disclose non-public personal information about consumers to unaffiliated third-parties.

In addition, privacy and data protection are areas of increasing state legislative focus, and several states have recently enacted consumer privacy laws that impose significant compliance obligations with respect to personal information. Similar laws may in the future be adopted by states where the Company and Old National Bank do business. Furthermore, privacy and data protection areas are expected to receive additional attention at the Federal level. The potential effects of state or Federal privacy and data protection laws on the Company's business cannot be determined at this time, and will depend both on whether such laws are adopted by states in which the Company does business and/or at the Federal level and the requirements imposed by any such laws.

Bank Secrecy Act and the USA Patriot Act. The U.S. Bank Secrecy Act ("BSA") and USA PATRIOT Act require financial institutions to develop programs to prevent them from being used for, and to detect and deter, money laundering, terrorist financing, and other illegal activities. If such activities are detected or suspected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of clients seeking to open new accounts and monitoring these accounts on an ongoing basis to ensure that such accounts are not used for illegal purposes. Failure to comply with these requirements could have serious financial, legal, and reputational consequences, including the imposition of civil money penalties, cease and desist orders, or causing applicable bank regulatory authorities not to approve merger or acquisition transactions.

In January 2021, the Anti-Money Laundering Act of 2020 ("AMLA"), which amends the BSA, was enacted. Among other things, the AMLA codifies a risk-based approach to anti-money laundering compliance for financial institutions; requires the Treasury to promulgate priorities for anti-money laundering and countering the financing of terrorism policy; requires the development of standards by the Treasury for testing technology and internal processes for BSA compliance; expands enforcement- and investigation-related authority, including a significant expansion in the available sanctions for certain BSA violations; and expands BSA whistleblower incentives and protections. Many of the statutory provisions in the AMLA will require additional rulemaking, reports and other measures, and the impact of the AMLA will depend on, among other things, rulemaking and implementation guidance.

Office of Foreign Assets Control Regulation. The U.S. imposes economic sanctions that affect transactions with designated foreign countries, nationals, and others. These sanctions are administered by the U.S. Treasury's Office of Foreign Assets Control ("OFAC"). These sanctions include: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country, and (ii) blocking assets in which the government or specially designated nationals of the sanctioned country have an interest by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off, or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious financial, legal, and reputational consequences for the institution, including the imposition of civil money penalties, or causing applicable bank regulatory authorities not to approve merger or acquisition transactions.

The Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and related regulations impose significant obligations on the Company, compliance with which has resulted, and will continue to result, in significant operating costs.

Enhanced Prudential Standards – The Dodd-Frank Act, as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018 ("EGRRCPA"), directs the Federal Reserve to monitor emerging risks to financial stability and enact enhanced supervision and prudential standards. As a bank holding company with less than $100 billion of total consolidated assets, the Dodd Frank Act's enhanced prudential standards generally are not applicable to the Company. Prior to the passage of EGRRCPA, Federal Reserve rules required publicly traded bank holding companies with $10 billion or more of total consolidated assets to establish risk committees. The Company established a risk committee in accordance with this requirement. In October 2019, the Federal Reserve adopted a rule that tailors the application of the enhanced prudential standards to BHCs pursuant to the EGRRCPA amendments, including by raising the asset threshold for application of many of these standards. Pursuant to the final rules, publicly traded bank holding companies with between $10 billion and $50 billion of total consolidated assets, including the Company, are no longer required to maintain a risk committee. The Company has determined that it will nevertheless retain its Board and management risk committees.

Consumer Financial Protection – The Dodd-Frank Act created the Consumer Financial Protection Bureau ("CFPB") as an independent unit within the Federal Reserve. The powers of the CFPB currently include primary enforcement and exclusive supervision authority for federal consumer financial laws over insured depository institutions with assets of $10 billion or more, such as Old National Bank, and their affiliates. This includes the right to obtain information about an institution's activities and compliance systems and procedures and to detect and assess risks to consumers and markets.

The CFPB engages in several activities, including (i) investigating consumer complaints about credit cards and mortgages, (ii) launching supervisory programs, (iii) conducting research for and developing mandatory financial product disclosures, and (iv) engaging in consumer financial protection rulemaking.

Old National Bank is also subject to a number of regulations intended to protect consumers in various areas, such as equal credit opportunity, fair lending, customer privacy, identity theft, and fair credit reporting. For example, Old National Bank is subject to the Federal Truth in Savings Act, the Home Mortgage Disclosure Act, and the Real Estate Settlement Procedures Act. Electronic banking activities are subject to federal law, including the Electronic Funds Transfer Act. Consumer loans made by Old National Bank are subject to applicable provisions of the Federal Truth in Lending Act. Other consumer financial laws include the Equal Credit Opportunity Act, Fair Credit Reporting Act, Fair Debt Collection Practices Act, and applicable state laws.

In addition, state authorities are responsible for monitoring the Company's compliance with all state consumer laws. Failure to comply with these federal and state requirements could have serious legal and reputational consequences for the Company and Old National Bank, including causing applicable bank regulatory authorities not to approve merger or acquisition transactions, civil money penalties, and injunctive and remedial relief.

Interchange Fees – The Company is subject to interchange fee limitations that establish a maximum permissible interchange fee equal to no more than 21 cents plus five basis points of the transaction value for many types of debit interchange transactions. Interchange fees, or "swipe" fees, are charges that merchants pay to card-issuing banks, such as Old National Bank, for processing electronic payment transactions. Additional Federal Reserve rules allow a debit card issuer to recover one cent per transaction for fraud prevention purposes if the issuer complies with certain fraud-related requirements. The Company is in compliance with these fraud-related requirements. The Federal Reserve also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product.

Volcker Rule - The so-called "Volcker Rule" issued under the Dodd-Frank Act restricts the ability of the Company and its subsidiaries, including Old National Bank, to sponsor or invest in private funds or to engage in certain types of proprietary trading, except as permitted by the Volcker Rule. The Company generally does not engage in the businesses prohibited by the Volcker Rule; therefore, the Volcker Rule does not have a material effect on the operations of the Company and its subsidiaries.

Capital Requirements. The Company and Old National Bank are each required to comply with certain risk-based capital and leverage requirements under capital rules (the "Basel III Capital Rules") adopted by the Federal Reserve. These rules implement the Basel III framework set forth by the Basel Committee on Banking Supervision (the "Basel Committee") as well as certain provisions of the Dodd-Frank Act.

Under the Basel III Capital Rules, the Company and Old National Bank are required to maintain the following:

- A minimum ratio of Common equity Tier 1 capital ("CET1") to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" that is composed entirely of CET1 capital (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 capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5%).
- A minimum ratio of total capital (Tier 1 capital plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (resulting in a minimum total capital ratio of 10.5%).
- A minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average 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 constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall and the institution's "eligible retained income" (that is, the greater of (i) net income for the preceding four quarters, net of distributions and associated tax effects not reflected in net income and (ii) average net income over the preceding four quarters).

The Basel III Capital Rules also provide for a number of deductions from and adjustments to CET1 that include, for example, goodwill, other intangible assets, and deferred tax assets that arise from net operating loss and tax credit carryforwards net of any related valuation allowance. Mortgage servicing rights and deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks and investments in non-consolidated financial institutions must also be deducted from CET1 to the extent that they exceed certain thresholds. The Company and Old National Bank, as non-advanced approaches banking organizations as classified under the Basel III Capital Rules, made a one-time permanent election to exclude the effects of certain AOCI items included in shareholders' equity under GAAP in determining regulatory capital ratios.

In November 2017, the federal bank regulators issued a final rule that extended certain transition provisions related to the capital treatment for certain deferred tax assets, mortgage servicing rights, investments in non-consolidated financial entities, and minority interests for banking organizations that are not subject to the advanced approaches framework under the Basel III Capital Rules, such as the Company and Old National Bank, until January 1, 2020 when final rules to simplify the regulatory treatment of those items took effect (the "Capital Simplification Rules").

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including the recalibration of risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provide a new standardized approach for operational risk capital. Under the Basel framework, these standards will generally be effective on January 1, 2023, with an aggregate output floor phasing in through January 1, 2028. Under the current U.S. capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches banking organizations, and not to the Company or Old National Bank. The impact of Basel IV on the Company and Old National Bank will depend on the manner in which it is implemented by the federal bank regulators.

Prompt Corrective Action. The Federal Deposit Insurance Act (the "FDIA") requires the federal banking agencies to take "prompt corrective action" for depository institutions that do not meet the minimum capital requirements. The FDIA includes the following five capital tiers: "well-capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." A depository institution's capital tier will depend on how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total risk-based capital ratio, the Tier 1 risk-based capital ratio, the CET1 capital ratio, and the leverage ratio.

A bank will be:

- "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, a CET1 capital ratio of 6.5% 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.
- "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 6.0% or greater, a CET1 capital ratio of 4.5% or greater, and a leverage ratio of 4.0% or greater and is not "well-capitalized."
- "Undercapitalized" if the institution has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a CET1 capital ratio of less than 4.5%, or a leverage ratio of less than 4.0%.
- "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 4.0%, a CET1 capital ratio of less than 3.0% or a leverage ratio of less than 3.0%.
- "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 for 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. As of December 31, 2021, Old National Bank's capital ratios were all in excess of the minimum requirements for "well-capitalized" status.

The FDIA prohibits an insured depository institution from accepting brokered deposits or offering interest rates on any deposits significantly higher than the prevailing rate in the bank's normal market area or nationally (depending upon where the deposits are solicited), unless it is well-capitalized or is adequately capitalized and receives a waiver from the FDIC. A depository institution that is adequately capitalized and accepts brokered deposits under a waiver from the FDIC may not pay an interest rate on any deposits in excess of 75 basis points over certain prevailing market areas.

In addition, 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 that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, the depository institution's parent holding company must guarantee that the institution will comply with the capital restoration plan and must also provide appropriate assurances of performance for a plan to be acceptable. The aggregate liability of the parent holding company is limited to the lesser of an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and the amount that is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable to the 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 may be subject to the appointment of a receiver or conservator.

Dividends 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, the Federal Reserve, and the FDIC. A substantial portion of Old National's 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 24 to the consolidated financial statements.

Deposit Insurance. Substantially all of the deposits of Old National Bank are insured up to applicable limits by the Deposit Insurance Fund ("DIF") which is administered by the FDIC. As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It may also prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the DIF. Insurance of deposits may be terminated by the FDIC upon a finding that the institution engaged or is engaging in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or violated any applicable law, regulation, rule, order, or condition imposed by the FDIC or written agreement entered into with the FDIC.

FDIC assessment rates for large institutions that have more than $10 billion of assets, such as Old National Bank, are calculated based on a "scorecard" methodology that seeks to capture both the probability that an individual large institution will fail and the magnitude of the impact on the DIF if such a failure occurs, based primarily on the difference between the institution's average of total assets and average tangible equity. The FDIC has the ability to make discretionary adjustments to the total score, up or down, based upon significant risk factors that are not adequately captured in the scorecard. For large institutions, including Old National Bank, after accounting for potential base-rate adjustments, the total assessment rate could range from 1.5 to 40 basis points on an annualized basis. Old National's most recent assessment rate was 2.94 basis points. An institution's assessment is determined by multiplying its assessment rate by its assessment base, which is asset based.

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.

Employee Incentive Compensation. Under regulatory guidance applicable to all banking organizations, incentive compensation policies must be consistent with safety and soundness principles. Under this guidance, financial institutions must review their compensation programs to ensure that they: (i) provide employees with incentives that appropriately balance risk and reward and that do not encourage imprudent risk, (ii) are compatible with effective controls and risk management, and (iii) are supported by strong corporate governance, including active and effective oversight by the banking organization's board of directors. Monitoring methods and processes used by a banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation.

During 2016, as required by the Dodd-Frank Act, the federal bank regulatory agencies and the SEC proposed revised rules on incentive-based payment arrangements at specified regulated entities having at least $1 billion of total assets (including the Company and Old National Bank). These proposed rules have not been finalized.

Cybersecurity. The federal banking agencies have established certain expectations with respect to an institution's information security and cybersecurity programs, with an increasing focus on risk management, processes related to information technology and operational resiliency, and the use of third-parties in the provision of financial services. In October 2016, the federal banking agencies jointly issued an advance notice of proposed rulemaking on enhanced cybersecurity risk-management and resilience standards that would address five categories of cyber standards which include (i) cyber risk governance, (ii) cyber risk management, (iii) internal dependency management, (iv) external dependency management, and (v) incident response, cyber resilience, and situational awareness. As proposed, these enhanced standards would apply only to depository institutions and depository institution holding companies with total consolidated assets of $50 billion or more; however, it is possible that if these enhanced standards are implemented, even if the $50 billion threshold is increased, the Federal Reserve will consider them in connection with the examination and supervision of banks below the $50 billion threshold. The federal banking agencies have not yet taken further action on these proposed standards.

State regulators have also been increasingly active in implementing privacy and cybersecurity standards and regulations. Recently, several states have adopted regulations requiring certain financial institutions to implement cybersecurity programs and providing detailed requirements with respect to these programs, including data encryption requirements. Many states have also recently implemented or modified their data breach notification and data privacy requirements. We expect this trend of state-level activity in those areas to continue and are continually monitoring developments in the states in which the Company operates.

In February 2018, the SEC published interpretive guidance to assist public companies in preparing disclosures about cybersecurity risks and incidents. These SEC guidelines, and any other regulatory guidance, are in addition to notification and disclosure requirements under state and federal banking law and regulations.

In November 2021, the United States federal bank regulatory agencies adopted a rule regarding notification requirements for banking organizations related to significant computer security incidents. Under the final rule, a bank holding company and a state member bank are required to notify the Federal Reserve within 36 hours of incidents that have materially disrupted or degraded, or are reasonably likely to materially disrupt or degrade, the banking organization's ability to deliver services to a material portion of its customer base, jeopardize the viability of key operations of the banking organization, or impact the stability of the financial sector. The rule is effective April 1, 2022, with compliance required by May 1, 2022.

Safety and Soundness Regulations. In accordance with the FDIA, the federal banking agencies adopted safety and soundness guidelines establishing general standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, cybersecurity, liquidity, data protection, asset growth, asset quality, earnings, compensation, fees, and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify, monitor, 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 and cease and desist orders.

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, 2021, Old National Bank was in compliance with the minimum stock ownership requirement.

Future Legislation and Regulation. In addition to the specific legislation and regulations described above, various laws and regulations are being considered by federal and state governments and regulatory agencies that may change banking statutes and the Company's and Old National Bank's operating environment in substantial and unpredictable ways and may increase reporting requirements and compliance costs. These changes could increase or decrease the cost of doing business, increase the Company's expenses, decrease the Company's revenue, limit or expand permissible activities or change the activities in which the Company chooses to engage, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions in ways that could adversely affect the Company and Old National Bank.

Regulatory Approval for Acquisitions. In July 2021, an executive order was issued on competition, which included provisions relating to bank mergers. These provisions "encourage" the Department of Justice and the federal banking regulators to update guidelines on banking mergers and to provide more scrutiny of bank mergers.

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 (as 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. In addition, the SEC maintains an internet site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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, thereby affecting an investment in our Common Stock.

As a result of Old National entering into the merger agreement with First Midwest, certain risk factors have been identified:

Old National has incurred and expects to incur substantial costs related to the merger with First Midwest (the "merger") and integration.

Old National has incurred and expects to incur a number of non-recurring costs associated with the merger. These costs include legal, financial advisory, accounting, consulting and other advisory fees, retention, severance and employee benefit-related costs, public company filing fees and other regulatory fees, financial printing and other printing costs, closing, integration and other related costs. Some of these costs are payable by Old National regardless of whether or not the merger is completed.

Combining Old National and First Midwest may be more difficult, costly or time-consuming than expected, and Old National may fail to realize the anticipated benefits of the merger.

The success of the merger will depend, in part, on the ability to realize the anticipated cost savings from combining the businesses of Old National and First Midwest. To realize the anticipated benefits and cost savings from the merger, Old National and First Midwest must successfully integrate and combine their businesses in a manner that permits those cost savings to be realized without adversely affecting current revenues and future growth. If Old National and First Midwest are not able to successfully achieve these objectives, the anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected. In addition, the actual cost savings of the merger could be less than anticipated, and integration may result in additional and unforeseen expenses.

An inability to realize the full extent of the anticipated benefits of the merger and the other transactions contemplated by the merger agreement, as well as any delays encountered in the integration process, could have an adverse effect upon the revenues, levels of expenses and operating results of the combined company following the completion of the merger, which may adversely affect the value of the common stock of the combined company following the completion of the merger.

Old National and First Midwest have operated and, until the completion of the merger, must continue to operate, independently. It is possible that the integration process could result in the loss of key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the companies' ability to maintain relationships with clients, customers, depositors and employees or to achieve the anticipated benefits and cost savings of the merger. Integration efforts between the companies may also divert management attention and resources. These integration matters could have an adverse effect on Old National during this transition period and on the combined company for an undetermined period after completion of the merger.

Furthermore, the board of directors and executive leadership of the combined company will consist of former directors and executive officers from each of Old National and First Midwest. Combining the boards of directors and management teams of each company into a single board and a single management team could require the reconciliation of differing priorities and philosophies. With the increase in size of Old National's business following the merger, Old National's future success depends, in part, upon the ability of such management team to handle potential challenges related to the management and monitoring of new operations and associated increased costs and complexity.

The combined company may be unable to retain Old National and/or First Midwest personnel successfully after the merger is completed.

The success of the merger will depend in part on the combined company's ability to retain the talent and dedication of key employees currently employed by Old National and First Midwest. It is possible that these employees may decide not to remain with Old National or First Midwest, as applicable, while the merger is pending or with the combined company after the merger is consummated. If Old National and First Midwest are unable to retain key employees, including management, who are critical to the successful integration and future operations of the companies, Old National and First Midwest could face disruptions in their operations, loss of existing clients, loss of key information, expertise or know-how and unanticipated additional recruitment costs. In addition, following the merger, if key employees terminate their employment, the combined company's business activities may be adversely affected, and management's attention may be diverted from successfully hiring suitable replacements, all of which may cause the combined company's business to suffer. Old National and First Midwest also may not be able to locate or retain suitable replacements for any key employees who leave either company.

The COVID-19 pandemic may delay and adversely affect the completion of the merger and the integration of the businesses of Old National and First Midwest.

The COVID-19 pandemic has created economic and financial disruptions that adversely affected, and are likely to continue to adversely affect, the business, financial condition, liquidity, capital, and results of operations of Old National. If the effects of the COVID-19 pandemic cause a continued or extended decline in the economic environment and the financial results of Old National, or the business operations of Old National are further disrupted as a result of the COVID-19 pandemic, efforts to complete the merger and integrate the businesses of Old National and First Midwest may also be delayed and adversely affected.

Failure to complete the merger could negatively impact Old National.

If the merger is not completed for any reason, there may be various adverse consequences and Old National may experience negative reactions from the financial markets and from its clients and employees. For example, Old National's business may have been impacted adversely by the failure to pursue other beneficial opportunities due to the focus of management on the merger, without realizing any of the anticipated benefits of completing the merger. Additionally, if the merger agreement is terminated, the market price of Old National common stock could decline to the extent that current market prices reflect a market assumption that the merger will be beneficial and will be completed. Old National also could be subject to litigation related to any failure to complete the merger or to proceedings commenced against Old National to perform its obligations under the merger agreement. If the merger agreement is terminated under certain circumstances, Old National may be required to pay a termination fee of $97 million to First Midwest.

Additionally, Old National has incurred and will incur substantial expenses in connection with the negotiation and completion of the transactions contemplated by the merger agreement, as well as the costs and expenses of preparing, filing, printing, and mailing the joint proxy statement/prospectus, and all filing and other fees paid in connection with the merger. If the merger is not completed, Old National would have to pay these expenses without realizing the expected benefits of the merger.

Old National is subject to business uncertainties and contractual restrictions while the merger is pending.

Uncertainty about the effect of the merger on employees and clients may have an adverse effect on Old National. These uncertainties may impair Old National's ability to attract, retain and motivate key personnel until the merger is completed, and could cause clients and others that deal with Old National to seek to change existing business relationships with Old National. In addition, subject to certain exceptions, Old National has agreed to operate its business in the ordinary course in all material respects and to refrain from taking certain actions that may adversely affect its ability to consummate the transactions contemplated by the merger agreement on a timely basis without the consent of First Midwest. These restrictions may prevent Old National from pursuing attractive business opportunities that may arise prior to the completion of the merger.

Shareholder litigation related to the merger could prevent or delay the completion of the merger, result in the payment of damages or otherwise negatively impact the business and operations of Old National.

Two lawsuits and four demand letters relating to the disclosures contained in the joint proxy statement/prospectus distributed to Old National shareholders in connection with the merger have been filed or delivered by alleged stockholders of First Midwest. Among other remedies, these lawsuits and demand letters, and additional litigation or demand letters related to the merger in the future, may seek information, damages and/or to enjoin the merger. While Old National believes that the claims asserted in the civil litigation are without merit, if any plaintiff were successful in obtaining an injunction prohibiting First Midwest or Old National from completing the merger or any other transactions contemplated by the merger agreement, then such injunction may delay or prevent the effectiveness of the merger and could result in costs to Old National, including costs in connection with the defense or settlement of any shareholder lawsuits filed in connection with the merger. Further, such lawsuits and demand letters and the defense or settlement of claims contained in any such lawsuits or arising out of any demand letters may have an adverse effect on the financial condition and results of operations of Old National.

The merger agreement may be terminated in accordance with its terms and the merger may not be completed.

The merger agreement is subject to a number of conditions which must be fulfilled in order to complete the merger. Those conditions include: (i) approval by First Midwest stockholders of the First Midwest merger proposal and the approval by Old National shareholders of the Old National merger proposal at each company's respective special meeting held on September 15, 2021, which approvals were obtained; (ii) authorization for listing on NASDAQ of the shares of Old National common stock and new Old National preferred stock to be issued in the merger, subject to official notice of issuance; (iii) the receipt of required regulatory approvals, including the approval of the OCC and the Federal Reserve, both of which have been obtained; and (iv) the absence of any order, injunction, decree or other legal restraint preventing the completion of the merger, the subsequent merger of First Midwest Bank and Old National Bank (the "bank merger") or any of the other transactions contemplated by the merger agreement or making the completion of the merger, the bank merger or any of the other transactions contemplated by the merger agreement illegal. Each party's obligation to complete the merger is also subject to certain additional customary conditions, including (a) subject to applicable materiality standards, the accuracy of the representations and warranties of the other party, (b) the performance in all material respects by the other party of its obligations under the merger agreement, (c) the receipt by each party of an opinion from its counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986 and (d) the execution and delivery of the bank merger agreement.

These conditions to the closing may not be fulfilled in a timely manner or at all, and, accordingly, the merger may not be completed. In addition, the parties can mutually decide to terminate the merger agreement at any time, before or after the requisite shareholder and stockholder approvals, or Old National or First Midwest may elect to terminate the merger agreement in certain other circumstances.

The merger agreement limits Old National's abilities to pursue alternatives to the merger and may discourage other companies from trying to acquire Old National.

The merger agreement contains "no shop" covenants that restrict Old National's ability to, directly or indirectly, among other things, initiate, solicit, knowingly encourage or knowingly facilitate, inquiries or proposals with respect to, or, subject to certain exceptions generally related to the exercise of fiduciary duties by Old National's board of directors, engage in any negotiations concerning, or provide any confidential or non-public information or data relating to, any alternative acquisition proposals. These provisions, which include a $97 million termination fee payable under certain circumstances, may discourage a potential third-party acquirer that might have an interest in acquiring all or a significant part of Old National from considering or proposing that acquisition.

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, sustained high unemployment levels, or 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. If the forecasts of economic conditions and other economic predictions are not accurate, we may face challenges in accurately estimating the ability of our borrowers to repay their loans. Expectations of negative market and economic conditions will be reflected in the allowances for credit losses for loans and debt securities to the estimated extent they will impact the credit losses of new and existing loans and debt securities over their remaining lives. The provision for credit losses will report the entire increased credit loss expectations over the remaining lives of the loans and debt securities in the period in which the change in expectation arises. Further, because of the impact of such increased credit losses on earnings and capital, our ability to make loans and pay dividends may be substantially diminished.

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

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, Minnesota, and Wisconsin, could have an adverse impact on Old National's earnings.

Old National's business, financial condition, liquidity, capital, and results of operations have been, and may continue to be, adversely affected by the COVID-19 pandemic.

The COVID-19 pandemic has created economic and financial disruptions that have adversely affected, and are likely to continue to adversely affect, the Company's business, financial condition, liquidity, loans, asset quality, capital, and results of operations. The extent to which the COVID-19 pandemic will continue to negatively affect the Company will depend on future developments that are highly uncertain and cannot be predicted and many of which are outside of the Company's control. These future developments may include the scope and duration of the COVID-19 pandemic, the emergence of new variants of COVID-19, the possibility of future resurgences of the COVID-19 pandemic, the continued effectiveness of the Company's business continuity plan including work-from-home arrangements and staffing at branches and certain other facilities, the direct and indirect impact of the COVID-19 pandemic on the Company's employees, clients, counterparties and service providers, as well as on other market participants, actions taken, or that may yet be taken, by governmental authorities and other third parties in response to the COVID-19 pandemic, and the effectiveness and public acceptance of vaccines for COVID-19.

Although financial markets have largely rebounded from the significant declines that occurred earlier in the pandemic and global economic conditions showed signs of improvement during the second half of 2020 and throughout 2021, many of the circumstances that arose or became more pronounced after the onset of the COVID-19 pandemic persist, including:

- supply chain issues remain unresolved for longer than anticipated and decreased consumer and business confidence and economic activity, leading to certain lower loan demand and an increased risk of loan delinquencies, defaults, and foreclosures;
- ratings downgrades, credit deterioration and defaults in many industries, including, but not limited to, recreation and entertainment, hotels, and restaurants, as well as across consumer unsecured installment loans;
- a decrease in the rates and yields on U.S. Treasury securities, which may lead to further decreased net interest income;
- volatility in financial and capital markets, interest rates, and exchange rates;
- declines in collateral values;
- increased demands on capital and liquidity;
- a reduction in the value of the assets that the Company manages or otherwise administers or services for others, affecting related fee income and demand for the Company's services;
- heightened cybersecurity, information security, and operational risks as cybercriminals attempt to profit from the disruption resulting from the pandemic given increased online and remote activity, including as a result of work-from-home arrangements;
- disruptions to business operations experienced by counterparties and service providers;
- increased risk of business disruption if our employees are unable to work effectively because of illness, quarantines, government actions, failures in systems or technology that disrupt work-from-home arrangements, or other effects of the COVID-19 pandemic; and
- decreased demands for our products and services.

As a result, our credit, operational, and certain other risks are generally expected to remain elevated until the COVID-19 pandemic subsides. Depending on the duration and severity of the COVID-19 pandemic going forward, the conditions noted above could continue for an extended period and these or other adverse developments may occur or reoccur.

Governmental authorities have taken unprecedented measures both to contain the spread of the COVID-19 pandemic and to provide economic assistance to individuals and businesses, stabilize the markets, and support economic growth. The Company also faces an increased risk of litigation and governmental and regulatory scrutiny as a result of the effects of the COVID-19 pandemic and actions governmental authorities take in response to the COVID-19 pandemic. Furthermore, various government programs such as the U.S. Small Business Administration's PPP are complex and our participation may lead to litigation and governmental, regulatory and third party scrutiny, negative publicity, and damage to our reputation.

The length of the COVID-19 pandemic and the efficacy of the extraordinary measures being put in place to address it are unknown. There are no comparable recent events that provide guidance as to the economic recovery from the effects of the COVID-19 pandemic or the effect the spread of COVID-19 as a global pandemic may have. As a result of the COVID-19 pandemic, the Company has experienced and may continue to experience draws on lines of credit, reduced net interest income and net interest margin, reduced revenues in its fee-based businesses, and increased client defaults, including defaults on unsecured loans, resulting in overall declines in credit quality and higher credit loss expense. Even after the COVID-19 pandemic subsides, the U.S. economy may continue to experience a recession, and the Company anticipates that its businesses could be materially and adversely affected by a prolonged recession. To the extent the pandemic adversely affects the Company's business, financial condition, liquidity, capital, loans, asset quality, or results of operations, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section of the Form 10-K.

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 banking center 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 or expect. There can be no assurance that integration efforts for any mergers or acquisitions will be successful or that, after giving effect to the merger or acquisition, we will achieve profits comparable to, or better than, our historical experience. Also, we may issue equity securities in connection with acquisitions, which could cause ownership and economic dilution to our current shareholders.

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 and execution 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 target institutions; and
- the risk of loss of key employees and clients.

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 banking centers 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 credit losses and to measure the fair value of assets carried on the balance sheet at fair value, 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 are complex and reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances and require us to make judgments about the effect of matters that are inherently uncertain. Different assumptions could have resulted in significant changes in valuation, which in turn could have a material adverse effect on our 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, FinTech companies, consumer finance companies, securities brokerage firms, insurance companies, money market mutual funds, and other financial intermediaries. Our competitors may have substantially greater resources and lending limits than Old National does and may offer services that Old National does not or cannot provide. Some of our nonfinancial institution competitors may have fewer regulatory constraints, broader geographic service areas, and, in some cases, lower cost structures. Old National's profitability depends upon our continued ability to compete successfully in our 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 employees in most of the activities we engage in can be intense. We may not be able to hire the best people for key roles or retain them. In addition, the transition to increased work-from-home arrangements, which is likely to survive the COVID-19 pandemic for many companies, may exacerbate the challenges of attracting and retaining talented and diverse employees as job markets may be less constrained by physical geography. Our current or future approach to in-office and work-from-home arrangements may not meet the needs or expectations of our current or prospective employees or may not be perceived as favorable as compared to the arrangements offered by competitors, which could adversely affect our ability to attract and retain employees. 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 its common shareholders. 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.

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, 2021, Old National Bank could pay dividends of $268.1 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 24 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.

Climate change could have a material negative impact on the Company and clients.

The Company's business, as well as the operations and activities of our clients, could be negatively impacted by climate change. Climate change presents both immediate and long-term risks to the Company and its clients, and these risks are expected to increase over time. Climate change presents multi-faceted risks, including: operational risk from the physical effects of climate events on the Company and its clients' facilities and other assets; credit risk from borrowers with significant exposure to climate risk; transition risks associated with the transition to a less carbon-dependent economy; and reputational risk from stakeholder concerns about our practices related to climate change, the Company's carbon footprint, and the Company's business relationships with clients who operate in carbon-intensive industries.

Federal and state banking regulators and supervisory authorities, investors, and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change both directly and with respect to their clients, which may result in financial institutions coming under increased pressure regarding the disclosure and management of their climate risks and related lending and investment activities. Given that climate change could impose systemic risks upon the financial sector, either via disruptions in economic activity resulting from the physical impacts of climate change or changes in policies as the economy transitions to a less carbon-intensive environment, the Company may face regulatory risk of increasing focus on the Company's resilience to climate-related risks, including in the context of stress testing for various climate stress scenarios. Ongoing legislative or regulatory uncertainties and changes regarding climate risk management and practices may result in higher regulatory, compliance, credit, and reputational risks and costs.

With the increased importance and focus on climate change, we are making efforts to enhance our governance of climate change-related risks and integrate climate considerations into our risk governance framework. Nonetheless, the risks associated with climate change are rapidly changing and evolving in an escalating fashion, making them difficult to assess due to limited data and other uncertainties. We could experience increased expenses resulting from strategic planning, litigation, and technology and market changes, and reputational harm as a result of negative public sentiment, regulatory scrutiny, and reduced investor and stakeholder confidence due to our response to climate change and our climate change strategy, which, in turn, could have a material negative impact on our business, results of operations, and financial condition.

Credit Risk

If Old National's actual credit losses for loans or debt securities exceed Old National's allowance for credit losses for loans and debt securities, Old National's net income will decrease. Also, future additions to Old National's allowance for credit losses will reduce Old National's future earnings.

Old National's business depends on the creditworthiness of our clients. As with most financial institutions, we maintain allowances for credit losses for loans and debt securities to provide for defaults and nonperformance, which represent an estimate of expected losses over the remaining contractual lives of the loan and debt security portfolios. This estimate is the result of our continuing evaluation of specific credit risks and loss experience, current loan and debt security portfolio quality, present economic, political and regulatory conditions, industry concentrations, reasonable and supportable forecasts for future conditions, and other factors that may indicate losses. The determination of the appropriate levels of the allowances for loan and debt security credit losses inherently involves a high degree of subjectivity and judgment and requires us to make estimates of current credit risks and future trends, all of which may undergo material changes. Generally, our nonperforming loans and other real estate owned reflect operating difficulties of individual borrowers and weaknesses in the economies of the markets we serve. The allowances may not be adequate to cover actual losses, and future allowance for credit losses could materially and adversely affect our financial condition, results of operations, and cash flows.

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 real 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 real 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 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, and 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 global or national 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 pressure 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 in the method pursuant to which the LIBOR and other benchmark rates are determined could adversely impact our business and results of operations.

Our floating-rate funding, certain hedging transactions and certain of the products that we offer, such as floating-rate loans and mortgages, determine the applicable interest rate or payment amount by reference to a benchmark rate, such as LIBOR, or to an index, currency, basket, or other financial metric. LIBOR and certain other benchmark rates are the subject of recent national, international, and other regulatory guidance and proposals for reform. In July 2017, the Chief Executive of the Financial Conduct Authority ("FCA") announced that the FCA intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR after 2021. However, the administrator of LIBOR has proposed to extend publication of the most commonly used U.S. Dollar LIBOR settings until June 30, 2023 and will cease publishing other LIBOR settings on December 31, 2021. The U.S. federal banking agencies have issued guidance strongly encouraging banking organizations to cease using the U.S. Dollar LIBOR as a reference rate in "new" contracts as soon as practicable and in any event by December 31, 2021. It is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, which rate or rates may become accepted alternatives to LIBOR, or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-linked financial instruments.

Regulators, industry groups, and certain committees (e.g., the Alternative Reference Rates Committee) have, among other things, published recommended fallback language for LIBOR-linked financial instruments, identified recommended alternatives for certain LIBOR rates (e.g., the Secured Overnight Financing Rate as the recommended alternative to U.S. Dollar LIBOR), and proposed implementations of the recommended alternatives in floating rate instruments. At this time, it is not possible to predict whether these recommendations and proposals will be broadly accepted, whether they will continue to evolve, and what the effect of their implementation may be on the markets for floating-rate financial instruments.

The discontinuation of LIBOR, changes in LIBOR, or changes in market perceptions of the acceptability of LIBOR as a benchmark could result in changes to our risk exposures (for example, if the anticipated discontinuation of LIBOR adversely affects the availability or cost of floating-rate funding and, therefore, our exposure to fluctuations in interest rates) or otherwise result in losses on a product or having to pay more or receive less on securities that we own or have issued. In addition, such uncertainty could result in pricing volatility and increased capital requirements, loss of market share in certain products, adverse tax or accounting impacts, and compliance, legal and operational costs and risks associated with client disclosures, discretionary actions taken or negotiation of fallback provisions, systems disruption, business continuity, and model disruption.

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 deposits, 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. 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 generally 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, 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 clients, there is no assurance that our security measures will provide absolute security. Further, to access our products and services our clients 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 clients for extended periods. These "denial-of-service" attacks typically do not breach data security systems, but require substantial resources to defend, and may affect client 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, 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, clients, 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 client awareness training around phishing, malware, and other cybersecurity 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 clients, or damage our computers or systems and those of our clients and counterparties, and could result in violations of applicable privacy and other laws, financial loss to us or to our clients, loss of confidence in our security measures, client dissatisfaction, significant litigation exposure, and harm to our reputation, all of which could have a material adverse effect on us.

The Company is also subject to laws and regulations relating to the protection and privacy of the information of clients, employees and others, and any failure to comply with these laws and regulations could expose the Company to liability and/or reputational damage.

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. Third parties may transmit confidential, propriety information on our behalf. 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 clients 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 clients and to reduce costs. Old National's future success depends, in part, upon its ability to address client needs by using technology to provide products and services that will satisfy client 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 clients. Failure to successfully keep pace with technological change affecting the financial services industry could negatively affect Old National's growth, revenue, and profit.

Upgrading the Company's computer systems, software, and networks subjects the Company to the risk of disruptions, failures, or delays due to the complexity and interconnectedness of the Company's computer systems, software, and networks. The failure to properly upgrade or maintain these computer systems, software, and networks could result in greater susceptibility to cyber-attacks, particularly in light of the greater frequency and severity of attacks in recent years, as well as the growing prevalence of supply chain attacks affecting software and information service providers. Failures related to upgrades and maintenance also increase risks related to unauthorized access and misuse. There can be no assurance that any such disruptions, failures, or delays will not occur or, if they do occur, that they will be adequately addressed.

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 clients 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 client 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 is primarily intended for the protection of the depositors and federal deposit insurance funds. In addition, the U.S. Department of the Treasury (the "U.S. Treasury") has certain supervisory and oversight duties and responsibilities. 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 generally, 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 credit losses for loans. 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 levels, 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. 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. See "Business – Supervision and Regulation" herein for further discussion on the Basel III regulatory capital reforms.

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 client 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, 2021, Old National and its affiliates operated a total of 162 banking centers, primarily in the states of Indiana, Kentucky, Michigan, Minnesota, and Wisconsin. Of these facilities, 106 were owned and 56 were leased from unaffiliated third parties. The remaining terms of these leases range from five months to sixteen years and six months. See Note 7 to the consolidated financial statements for additional information.

Old National also has several administrative offices located throughout its footprint, including its executive offices located at 1 Main Street, Evansville, Indiana, which was purchased by Old National in 2016.

ITEM 3. LEGAL PROCEEDINGS

None.

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 36,320 shareholders of record as of December 31, 2021. Old National did not sell any equity securities during 2021 that were not registered under the Securities Act.

The following table summarizes the purchases of Common Stock made by Old National during the fourth quarter of 2021:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)
10/1/21 - 10/31/21	561	$17.21	—	$100,000,000
11/1/21 - 11/30/21	—	—	—	100,000,000
12/1/21 - 12/31/21	477	17.58	—	100,000,000
Total	1,038	$17.38	—	$100,000,000

(1) Reflects the repurchase of shares associated with employee share-based incentive programs.

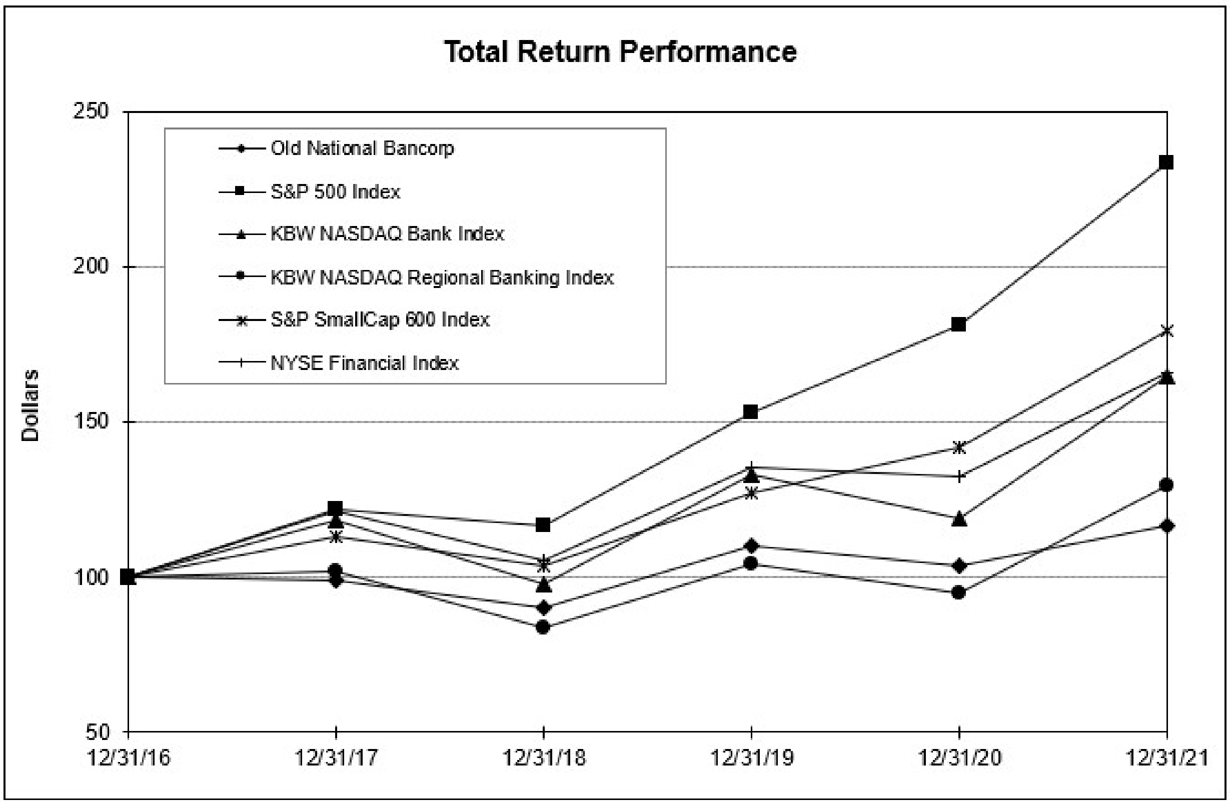
(2) In the first quarter of 2021, the Board of Directors approved the adoption of a stock repurchase plan that authorizes the repurchase of up to $100 million of shares of Common Stock, as conditions warrant, through January 31, 2022. No shares were purchased under the stock repurchase program during the fourth quarter of 2021.

On January 27, 2022, the Board of Directors declared a quarterly cash dividend of $0.14 per common share.

The table below 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 published industry indices. Our considerations in the selection of indices for the year ended December 31, 2021 included:

- the S&P 500 Index as a more appropriate broad-based equity market index than the NYSE Financial Index since our common stock is not listed on the New York stock exchange;
- the KBW NASDAQ Bank Index as an appropriate industry representation on the exchange in which our common stock is traded to replace the SNL Bank and Thrift Index because the SNL Bank and Thrift Index is no longer published; and
- the KBW NASDAQ Regional Banking Index as a more appropriate peer group index than the S&P SmallCap 600 Index since NASDAQ is the exchange in which our common stock is traded.

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, 2016, in common stock of each of the Company, the S&P 500 Index, the KBW NASDAQ Bank Index, the KBW NASDAQ Regional Banking Index, the S&P SmallCap 600 Index, and the NYSE Financial Index, with investment weighted on the basis of market capitalization.



Source: S&P Global Market Intelligence

ITEM 6. [RESERVED]

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

	Page
General Overview	32
Corporate Developments in Fiscal 2021	32
Business Outlook	33
Financial Highlights	35
Non-GAAP Financial Measures	35
Results of Operations	37
Financial Condition	43
Risk Management	49
Material Contractual Obligations, Commitments, and Contingent Liabilities	63
Critical Accounting Estimates	63

The following discussion is an analysis of our results of operations for the fiscal years ended December 31, 2021, 2020, and 2019, and financial condition as of December 31, 2021 and 2020. 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. Our primary geographic markets are in Indiana, Kentucky, Michigan, Minnesota, and Wisconsin. Old National, through Old National Bank, provides a wide range of banking services, including commercial and consumer loan and depository services, and other traditional banking services. Old National also provides services to supplement its traditional banking business including fiduciary and wealth management services, investment and brokerage services, investment consulting, and other financial services.

CORPORATE DEVELOPMENTS IN FISCAL 2021

Old National had an outstanding financial year in 2021. Key performance indicators experienced in 2021 included:

- net income of $277.5 million, or $1.67 per diluted share;
- high commercial loan production of $3.9 billion;
- wealth revenue (wealth management fees and investment product fees combined) of $65.0 million;
- net recoveries of $4.8 million;
- strong credit quality metrics including net charge-offs (recoveries) to average loans of (0.03)%;
- low cost of total deposits at 0.06% along with a loan to deposit ratio of 73%; and
- efficiency ratio of 59.65%.

Our net interest income increased slightly to $596.4 million during 2021, compared to $596.1 million in 2020. Noninterest income decreased from $239.3 million in 2020 to $214.2 million in 2021 reflecting lower mortgage banking revenue and lower debt securities gains. Our noninterest expenses remain well controlled, decreasing from $541.4 million in 2020 to $500.6 million in 2021 reflecting higher charges related to The ONB Way strategic initiative in 2020 and lower amortization of tax credit investments in 2021. The ONB Way charges totaled $42.6 million in 2020. These decreases in noninterest expenses were partially offset by $14.6 million of diligence and merger charges in 2021 associated with the anticipated First Midwest merger.

On May 30, 2021, Old National entered into a definitive merger agreement with First Midwest to combine in an all-stock merger of equals transaction. Under the terms of the merger agreement, which was unanimously approved by the Boards of Directors of both companies, First Midwest stockholders will receive 1.1336 shares of Old National common stock for each share of First Midwest common stock they own. Following completion of the transaction, former First Midwest stockholders are expected to collectively represent approximately 44% of the combined company. The new organization will operate under the Old National Bancorp and Old National Bank names, with headquarters and the main office located in Evansville, Indiana and commercial and consumer banking operations headquartered in Chicago, Illinois. During the third quarter of 2021, we received approval of the merger from the OCC and the shareholders of Old National and First Midwest. On January 25, 2022, the OCC granted us an extension of 60 days to April 20, 2022 for consummating the bank merger. On January 27, 2022, we received Federal Reserve approval for the merger. With all necessary regulatory approvals received, the merger is expected to occur after the close of business and after the end of regular trading hours on the NASDAQ Stock Market on February 15, 2022, subject to customary closing conditions.

Pandemic Update

As previously disclosed, the COVID-19 pandemic has created economic and financial disruptions that have adversely affected our operations during 2020 and 2021. Our historically careful underwriting practices, diverse and granular portfolios, and Midwest-based footprint has helped minimize any adverse impact to Old National. In addition, the combination of the vaccine rollout, government stimulus payments, and reduced spending during the pandemic are likely contributing factors mitigating the impact of the pandemic on the Company's business, financial condition, results of operations, and its clients as of December 31, 2021. However, there are continuing concerns that indicate a slower return to pre-pandemic routines. Examples of these concerns relate to increases in new COVID-19 cases, hospitalizations and deaths leading to additional government imposed restrictions; refusals to receive the vaccine along with new strain concerns; supply chain issues remaining unresolved longer than anticipated; unemployment increases while consumer confidence and spending falls; and rising geopolitical tensions. Given the ongoing and dynamic nature of the circumstances surrounding the pandemic, it is difficult to predict the future adverse financial impact to Old National.

BUSINESS OUTLOOK

We saw a strong start to a strengthening economic recovery in 2021, which was damaged mid-year by the Delta COVID-19 variant and again late in 2021 by the Omicron variant. The Moody's U.S. macroeconomic outlook predicts the pandemic to slowly recede, with each future wave of the virus expected to be less disruptive than the preceding wave as state and local governments and businesses skillfully mitigate the impact of the virus.

The Conference Board forecasted that GDP growth will approximate 6.0% in the fourth quarter of 2021 (vs. 2.3% growth in the third quarter of 2021), which is a 0.5% downgrade from earlier fourth quarter of 2021 GDP growth forecasts due to the rapid spread of the Omicron variant in December. The previous Conference Board forecasts had assumed that a new variant would dampen economic growth in the United States, but not until the first quarter of 2022. Since then, the Omicron variant has spread more rapidly than anticipated and is yielding record high new infections, yet appears to be less severe since hospitalizations and mortality rates have not spiked to the same degree as the initial COVID-19 virus. However, The Conference Board notes that mass infections are impacting labor supply as workers recover from illness or postpone reentering the workforce. This supply-side disruption could result in additional shortages and has resulted in an increase in the inflation forecast for early 2022. As expected, in mid-December the Federal Reserve indicated that it will conclude its large-scale asset purchase program as soon as March 2022 and that three 25 basis point rate hikes would follow in 2022. Additional Omicron-induced inflationary pressures could result in even more aggressive tightening, which is a downside risk to The Conference Board's forecast. This forecast includes spending associated with the bipartisan infrastructure package approved in 2021. However, it does not incorporate the proposed Build Back Better social and climate package.

The 2021 annual growth is currently estimated to be 5.6% for the year and The Conference Board forecasts that the U.S. economy will grow by an estimated 3.5% in 2022 and an estimated 2.9% in 2023. If Omicron and other future variants evolve to be less severe, it could help the U.S. economy "return to normal" pre-pandemic levels. While we are cautiously optimistic about 2022 from a U.S. economic standpoint, risks related to supply chain disruption, slowing job growth, significant and persistent tightening in financial market conditions, inflation, and geopolitical tensions could halt this recovery.

Our strategy evolution continues into a commercially-oriented regional bank that consistently delivers top quartile performance. This is accomplished by continuing to focus on the fundamentals of basic banking, which are loan growth, noninterest income growth, prudent capital deployment, and expense management. Execution of these fundamentals will help us deliver meaningful positive operating leverage.

Organic loan growth continues to be our priority. As we enter into 2022, our commercial loan production and pipeline are at record high levels, yet we continue to adhere to our disciplined underwriting process. We believe our approach to downgrading troubled credits early and a patient approach to resolving issues results in better outcomes for our clients and ultimately lower costs for Old National Bank. Despite the lingering challenges due to the pandemic in 2021, overall credit quality remains healthy. Old National has not experienced any specific sector credit related weaknesses, yet we remain watchful for any credits that deserve extra attention as we slowly return to a pre-pandemic economic environment.

As we look ahead to 2022 and our anticipated partnership with First Midwest, we are positioned to close the merger after the close of business and after the end of regular trading hours on the NASDAQ Stock Market on February 15, 2022. We have established the organizational structure and leadership positions for all client segments and support areas and have communicated those decisions throughout the organization. Further, we also agreed upon our core processing system and supporting applications. Finally, we are initiating our recruiting process for talent in Chicago, as we anticipate that the Chicago and Minneapolis markets will be a significant focus in 2022.

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, 2021	September 30, 2021	December 31, 2020	Years Ended December 31, 2021	2020
Income Statement:					
Net interest income	**$ 146,781**	$ 151,572	$ 161,079	**$ 596,400**	$ 596,094
Taxable equivalent adjustment (1)	**3,442**	3,501	3,517	**13,913**	13,586
Net interest income - tax equivalent basis	**150,223**	155,073	164,596	**610,313**	609,680
Provision for credit losses	**(1,914)**	(4,613)	(1,100)	**(28,812)**	38,395
Noninterest income	**51,484**	54,515	58,552	**214,219**	239,274
Noninterest expense	**131,937**	121,274	142,318	**500,569**	541,417
Net income	**56,188**	71,746	74,120	**277,538**	226,409
Per Common Share Data:					
Weighted average diluted shares	**166,128**	165,939	165,631	**165,929**	166,177
Net income (diluted)	**$ 0.34**	$ 0.43	$ 0.44	**$ 1.67**	$ 1.36
Cash dividends	**0.14**	0.14	0.14	**$ 0.56**	$ 0.56
Common dividend payout ratio (2)	**41 %**	33 %	31 %	**33 %**	41 %
Book value	**$ 18.16**	$ 18.31	$ 17.98	**$ 18.16**	$ 17.98
Stock price	**18.12**	16.95	16.56	**18.12**	16.56
Tangible common book value (3)	**11.70**	11.83	11.43	**11.70**	11.43
Performance Ratios:					
Return on average assets	**0.93 %**	1.20 %	1.30 %	**1.17 %**	1.04 %
Return on average common equity	**7.49**	9.48	10.11	**9.26**	7.87
Return on tangible common equity (3)	**11.98**	15.05	16.20	**14.74**	12.54
Return on average tangible common equity (3)	**12.07**	15.13	16.57	**14.89**	13.27
Net interest margin (3)	**2.77**	2.92	3.26	**2.89**	3.18
Efficiency ratio (3)	**64.27**	56.86	62.37	**59.65**	62.91
Net charge-offs (recoveries) to average loans	**(0.04)**	(0.09)	(0.03)	**(0.03)**	0.02
Allowance for credit losses to ending loans	**0.79**	0.79	0.95	**0.79**	0.95
Non-performing loans to ending loans	**0.92**	0.94	1.20	**0.92**	1.20
Balance Sheet:					
Total loans, excluding loans held for sale	**$13,601,846**	$ 13,584,828	$ 13,786,479	**$13,601,846**	$ 13,786,479
Total assets	**24,453,564**	24,018,733	22,960,622	**24,453,564**	22,960,622
Total deposits	**18,569,195**	18,196,149	17,037,453	**18,569,195**	17,037,453
Total borrowed funds	**2,575,240**	2,536,303	2,676,554	**2,575,240**	2,676,554
Total shareholders' equity	**3,012,018**	3,035,892	2,972,656	**3,012,018**	2,972,656
Capital Ratios:					
Risk-based capital ratios:					
Tier 1 common equity	**12.04 %**	12.08 %	11.75 %	**12.04 %**	11.75 %
Tier 1	**12.04**	12.08	11.75	**12.04**	11.75
Total	**12.77**	12.84	12.69	**12.77**	12.69
Leverage ratio (to average assets)	**8.59**	8.54	8.20	**8.59**	8.20
Total equity to assets (averages)	**12.35**	12.69	12.83	**12.60**	13.20
Tangible common equity to tangible assets (3)	**8.30**	8.55	8.64	**8.30**	8.64
Nonfinancial Data:					
Full-time equivalent employees	**2,374**	2,410	2,445	**2,374**	2,445
Banking centers	**162**	162	162	**162**	162

(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

The non-GAAP financial measures presented below are used by our management and our Board of Directors on a regular basis in addition to our GAAP results to facilitate the assessment of our financial performance. Management believes these non-GAAP financial measures enhance an investor's understanding of our financial results by providing a meaningful basis for period-to-period comparisons, assisting in operating results analysis, and predicting future performance. This information supplements our GAAP reported results, and should not be viewed in isolation from, or as a substitute for, our GAAP results. Accordingly, this financial information should be read in conjunction with our consolidated financial statements and notes thereto for the year ended December 31, 2021, included elsewhere in this report. Non-GAAP financial measures exclude certain items that are included in the financial results presented in accordance with GAAP. 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.

The following table presents GAAP to non-GAAP reconciliations.

(dollars and shares in thousands, except per share data)	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	Years Ended December 31, 2021	Years Ended December 31, 2020
Tangible common book value:				
Shareholders' equity (GAAP)	**$ 3,012,018**	$ 2,972,656	**$ 3,012,018**	$ 2,972,656
Deduct: Goodwill	**1,036,994**	1,036,994	**1,036,994**	1,036,994
Intangible assets	**34,678**	46,014	**34,678**	46,014
Tangible shareholders' equity (non-GAAP)	**$ 1,940,346**	$ 1,889,648	**$ 1,940,346**	$ 1,889,648
Period end common shares	**165,838**	165,367	**165,838**	165,367
Tangible common book value	**11.70**	11.43	**11.70**	11.43
Return on tangible common equity:				
Net income (GAAP)	**$ 56,188**	$ 74,120	**$ 277,538**	$ 226,409
Add: Intangible amortization (net of tax)	**1,930**	2,433	**8,502**	10,585
Tangible net income (non-GAAP)	**$ 58,118**	$ 76,553	**$ 286,040**	$ 236,994
Tangible shareholders' equity (non-GAAP) (see above)	**$ 1,940,346**	$ 1,889,648	**$ 1,940,346**	$ 1,889,648
Return on tangible common equity	**11.98 %**	16.20 %	**14.74 %**	12.54 %
Return on average tangible common equity:				
Tangible net income (non-GAAP) (see above)	**$ 58,118**	$ 76,553	**$ 286,040**	$ 236,994
Average shareholders' equity (GAAP)	**$ 2,998,825**	$ 2,932,590	**$ 2,997,520**	$ 2,875,460
Deduct: Average goodwill	**1,036,994**	1,036,994	**1,036,994**	1,036,994
Average intangible assets	**35,992**	47,536	**40,071**	52,740
Average tangible shareholders' equity (non-GAAP)	**$ 1,925,839**	$ 1,848,060	**$ 1,920,455**	$ 1,785,726
Return on average tangible common equity	**12.07 %**	16.57 %	**14.89 %**	13.27 %
Net interest margin:				
Net interest income (GAAP)	**$ 146,781**	$ 161,079	**$ 596,400**	$ 596,094
Taxable equivalent adjustment	**3,442**	3,517	**13,913**	13,586
Net interest income - taxable equivalent basis (non-GAAP)	**$ 150,223**	$ 164,596	**$ 610,313**	$ 609,680
Average earning assets	**$ 21,670,723**	$ 20,181,991	**$ 21,152,209**	$ 19,158,681
Net interest margin	**2.77 %**	3.26 %	**2.89 %**	3.18 %
Efficiency ratio:				
Noninterest expense (GAAP)	**$ 131,937**	$ 142,318	**$ 500,569**	$ 541,417
Deduct: Intangible amortization expense	**2,573**	3,244	**11,336**	14,091
Adjusted noninterest expense (non-GAAP)	**$ 129,364**	$ 139,074	**$ 489,233**	$ 527,326
Net interest income - taxable equivalent basis (non-GAAP) (see above)	**$ 150,223**	$ 164,596	**$ 610,313**	$ 609,680
Noninterest income	**51,484**	58,552	**214,219**	239,274
Deduct: Debt securities gains (losses), net	**435**	161	**4,327**	10,767
Adjusted total revenue (non-GAAP)	**$ 201,272**	$ 222,987	**$ 820,205**	$ 838,187
Efficiency ratio	**64.27 %**	62.37 %	**59.65 %**	62.91 %
Tangible common equity to tangible assets:				
Tangible shareholders' equity (non-GAAP) (see above)	**$ 1,940,346**	$ 1,889,648	**$ 1,940,346**	$ 1,889,648
Assets (GAAP)	**$ 24,453,564**	$ 22,960,622	**$ 24,453,564**	$ 22,960,622
Add: Trust overdrafts	**—**	26	**—**	26
Deduct: Goodwill	**1,036,994**	1,036,994	**1,036,994**	1,036,994
Intangible assets	**34,678**	46,014	**34,678**	46,014
Tangible assets (non-GAAP)	**$ 23,381,892**	$ 21,877,640	**$ 23,381,892**	$ 21,877,640
Tangible common equity to tangible assets	**8.30 %**	8.64 %	**8.30 %**	8.64 %

RESULTS OF OPERATIONS

The following table sets forth certain income statement information of Old National:

(dollars in thousands)	Years Ended December 31, 2021	2020	2019
Income Statement Summary:			
Net interest income	**$ 596,400**	$ 596,094	$ 604,273
Provision for credit losses (1)	**(28,812)**	38,395	4,747
Noninterest income	**214,219**	239,274	199,317
Noninterest expense	**500,569**	541,417	508,487
Other Data:			
Return on average common equity	**9.26 %**	7.87 %	8.57 %
Return on tangible common equity (2)	**14.74 %**	12.54 %	14.30 %
Return on average tangible common equity (2)	**14.89 %**	13.27 %	14.97 %
Efficiency ratio (2)	**59.65 %**	62.91 %	60.35 %
Tier 1 leverage ratio	**8.59 %**	8.20 %	8.88 %
Net charge-offs (recoveries) to average loans	**(0.03)%**	0.02 %	0.05 %

(1) Beginning January 1, 2020, with the adoption of CECL, calculation is based on current expected credit loss methodology. Prior to January 1, 2020, calculation is based on incurred loss methodology.

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

Comparison of Fiscal Years 2021 and 2020

Net Interest Income

Net interest income is the most significant component of our earnings, comprising 74% of 2021 revenues. Net interest income and net interest 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 interest-earning assets and interest-bearing liabilities. The path of the economy continues to depend on the course of COVID-19. Progress on vaccinations and an easing of supply constraints are expected to support continued gains on economic activity. Risks to the economic outlook remain, including from new variants of the virus.

Interest rates remained at near historic lows during 2021 after declining dramatically in the first half of 2020 due to the COVID-19 pandemic. The Federal Reserve's Federal Funds range is currently in a target range of 0.00% to 0.25%, with the Effective Fed Funds Rate in the 0.05% to 0.10% range. If interest rates decline further, our interest rate spread could 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 our mix of assets and funding, net interest income, and net interest margin.

Net interest income is the excess of interest received from interest-earning assets over interest paid on interest-bearing liabilities. For analytical purposes, net interest income is presented in the table that follows, adjusted to a taxable equivalent basis to reflect what our tax-exempt assets would need to yield in order to achieve the same after-tax yield as a taxable asset. We used the federal statutory tax rate in effect of 21% for all periods. This analysis portrays the income tax benefits related to tax-exempt assets and helps to facilitate a comparison between taxable and tax-exempt assets. Management believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully taxable equivalent basis. Therefore, management believes these measures provide useful information for both management and investors by allowing them to make better peer comparisons.

	Years Ended December 31,		
(dollars in thousands)	**2021**	2020	2019
Net interest income (GAAP)	**$ 596,400**	$ 596,094	$ 604,273
Conversion to fully taxable equivalent	**13,913**	13,586	12,940
Net interest income - taxable equivalent basis (non-GAAP)	**$ 610,313**	$ 609,680	$ 617,213
Average earning assets	**$ 21,152,209**	$ 19,158,681	$ 17,385,180
Net interest margin	**2.82 %**	3.11 %	3.48 %
Net interest margin - taxable equivalent basis	**2.89 %**	3.18 %	3.55 %

Net interest income was $596.4 million in 2021, a $0.3 million increase from $596.1 million in 2020. Taxable equivalent net interest income was $610.3 million in 2021, a $0.6 million increase from $609.7 million in 2020. The net interest margin on a fully taxable equivalent basis was 2.89% in 2021, a 29 basis point decrease compared to 3.18% in 2020. The increase in net interest income in 2021 when compared to 2020 was primarily due to higher average earning assets and lower costs of average interest-bearing liabilities. Substantially offsetting these increases were lower yields on average earning assets. Net interest income in both 2021 and 2020 included accretion income (interest income in excess of contractual interest income) associated with acquired loans. Accretion income totaled $16.7 million in 2021, compared to $23.3 million in 2020. We expect accretion income on loans to decrease over time, but this may be offset by future acquisitions. Net interest income in 2021 included $44.4 million of interest and net fees combined on PPP loans, compared to $38.0 million in 2020. Unamortized fees on remaining PPP loans totaled $6.4 million at December 31, 2021.

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.

	2021			2020			2019		
(Tax equivalent basis, dollars in thousands)	Average Balance	Income (1)/ Expense	Yield/ Rate	Average Balance	Income (1)/ Expense	Yield/ Rate	Average Balance	Income (1)/ Expense	Yield/ Rate
Earning Assets									
Money market and other interest-earning investments	**$ 450,158**	**$ 589**	**0.13 %**	$ 174,494	$ 568	0.33 %	$ 67,069	$ 1,670	2.49 %
Investment securities:									
Treasury and government-sponsored agencies	**1,573,855**	**24,209**	**1.54**	547,054	12,124	2.22	657,233	16,091	2.45
Mortgage-backed securities	**3,356,950**	**60,479**	**1.80**	3,246,520	70,611	2.17	2,866,600	73,835	2.58
States and political subdivisions	**1,548,939**	**50,115**	**3.24**	1,347,490	47,034	3.49	1,202,210	44,716	3.72
Other securities	**443,606**	**10,680**	**2.41**	485,430	11,990	2.47	495,847	16,138	3.25
Total investment securities	**6,923,350**	**145,483**	**2.10**	5,626,494	141,759	2.52	5,221,890	150,780	2.89
Loans: (2)									
Commercial	**3,763,099**	**138,063**	**3.67**	3,843,089	140,473	3.66	3,023,421	141,215	4.67
Commercial real estate	**6,168,146**	**228,568**	**3.71**	5,477,562	234,670	4.28	5,044,623	275,853	5.47
Residential real estate loans	**2,269,989**	**83,578**	**3.68**	2,352,444	94,202	4.00	2,281,047	96,613	4.24
Consumer	**1,577,467**	**56,281**	**3.57**	1,684,598	65,222	3.87	1,747,130	77,196	4.42
Total loans	**13,778,701**	**506,490**	**3.68**	13,357,693	534,567	4.00	12,096,221	590,877	4.88
Total earning assets	**21,152,209**	**$ 652,562**	**3.09 %**	19,158,681	$ 676,894	3.53 %	17,385,180	$ 743,327	4.28 %
Less: Allowance for credit losses (3)	**(117,436)**			(115,321)			(56,624)		
Non-Earning Assets									
Cash and due from banks	**256,860**			327,053			251,857		
Other assets	**2,492,054**			2,414,602			2,453,001		
Total assets	**$ 23,783,687**			$ 21,785,015			$ 20,033,414		
Interest-Bearing Liabilities									
Checking and NOW accounts	**$ 4,974,477**	**$ 2,080**	**0.04 %**	$ 4,465,120	$ 5,450	0.12 %	$ 3,902,765	$ 15,598	0.40 %
Savings accounts	**3,648,019**	**2,003**	**0.05**	3,113,435	3,156	0.10	2,878,135	8,142	0.28
Money market accounts	**2,092,661**	**1,756**	**0.08**	1,866,197	4,585	0.25	1,789,065	14,130	0.79
Time deposits	**1,020,359**	**5,115**	**0.50**	1,421,216	14,978	1.05	1,921,991	31,494	1.64
Total interest-bearing deposits	**11,735,516**	**10,954**	**0.09**	10,865,968	28,169	0.26	10,491,956	69,364	0.66
Federal funds purchased and interbank borrowings	**1,113**	**—**	**—**	138,257	1,296	0.94	241,618	5,656	2.34
Securities sold under agreements to repurchase	**392,777**	**397**	**0.10**	375,961	854	0.23	342,654	2,517	0.73
FHLB advances	**1,902,407**	**21,075**	**1.11**	2,055,155	27,274	1.33	1,775,987	37,452	2.11
Other borrowings	**269,484**	**9,823**	**3.65**	242,642	9,621	3.96	251,194	11,125	4.43
Total borrowed funds	**2,565,781**	**31,295**	**1.22**	2,812,015	39,045	1.39	2,611,453	56,750	2.17
Total interest-bearing liabilities	**$ 14,301,297**	**$ 42,249**	**0.30 %**	$ 13,677,983	$ 67,214	0.49 %	$ 13,103,409	$ 126,114	0.96 %
Noninterest-Bearing Liabilities and Shareholders' Equity									
Demand deposits	**6,163,937**			4,945,506			3,887,470		
Other liabilities	**320,933**			286,066			261,403		
Shareholders' equity	**2,997,520**			2,875,460			2,781,132		
Total liabilities and shareholders' equity	**$ 23,783,687**			$ 21,785,015			$ 20,033,414		
Net interest rate spread			**2.79 %**			3.04 %			3.32 %
Net interest margin (4)			**2.89**			3.18			3.55
Taxable equivalent adjustment		**$ 13,913**			$ 13,586			$ 12,940	

(1) Interest income is reflected on a fully taxable equivalent basis.
(2) Includes loans held for sale.
(3) Beginning January 1, 2020, with the adoption of CECL, calculation is based on current expected credit loss methodology. Prior to January 1, 2020, calculation was based on incurred loss model.
(4) Net interest margin is defined as net interest income on a tax equivalent basis as a percentage of average earning assets.

The yield on average earning assets decreased 44 basis points from 3.53% in 2020 to 3.09% in 2021 and the cost of interest-bearing liabilities decreased 19 basis points from 0.49% in 2020 to 0.30% in 2021. Average earning assets increased by $1.994 billion, or 10%. The increase in average earning assets consisted of a $1.297 billion increase in investment securities, a $421.0 million increase in loans, and a $275.7 million increase in money market and other interest-earning investments. Average interest-bearing liabilities increased $623.3 million, or 5%. The increase in average interest-bearing liabilities consisted of an $869.5 million increase in interest-bearing deposits, a $16.8 million increase in securities sold under agreements to repurchase, and a $26.8 million increase in other borrowings, partially offset by a $137.1 million decrease in federal funds purchased and interbank borrowings and a $152.7 million decrease in FHLB advances. Average noninterest-bearing deposits increased by $1.218 billion.

The increase in average earning assets in 2021 compared to 2020 was due to increases in average investment securities, average loans, and average money market and other interest-earning investments. The loan portfolio, including loans held for sale, which generally has an average yield higher than the investment portfolio, was 65% of average interest earning assets in 2021, compared to 70% in 2020.

Average loans including loans held for sale increased $421.0 million in 2021 compared to 2020 due to higher average commercial real estate loans, partially offset by lower average commercial loans, residential real estate loans, and consumer loans. Excluding the $258.6 million decrease in average PPP loans, average commercial loans increased reflecting organic growth.

Average investments increased $1.297 billion in 2021 compared to 2020 reflecting excess liquidity.

Average non-interest-bearing deposits increased $1.218 billion in 2021 compared to 2020 primarily due to PPP funds on deposit. Average interest-bearing deposits increased $869.5 million in 2021 compared to 2020.

Average borrowed funds decreased $246.2 million in 2021 compared to 2020 primarily due to decreases in FHLB advances and federal funds purchased and interbank borrowings, partially offset by increases in other borrowings and securities sold under agreements to repurchase.

The following table presents 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 2020 to 2021			**From 2019 to 2020**		
	Total	**Attributed to**		**Total**	**Attributed to**	
(dollars in thousands)	**Change (1)**	**Volume**	**Rate**	**Change (1)**	**Volume**	**Rate**
Interest Income						
Money market and other interest-earning investments	**$ 21**	**$ 628**	**$ (607)**	$ (1,102)	$ 1,511	$ (2,613)
Investment securities (2)	**3,724**	**29,963**	**(26,239)**	(9,021)	10,938	(19,959)
Loans (2)	**(28,077)**	**16,163**	**(44,240)**	(56,310)	56,052	(112,362)
Total interest income	**(24,332)**	**46,754**	**(71,086)**	(66,433)	68,501	(134,934)
Interest Expense						
Checking and NOW deposits	**(3,370)**	**419**	**(3,789)**	(10,148)	1,474	(11,622)
Savings deposits	**(1,153)**	**417**	**(1,570)**	(4,986)	452	(5,438)
Money market deposits	**(2,829)**	**371**	**(3,200)**	(9,545)	399	(9,944)
Time deposits	**(9,863)**	**(3,127)**	**(6,736)**	(16,516)	(6,694)	(9,822)
Federal funds purchased and interbank borrowings	**(1,296)**	**(640)**	**(656)**	(4,360)	(1,694)	(2,666)
Securities sold under agreements to repurchase	**(457)**	**27**	**(484)**	(1,663)	160	(1,823)
Federal Home Loan Bank advances	**(6,199)**	**(1,859)**	**(4,340)**	(10,178)	4,796	(14,974)
Other borrowings	**202**	**1,021**	**(819)**	(1,504)	(359)	(1,145)
Total interest expense	**(24,965)**	**(3,371)**	**(21,594)**	(58,900)	(1,466)	(57,434)
Net interest income	**$ 633**	**$ 50,125**	**$ (49,492)**	$ (7,533)	$ 69,967	$ (77,500)

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

(2) Interest on investment securities and loans includes the effect of taxable equivalent adjustments of $9.9 million and $4.0 million, respectively, in 2021; $8.9 million and $4.7 million, respectively, in 2020; and $7.7 million and $5.2 million, respectively, in 2019; using the federal statutory tax rate in effect of 21%.

Provision for Credit Losses

Old National recorded a provision for credit losses recapture of $28.8 million in 2021, compared to an expense of $38.4 million in 2020. Net recoveries totaled $4.8 million in 2021, compared to net charge-offs of $3.0 million in 2020. The provision for credit losses recapture in 2021 reflected the improved economic forecast. The provision for credit losses expense in 2020 reflected the implementation of ASC 326 and the macroeconomic factors surrounding the COVID-19 pandemic. PPP loans were factored in the provision for credit losses in 2021 and 2020; however due to the SBA guaranty and our borrowers' adherence to the PPP terms, the provision impact was insignificant. 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 26% in 2021 compared to 29% in 2020.

The following table details the components of noninterest income:

	Years Ended December 31,			% Change From Prior Year	
(dollars in thousands)	**2021**	2020	2019	**2021**	2020
Wealth management fees	**$ 40,409**	$ 36,806	$ 37,072	**9.8 %**	(0.7)%
Service charges on deposit accounts	**34,685**	35,081	44,915	**(1.1)**	(21.9)
Debit card and ATM fees	**20,739**	20,178	21,652	**2.8**	(6.8)
Mortgage banking revenue	**42,558**	62,775	26,622	**(32.2)**	135.8
Investment product fees	**24,639**	21,614	21,785	**14.0**	(0.8)
Capital markets income	**21,997**	22,480	13,270	**(2.1)**	69.4
Company-owned life insurance	**10,589**	12,031	11,539	**(12.0)**	4.3
Debt securities gains (losses), net	**4,327**	10,767	1,923	**(59.8)**	459.9
Other income	**14,276**	17,542	20,539	**(18.6)**	(14.6)
Total noninterest income	**$ 214,219**	$ 239,274	$ 199,317	**(10.5)%**	20.0 %
Noninterest income to total revenue (1)	**26.0 %**	28.2 %	24.4 %		

(1) Total revenue includes the effect of a taxable equivalent adjustment of $13.9 million in 2021, $13.6 million in 2020, and $12.9 million in 2019.

The decrease in noninterest income in 2021 compared to 2020 was primarily due to lower mortgage banking revenue and lower debt securities gains.

Wealth management fees increased $3.6 million in 2021 compared to 2020 primarily due to higher personal trust fees, fiduciary account fees, and corporate trust fees.

Mortgage banking revenue decreased $20.2 million in 2021 compared to 2020 reflecting lower refinance transactions related to higher rates in 2021, which caused pipeline levels to drop and gain on sale margins to partially normalize.

Investment product fees increased $3.0 million in 2021 compared to 2020 reflecting higher investment and advisor fees.

Debt securities gains (losses), net decreased $6.4 million in 2021 compared to 2020 primarily due to lower realized gains on sales of available-for-sale securities in 2021.

Other income decreased $3.3 million in 2021 compared to 2020 primarily due to lower branded card incentives and $1.5 million of swap termination fees in 2021.

Noninterest Expense

The following table details the components of noninterest expense:

	Years Ended December 31,			% Change From Prior Year	
(dollars in thousands)	**2021**	**2020**	**2019**	**2021**	**2020**
Salaries and employee benefits	**$ 284,098**	$ 293,590	$ 289,452	**(3.2)%**	1.4 %
Occupancy	**54,834**	55,316	55,255	**(0.9)**	0.1
Equipment	**16,704**	16,690	16,903	**0.1**	(1.3)
Marketing	**12,684**	10,874	15,898	**16.6**	(31.6)
Data processing	**47,047**	41,086	37,589	**14.5**	9.3
Communication	**10,073**	9,731	10,702	**3.5**	(9.1)
Professional fees	**20,077**	15,755	22,854	**27.4**	(31.1)
FDIC assessment	**6,059**	6,722	6,030	**(9.9)**	11.5
Amortization of intangibles	**11,336**	14,091	16,911	**(19.6)**	(16.7)
Amortization of tax credit investments	**6,770**	18,788	2,749	**(64.0)**	583.4
Other expense	**30,887**	58,774	34,144	**(47.4)**	72.1
Total noninterest expense	**$ 500,569**	$ 541,417	$ 508,487	**(7.5)%**	6.5 %

Noninterest expense decreased $40.8 million in 2021 compared to 2020 reflecting $42.6 million of charges in 2020 related to the ONB Way strategic initiative and lower amortization of tax credit investments in 2021. These decreases were partially offset by $14.6 million of diligence and merger charges in 2021 associated with the anticipated First Midwest merger.

Salaries and employee benefits is the largest component of noninterest expense. Salaries and employee benefits decreased $9.5 million in 2021 compared to 2020. Personnel expenses related to the ONB Way strategic initiative totaling $8.3 million in 2020 were the primary driver of this decline.

Marketing expenses increased $1.8 million in 2021 compared to 2020 primarily due to higher advertising expenses.

Data processing expenses increased $6.0 million in 2021 compared to 2020 related to the modernization of our technology infrastructure.

Professional fees increased $4.3 million in 2021 compared to 2020. Professional fees in 2021 included $10.0 million related to the First Midwest merger. Professional fees in 2020 included $2.8 million of consulting fees related to the ONB Way strategic initiative.

Amortization of intangibles decreased $2.8 million in 2021 compared to 2020 primarily due to lower amortization of core deposit intangibles.

Amortization of tax credit investments decreased $12.0 million in 2021 compared to 2020. The recognition of tax credit amortization expense is contingent upon the successful completion of the 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 10 to the consolidated financial statements for additional information on our tax credit investments.

Other expense decreased $27.9 million in 2021 compared to 2020 primarily due to lease termination charges and impairments on long-lived assets related to banking center consolidations that were part of the ONB Way strategic initiative totaling $27.1 million in 2020.

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 18.1% in 2021 compared to 11.4% in 2020. The higher effective tax rate in 2021 compared to 2020 was primarily the result of an increase in pre-tax book income and lower federal tax credits available. See Note 16 to the consolidated financial statements for additional details on Old National's income tax provision.

Comparison of Fiscal Years 2020 and 2019

In 2020, we generated net income of $226.4 million and diluted net income per share of $1.36 compared to $238.2 million and diluted net income per share of $1.38, respectively, in 2019. The 2020 earnings included a $40.0 million increase in noninterest income and a $23.0 million decrease in income tax expense. These favorable variances in net income were offset by an $8.2 million decrease in net interest income, a $32.9 million increase in noninterest expense, and a $33.6 million increase in provision for credit losses. High commercial loan production and mortgage production, consistently strong credit quality metrics, and low cost of total deposits all contributed to favorable 2020 performance when compared to 2019.

Net interest income was $596.1 million in 2020, an $8.2 million decrease from $604.3 million in 2019. Taxable equivalent net interest income was $609.7 million in 2020, a $7.5 million decrease from $617.2 million in 2019. Average earning assets increased by $1.774 billion in 2020 and the yield on average earning assets decreased 75 basis points from 4.28% in 2019 to 3.53% in 2020.

The provision for credit losses was an expense of $38.4 million in 2020, compared to an expense of $4.7 million in 2019. The increase in provision for credit losses expense reflected the implementation of ASC 326 and the macroeconomic factors surrounding the COVID-19 pandemic. Charge-offs remained low during 2020 and we continued to see positive trends in credit quality.

Noninterest income increased $40.0 million in 2020 compared to 2019 primarily due to higher mortgage banking revenue, higher capital markets income, and higher debt securities gains. These increases were partially offset by lower service charges on deposit accounts.

Noninterest expense increased $32.9 million in 2020 compared to 2019 reflecting higher charges related to the ONB Way and higher commissions and corporate incentives, partially offset by fewer employees at December 31, 2020.

The provision for income taxes was $29.1 million in 2020 compared to $52.2 million in 2019. Old National's effective tax rate was 11.4% in 2020 compared to 18.0% in 2019. The lower effective tax rate in 2020 compared to 2019 was primarily the result of an increase in federal tax credits available.

FINANCIAL CONDITION

Overview

At December 31, 2021, our assets were $24.454 billion, a 7% increase compared to $22.961 billion at December 31, 2020. The increase was primarily due to higher investment securities and organic loan growth, excluding the decline in PPP loans.

We have observed signs of an economic recovery in the United States since the onset of COVID-19, with jobs, consumer spending, manufacturing, and other indicators rebounding from their weakest levels. However, there have been concerns about the emergence of communicable strains of the virus, whether enough people will agree to be vaccinated, supply chain issues, labor supply constraints, and inflation. Economic uncertainty remains and bouts of elevated volatility are expected to continue.

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 $21.851 billion at December 31, 2021, an increase of $1.538 billion compared to earning assets of $20.313 billion at December 31, 2020.

Investment Securities

We classify substantially all 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.

Equity securities are recorded at fair value and totaled $13.2 million at December 31, 2021 compared to $2.5 million at December 31, 2020. The increase in equity securities was primarily due to an increase in mutual funds.

At December 31, 2021, the investment securities portfolio, including equity securities, was $7.565 billion compared to $6.142 billion at December 31, 2020, an increase of $1.423 billion, or 23%. Investment securities represented 35% of earning assets at December 31, 2021, compared to 30% at December 31, 2020. Stronger commercial loan demand in the future could result in management's decision to reduce the securities portfolio. As of December 31, 2021, 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.

The investment securities available-for-sale portfolio had net unrealized losses of $6.0 million at December 31, 2021, compared to net unrealized gains of $186.3 million at December 31, 2020. The change in net unrealized gains (losses) from December 31, 2020 to December 31, 2021 was primarily due to an increase in long-term interest rates impacting market values for mortgage-backed, U.S. government-sponsored entities and agencies, and tax exempt municipal securities.

The investment portfolio had an effective duration of 4.26 at December 31, 2021, compared to 4.08 at December 31, 2020. 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, on a taxable equivalent basis, were 2.10% in 2021 and 2.52% in 2020.

Loan Portfolio

We lend primarily to consumers and small to medium-sized commercial and commercial real estate clients in many diverse 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, Minnesota, and Wisconsin.

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

(dollars in thousands)		**2021**		2020
Commercial (1)	**$**	**3,391,769**	$	3,956,422
Commercial real estate		**6,380,674**		5,946,512
Consumer		**1,574,114**		1,635,123
Total loans excluding residential real estate		**11,346,557**		11,538,057
Residential real estate		**2,255,289**		2,248,422
Total loans		**13,601,846**		13,786,479
Less: Allowance for credit losses		**107,341**		131,388
Net loans	**$**	**13,494,505**	$	13,655,091

(1) Includes remaining PPP loans of $169.0 million at December 31, 2021, compared to $943.0 million at December 31, 2020.

The following table presents the maturity distribution and rate sensitivity of loans at December 31, 2021 and an analysis of these loans that have predetermined and floating interest rates.

(dollars in thousands)	Within 1 Year	After 1 - 5 Years	After 5 - 15 Years	After 15 Years	Total	% of Total
Commercial						
Interest rates:						
Predetermined	$ 171,531	$ 965,676	$ 546,563	$ 40,131	$ 1,723,901	51 %
Floating	558,915	647,115	330,586	131,252	1,667,868	49
Total	$ 730,446	$ 1,612,791	$ 877,149	$ 171,383	$ 3,391,769	100 %
Commercial Real Estate						
Interest rates:						
Predetermined	$ 122,594	$ 1,483,156	$ 747,289	$ 20,683	$ 2,373,722	37 %
Floating	374,985	1,879,944	1,638,692	113,331	4,006,952	63
Total	$ 497,579	$ 3,363,100	$ 2,385,981	$ 134,014	$ 6,380,674	100 %
Residential Real Estate						
Interest rates:						
Predetermined	$ 2,850	$ 67,419	$ 607,554	$ 1,314,485	$ 1,992,308	88 %
Floating	52	1,296	29,941	231,692	262,981	12
Total	$ 2,902	$ 68,715	$ 637,495	$ 1,546,177	$ 2,255,289	100 %
Consumer						
Interest rates:						
Predetermined	$ 17,266	$ 576,701	$ 382,979	$ 5,897	$ 982,843	62 %
Floating	9,974	99,292	205,482	276,523	591,271	38
Total	$ 27,240	$ 675,993	$ 588,461	$ 282,420	$ 1,574,114	100 %

Commercial and Commercial Real Estate Loans

Commercial and commercial real estate loans are the largest classification within earning assets, representing 45% at December 31, 2021, compared to 49% at December 31, 2020. At December 31, 2021, commercial and commercial real estate loans were $9.772 billion, a decrease of $130.5 million compared to December 31, 2020 driven by a decline in PPP loans, partially offset by organic loan growth. As of December 31, 2021, total PPP loans were $169.0 million, compared to $943.0 million at December 31, 2020.

The following table provides detail on commercial loans by industry classification (as defined by the North American Industry Classification System) and by loan size at December 31.

	2021			2020		
(dollars in thousands)	**Outstanding**	**Exposure**	**Nonaccrual**	**Outstanding**	**Exposure**	**Nonaccrual**
By Industry:						
Manufacturing	**$ 612,873**	**$ 1,152,774**	**$ 6,689**	$ 586,074	$ 1,019,149	$ 11,036
Construction	**310,649**	**744,610**	**1,429**	462,140	903,604	1,036
Health care and social assistance	**376,664**	**550,400**	**444**	412,807	604,493	691
Public administration	**247,770**	**357,310**	**—**	299,748	371,846	—
Wholesale trade	**240,618**	**438,357**	**1,598**	241,432	483,253	3,647
Educational services	**216,384**	**295,065**	**—**	245,896	418,277	1,428
Other services	**121,577**	**260,413**	**2,542**	194,822	307,205	2,363
Professional, scientific, and technical services	**141,364**	**279,185**	**937**	182,228	320,983	864
Finance and insurance	**162,920**	**232,847**	**44**	186,079	246,551	57
Retail trade	**131,303**	**289,478**	**945**	151,869	329,160	1,788
Real estate rental and leasing	**204,612**	**347,991**	**504**	169,935	356,169	759
Transportation and warehousing	**134,072**	**243,086**	**1,594**	139,398	216,495	1,397
Administrative and support and waste management and remediation services	**86,307**	**149,417**	**—**	119,220	173,538	383
Agriculture, forestry, fishing, and hunting	**114,699**	**164,364**	**1,521**	145,624	192,602	358
Accommodation and food services	**78,689**	**108,724**	**2,399**	105,560	118,497	3,239
Utilities	**26,322**	**75,439**	**—**	88,607	98,996	—
Arts, entertainment, and recreation	**71,055**	**110,574**	**2,189**	82,305	111,729	2,590
Information	**43,713**	**78,877**	**1,809**	61,883	95,774	2,286
Mining	**30,161**	**62,231**	**5**	57,142	77,067	19
Management of companies and enterprises	**15,124**	**36,046**	**—**	13,605	28,276	—
Other	**24,893**	**24,943**	**—**	10,048	10,086	—
Total	**$ 3,391,769**	**$ 6,002,131**	**$ 24,649**	$ 3,956,422	$ 6,483,750	$ 33,941
By Loan Size:						
Less than $200,000	**8 %**	**6 %**	**7 %**	11 %	8 %	10 %
$200,000 to $1,000,000	**18**	**16**	**42**	20	18	40
$1,000,000 to $5,000,000	**31**	**29**	**51**	34	32	50
$5,000,000 to $10,000,000	**15**	**16**	**—**	15	15	—
$10,000,000 to $25,000,000	**18**	**18**	**—**	14	16	—
Greater than $25,000,000	**10**	**15**	**—**	6	11	—
Total	**100 %**	**100 %**	**100 %**	100 %	100 %	100 %

The following table provides detail on commercial real estate loans classified by property type at December 31.

	2021		2020	
(dollars in thousands)	**Outstanding**	**%**	**Outstanding**	**%**
By Property Type:				
Multifamily	**$ 1,995,803**	**31 %**	$ 1,598,614	27 %
Retail	**1,037,034**	**16**	1,041,384	17
Office	**1,018,973**	**16**	1,001,589	17
Warehouse / Industrial	**851,956**	**14**	821,022	14
Single family	**333,221**	**5**	341,273	6
Other (1)	**1,143,687**	**18**	1,142,630	19
Total	**$ 6,380,674**	**100 %**	$ 5,946,512	100 %

(1) Other includes construction and land development properties, senior housing properties, religion properties, and mixed use properties.

Residential Real Estate Loans

Residential real estate loans held in our portfolio, primarily 1-4 family properties, increased $6.9 million at December 31, 2021 compared to December 31, 2020. 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 $61.0 million, at December 31, 2021 compared to December 31, 2020 primarily due to decreases in consumer indirect and consumer direct loans.

Allowance for Credit Losses on Loans and Unfunded Commitments

Beginning January 1, 2020, with the adoption of CECL, we calculated allowance for credit losses using current expected credit losses methodology. As of January 1, 2020, Old National increased the allowance for credit losses for loans by $41.3 million and increased the allowance for credit losses for unfunded loan commitments by $4.5 million, since the ASU covers credit losses over the expected life of a loan as well as considering future changes in macroeconomic conditions. The increase related to the acquired loan portfolio totaled $27.1 million.

At December 31, 2021, the allowance for credit losses was $107.3 million, compared to $131.4 million at December 31, 2020. The decrease in the allowance for credit losses reflected the improved economic forecast. 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 be 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.

We maintain an allowance for credit 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 credit losses for loans, modified to take into account the probability of a drawdown on the commitment. The allowance for credit losses on unfunded loan commitments is classified as a liability account on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these credit losses is recorded as a component of other expense. The allowance for credit losses on unfunded loan commitments totaled $10.9 million at December 31, 2021, compared to $11.7 million at December 31, 2020.

Additional information about our Allowance for Credit 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 4 to the consolidated financial statements.

Loans Held for Sale

Mortgage loans held for immediate sale in the secondary market were $35.5 million at December 31, 2021, compared to $63.3 million at December 31, 2020. 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 for residential loans held for sale. The aggregate fair value exceeded the unpaid principal balance by $1.3 million at December 31, 2021 and $3.5 million at December 31, 2020.

Other Assets

Other assets increased $26.6 million since December 31, 2020 primarily due to higher tax credit investments and net deferred tax assets related to net unrealized gains (losses) on investment securities. These increases were partially offset by lower derivative assets.

Funding

Total funding, comprised of deposits and wholesale borrowings, was $21.144 billion at December 31, 2021, an increase of $1.430 billion from $19.714 billion at December 31, 2020. Total deposits were $18.569 billion, an increase of $1.532 billion compared to December 31, 2020. Noninterest-bearing demand deposits increased $669.4 million from December 31, 2020 to December 31, 2021. Interest-bearing checking and NOW deposits increased $361.0 million from December 31, 2020 to December 31, 2021, while savings deposits increased $402.7 million. Money market deposits increased $261.0 million from December 31, 2020 to December 31, 2021. Time deposits decreased $162.5 million.

We use wholesale funding to augment deposit funding and to help maintain our desired interest rate risk position. At December 31, 2021, wholesale borrowings, including federal funds purchased and interbank borrowings, securities sold under agreements to repurchase, FHLB advances, and other borrowings, totaled $2.575 billion, a decrease of $101.3 million from December 31, 2020. The decrease in wholesale funding from December 31, 2020 to December 31, 2021 was due to decreases in FHLB advances, securities sold under agreements to repurchase, and federal funds purchased and interbank borrowings, partially offset by an increase in other borrowings. Wholesale funding as a percentage of total funding was 12% at December 31, 2021, compared to 14% at December 31, 2020. See Notes 12, 13, and 14 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)	**2021**	**2020**	**2019**	**2021**	**2020**
Demand deposits	**$ 6,163,937**	$ 4,945,506	$ 3,887,470	**24.6 %**	27.2 %
Interest-bearing checking and NOW deposits	**4,974,477**	4,465,120	3,902,765	**11.4**	14.4
Savings deposits	**3,648,019**	3,113,435	2,878,135	**17.2**	8.2
Money market deposits	**2,092,661**	1,866,197	1,789,065	**12.1**	4.3
Time deposits	**1,020,359**	1,421,216	1,921,991	**(28.2)**	(26.1)
Total deposits	**17,899,453**	15,811,474	14,379,426	**13.2**	10.0
Federal funds purchased and interbank borrowings	**1,113**	138,257	241,618	**(99.2)**	(42.8)
Securities sold under agreements to repurchase	**392,777**	375,961	342,654	**4.5**	9.7
Federal Home Loan Bank advances	**1,902,407**	2,055,155	1,775,987	**(7.4)**	15.7
Other borrowings	**269,484**	242,642	251,194	**11.1**	(3.4)
Total funding sources	**$ 20,465,234**	$ 18,623,489	$ 16,990,879	**9.9 %**	9.6 %

At December 31, 2021, time deposits in excess of the FDIC insurance limit and estimated time deposits that are otherwise uninsured by maturity were as follows:

(dollars in thousands)	Individual Instruments in Denominations that Meet or Exceed the FDIC Insurance Limit	Estimated Aggregate Time Deposits that Meet or Exceed the FDIC Insurance Limit and Otherwise Uninsured Time Deposits
Three months or less	$ 95,506	$ 111,993
Over three through six months	55,170	68,582
Over six through 12 months	44,856	89,236
Over 12 months	57,219	120,946
Total	$ 252,751	$ 390,757

Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities increased $33.5 million, or 18%, from December 31, 2020 primarily due to increases in unfunded commitments on low income housing tax credit investments and derivative liabilities.

Capital

Shareholders' equity totaled $3.012 billion, or 12% of total assets, at December 31, 2021 and $2.973 billion, or 13% of total assets, at December 31, 2020. The change in unrealized gains (losses) on available-for-sale investment securities decreased equity by $148.3 million during 2021. Old National paid cash dividends of $0.56 per share in 2021, which reduced equity by $92.8 million. Old National's Common Stock is traded on the NASDAQ under the symbol "ONB" with 36,320 shareholders of record at December 31, 2021.

Capital Adequacy

Old National and the banking industry generally 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 24 to the consolidated financial statements.

Management views stress testing as an integral part of the Company's risk management and strategic planning activities. Old National performs stress testing periodically throughout the year. The primary objective of the stress test is to ensure that Old National has a robust, forward-looking stress testing process and maintains sufficient capital to continue operations throughout times of economic and financial stress. Management also uses the stress testing framework to evaluate decisions relating to pricing, loan concentrations, capital deployment, and mergers and acquisitions to ensure that strategic decisions align with Old National's risk appetite statement. Old National's stress testing process incorporates key risks that include strategic, market, liquidity, credit, operational, regulatory, compliance, legal, and reputational risks. Old National's stress testing policy outlines steps that will be taken if stress test results do not meet internal thresholds under severely adverse economic scenarios.

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/cybersecurity, talent management, regulatory/compliance/legal, and reputational. 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/cybersecurity, 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, 2021, we had pooled trust preferred securities with a fair value of $9.5 million, or less than 1% of the available-for-sale securities portfolio. These securities remained classified as available-for-sale and the unrealized loss on our pooled trust preferred securities was $4.3 million at December 31, 2021. The fair value of these securities is expected to improve as we get closer to maturity, but may be adversely impacted by credit deterioration.

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 an asset of $422.3 million at December 31, 2021.

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 is used by commercial clients 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, Minnesota, and Wisconsin. 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 indexed rates such as prime. 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 independent 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 our policy remains appropriate for the current lending environment.

We lend to commercial and commercial real estate clients in many diverse industries including manufacturing, agribusiness, transportation, mining, wholesaling, and retailing. Old National manages concentrations of credit exposure by industry, product, geography, client relationship, and loan size. At December 31, 2021, our average commercial loan size was approximately $205,000 and our average commercial real estate loan size was approximately $940,000. In addition, while loans to lessors of 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, 2021, 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, Minnesota, and Wisconsin. We have experienced an adverse impact from COVID-19 during 2020 and 2021; however, the depth of this crisis is ongoing and its effect is very broad-based. Management believes that trends in under-performing, criticized, and classified loans will be highly dependent on the distribution of vaccinations, as well as the length of time it will take consumers and businesses to return to their pre-pandemic spending routines.

The following table presents a summary of under-performing, criticized, and classified assets at December 31:

(dollars in thousands)	2021	2020
Total nonaccrual loans	**$ 106,691**	$ 147,339
TDRs still accruing	**18,378**	17,749
Total past due loans (90 days or more and still accruing)	**7**	167
Other real estate owned	**2,030**	1,324
Total under-performing assets	**$ 127,106**	$ 166,579
Classified loans (includes nonaccrual, TDRs still accruing, past due 90 days, and other problem loans)	**$ 269,270**	$ 304,782
Other classified assets (1)	**4,338**	3,706
Criticized loans	**235,910**	287,192
Total criticized and classified assets	**$ 509,518**	$ 595,680
Asset Quality Ratios:		
Nonaccrual loans/total loans (2)	**0.78 %**	1.07 %
Non-performing loans/total loans (2) (3)	**0.92**	1.20
Under-performing assets/total loans and other real estate owned (2)	**0.93**	1.21
Under-performing assets/total assets	**0.52**	0.73
Allowance for credit losses/under-performing assets	**84.45**	78.87
Allowance for credit losses/nonaccrual loans	**100.61**	89.17

(1) Includes one pooled trust preferred security and two insurance policies at December 31, 2021.
(2) Loans exclude loans held for sale.
(3) Non-performing loans include nonaccrual loans and TDRs still accruing.

Under-performing assets totaled $127.1 million at December 31, 2021, compared to $166.6 million at December 31, 2020. Under-performing assets as a percentage of total loans and other real estate owned at December 31, 2021 were 0.93%, a 28 basis point improvement from 1.21% at December 31, 2020.

Nonaccrual loans decreased $40.6 million from December 31, 2020 to December 31, 2021 primarily due to lower commercial real estate and commercial nonaccrual loans. As a percentage of nonaccrual loans, the allowance for credit losses was 100.61% at December 31, 2021, compared to 89.17% at December 31, 2020.

If nonaccrual and renegotiated loans outstanding at December 31, 2021 and 2020, respectively, had been accruing interest throughout the year in accordance with their original terms, interest income of approximately $5.1 million in 2021 and $5.8 million in 2020 would have been recorded on these loans. The amount of interest income actually recorded on nonaccrual and renegotiated loans was $1.3 million in 2021 and $2.9 million in 2020.

Total criticized and classified assets were $509.5 million at December 31, 2021, a decrease of $86.2 million from December 31, 2020. Other classified assets include investment securities that fell below investment grade rating totaling $4.3 million at December 31, 2021, compared to $3.7 million at December 31, 2020.

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 includes 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 that 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. 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 credit losses for the difference between the carrying value of the loan and its computed value. To determine the computed 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, 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, 2021, TDRs consisted of $7.4 million of commercial loans, $17.2 million of commercial real estate loans, $0.1 million of BBCC loans, $2.4 million of residential real estate loans, $2.7 million of direct consumer loans, and $0.2 million of home equity loans, totaling $30.0 million. TDRs included within nonaccrual loans totaled $11.7 million at December 31, 2021. At December 31, 2020, our TDRs consisted of $11.1 million of commercial loans, $17.6 million of commercial real estate loans, $0.1 million of BBCC loans, $2.8 million of residential real estate loans, $0.8 million of direct consumer loans, and $0.3 million of home equity loans, totaling $32.7 million. TDRs included within nonaccrual loans totaled $14.9 million at December 31, 2020.

Old National has allocated specific reserves to clients whose loan terms have been modified in TDRs totaling $0.7 million at December 31, 2021 and $1.6 million at December 31, 2020. Old National had not committed to lend any additional funds to clients with outstanding loans that are classified as TDRs at December 31, 2021 or December 31, 2020.

The terms of certain other loans were modified during 2021 and 2020 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.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR 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.

We have developed relief programs to assist borrowers in financial need due to the effects of the COVID-19 pandemic. The Interagency Statement issued by our banking regulators encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act further provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act terminates. The Interagency Statement was subsequently revised in April 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations. Additionally, section 541 of the CAA extends the relief provided by the CARES Act for financial institutions to suspend the GAAP accounting treatment for troubled debt restructuring to January 1, 2022. After this date, we will follow the GAAP accounting treatment to determine if new modifications meet the definition of a TDR. In accordance with such guidance, during 2020 and throughout 2021 we offered short-term modifications in response to COVID-19 to borrowers who were current and otherwise not past due. These included short-term (180 days or less) modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that were insignificant. These loan deferrals totaled $6.4 million at December 31, 2021.

U.S. Small Business Administration Paycheck Protection Program

In 2020, Section 1102 of the CARES Act created the PPP, a program administered by the SBA to provide loans to small businesses for payroll and other basic expenses during the COVID-19 pandemic. Old National participated in the PPP as a lender. During 2020, Old National originated over 9,700 loans with balances of approximately $1.518 billion to new and existing clients through the PPP. As of December 31, 2021, we have received payment from the SBA on 9,502, or 97%, of these loans totaling $1.503 billion.

On December 27, 2020, the CAA was signed into law. The CAA, among other things, extended the life of the PPP, effectively creating a second round of PPP loans for eligible businesses. Old National participated in the CAA's second round of PPP lending. During 2021, Old National originated approximately 6,200 loans totaling $583.7 million through the second round of the PPP. As of December 31, 2021, we have received payment from the SBA on 4,566, or 74%, of these loans totaling $424.1 million. Additionally, section 541 of the CAA extended the relief provided by the CARES Act for financial institutions to suspend the GAAP accounting treatment for troubled debt restructuring to January 1, 2022.

At December 31, 2021, remaining PPP loans totaled $169.0 million.

Allowance for Credit Losses on Loans and Unfunded Commitments

Beginning January 1, 2020, with the adoption of CECL, we calculated allowance for credit losses using current expected credit losses methodology. As of January 1, 2020, Old National increased the allowance for credit losses for loans by $41.3 million and increased the allowance for credit losses for unfunded loan commitments by $4.5 million, since the ASU covers credit losses over the expected life of a loan as well as considering future changes in macroeconomic conditions. The increase related to the acquired loan portfolio totaled $27.1 million.

Credit quality within the loans held for investment portfolio is continuously monitored by management and is reflected within the allowance for credit losses for loans. The allowance for credit losses is an estimate of expected losses inherent within the Company's loans held for investment portfolio. Credit quality is assessed and monitored by evaluating various attributes and the results of those evaluations are utilized in underwriting new loans and in our process for estimating expected credit losses. Expected credit loss inherent in non-cancelable off-balance-sheet credit exposures is accounted for as a separate liability included in other liabilities on the balance sheet. The allowance for credit losses for loans held for investment is adjusted by a credit loss expense, which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit loss estimation process involves procedures to appropriately consider the unique characteristics of our loan portfolio segments. These segments are further disaggregated into loan classes based on the level at which credit risk of the loan is monitored. When computing the level of expected credit losses, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history, delinquency status, and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. In future periods, evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the allowance and credit loss expense in those future periods.

The allowance level is influenced by loan volumes, loan AQR migration or delinquency status, changes in historical loss experience, and other conditions influencing loss expectations, such as reasonable and supportable forecasts of economic conditions. The methodology for estimating the amount of expected credit losses reported in the allowance for credit losses has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

The loan categories used to monitor and analyze interest income and yields are different than the portfolio segments used to determine the allowance for credit losses for loans. The allowance for credit losses was calculated by pooling loans of similar credit risk characteristics and credit monitoring procedures. The four loan portfolios are classified into seven segments of loans - commercial, commercial real estate, BBCC, residential real estate, indirect, direct, and home equity. The commercial and commercial real estate loan categories shown on the balance sheet include the same pool of loans as the commercial, commercial real estate, and BBCC portfolio segments. The consumer loan category shown on the balance sheet is comprised of the same loans in the indirect, direct, and home equity portfolio segments. The portfolio segment reclassifications follow:

(dollars in thousands)	Statement Balance	Segment Portfolio Reclassifications	After Reclassifications
December 31, 2021			
Commercial	**$ 3,391,769**	**$ (191,557)**	**$ 3,200,212**
Commercial real estate	**6,380,674**	**(159,190)**	**6,221,484**
BBCC	**N/A**	**350,747**	**350,747**
Residential real estate	**2,255,289**	**—**	**2,255,289**
Consumer	**1,574,114**	**(1,574,114)**	**N/A**
Indirect	**N/A**	**873,139**	**873,139**
Direct	**N/A**	**140,385**	**140,385**
Home equity	**N/A**	**560,590**	**560,590**
Total	**$ 13,601,846**	**$ —**	**$ 13,601,846**
December 31, 2020			
Commercial	$ 3,956,422	$ (198,722)	$ 3,757,700
Commercial real estate	5,946,512	(171,701)	5,774,811
BBCC	N/A	370,423	370,423
Residential real estate	2,248,422	—	2,248,422
Consumer	1,635,123	(1,635,123)	N/A
Indirect	N/A	913,902	913,902
Direct	N/A	164,807	164,807
Home equity	N/A	556,414	556,414
Total	$ 13,786,479	$ —	$ 13,786,479

The following table details activity in our allowance for credit losses for loans for the years ended December 31:

(dollars in thousands)	2021	2020
Balance at beginning of period	**$ 131,388**	$ 54,619
Impact of adopting ASC 326	**—**	41,347
Loans charged-off:		
Commercial	**1,228**	5,593
Commercial real estate	**264**	4,323
BBCC	**144**	95
Residential real estate	**346**	824
Indirect	**1,087**	2,754
Direct	**1,159**	1,763
Home equity	**82**	201
Total charge-offs	**4,310**	15,553
Recoveries on charged-off loans:		
Commercial	**791**	3,629
Commercial real estate	**4,403**	4,515
BBCC	**105**	140
Residential real estate	**339**	633
Indirect	**1,682**	1,922
Direct	**777**	819
Home equity	**978**	922
Total recoveries	**9,075**	12,580
Net charge-offs (recoveries)	**(4,765)**	2,973
Provision for credit losses	**(28,812)**	38,395
Balance at end of period	**$ 107,341**	$ 131,388
Average loans for the year (1)	**$ 13,766,590**	$ 13,341,677
Asset Quality Ratios:		
Allowance/year-end loans (1)	**0.79 %**	0.95 %
Allowance/average loans (1)	**0.78**	0.98

(1) Loans exclude loans held for sale.

The following table details net charge-offs to average loans outstanding by loan category for the years ended December 31:

(dollars in thousands)		2021		2020
Commercial:				
Net charge-offs (recoveries)	**$**	**437**	$	1,964
Average loans for the year	**$**	**3,553,527**	$	3,520,397
Net charge-offs (recoveries)/average loans		**0.01 %**		0.06 %
Commercial real estate:				
Net charge-offs (recoveries)	**$**	**(4,139)**	$	(192)
Average loans for the year	**$**	**6,022,408**	$	5,436,791
Net charge-offs (recoveries)/average loans		**(0.07)%**		— %
BBCC:				
Net charge-offs (recoveries)	**$**	**39**	$	(45)
Average loans for the year	**$**	**355,310**	$	363,463
Net charge-offs (recoveries)/average loans		**0.01 %**		(0.01)%
Residential real estate:				
Net charge-offs (recoveries)	**$**	**7**	$	191
Average loans for the year (1)	**$**	**2,257,878**	$	2,336,428
Net charge-offs (recoveries)/average loans		**— %**		0.01 %
Indirect:				
Net charge-offs (recoveries)	**$**	**(595)**	$	832
Average loans for the year	**$**	**879,525**	$	935,233
Net charge-offs (recoveries)/average loans		**(0.07)%**		0.09 %
Direct:				
Net charge-offs (recoveries)	**$**	**382**	$	944
Average loans for the year	**$**	**150,620**	$	195,795
Net charge-offs (recoveries)/average loans		**0.25 %**		0.48 %
Home equity:				
Net charge-offs (recoveries)	**$**	**(896)**	$	(721)
Average loans for the year	**$**	**547,322**	$	553,570
Net charge-offs (recoveries)/average loans		**(0.16)%**		(0.13)%
Total loans:				
Net charge-offs (recoveries)	**$**	**(4,765)**	$	2,973
Average loans for the year (1)	**$**	**13,766,590**	$	13,341,677
Net charge-offs (recoveries)/average loans		**(0.03)%**		0.02 %

(1) Average loans exclude loans held for sale.

The allowance for credit losses was $107.3 million at December 31, 2021, compared to $131.4 million at December 31, 2020. The decrease in the allowance for credit losses reflected the improved economic forecast. There were no industry segments representing a significant share of total net charge-offs. 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.

Prior to January 1, 2020, we calculated allowance for loan losses using incurred losses methodology. The activity in our allowance for loan losses for the year ended December 31, 2019 was as follows:

(dollars in thousands)	2019
Balance at beginning of period	$ 55,461
Loans charged-off:	
Commercial	3,819
Commercial real estate	2,846
Residential real estate	661
Consumer credit	7,463
Total charge-offs	14,789
Recoveries on charged-off loans:	
Commercial	1,650
Commercial real estate	3,774
Residential real estate	146
Consumer credit	3,630
Total recoveries	9,200
Net charge-offs (recoveries)	5,589
Provision for loan losses	4,747
Balance at end of period	$ 54,619
Average loans for the year (1)	$ 12,087,429
Asset Quality Ratios:	
Allowance/year-end loans (1)	0.45 %
Allowance/average loans (1)	0.45
Net charge-offs (recoveries)/average loans	0.05

(1) Loans exclude loans held for sale.

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

	2021		2020	
(dollars in thousands)	**Allowance Amount**	**% of Loans to Total Loans**	**Allowance Amount**	**% of Loans to Total Loans**
Commercial	**$ 27,232**	**23.5 %**	$ 30,567	27.3 %
Commercial real estate	**64,004**	**45.8**	75,810	41.9
BBCC	**2,458**	**2.6**	6,120	2.7
Residential real estate	**9,347**	**16.6**	12,608	16.3
Indirect	**1,743**	**6.4**	3,580	6.6
Direct	**528**	**1.0**	855	1.2
Home equity	**2,029**	**4.1**	1,848	4.0
Total	**$ 107,341**	**100.0 %**	$ 131,388	100.0 %

We maintain an allowance for credit 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 credit losses for loans, modified to take into account the probability of a drawdown on the commitment. The allowance for credit losses on unfunded loan commitments is classified as a liability account on the balance sheet within accrued expenses and other liabilities, while the corresponding provision for these credit losses is recorded as a component of other expense. The allowance for credit losses on unfunded loan commitments totaled $10.9 million at December 31, 2021, compared to $11.7 million at December 31, 2020.

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, client 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 our 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 likely impact of changing interest rates on Old National's results of operations. 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. Interest rates are floored at 0.00% in the down 50 basis points scenario. 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, 2021 and 2020:

	Immediate Rate Decrease		Immediate Rate Increase		
(dollars in thousands)	-50 Basis Points	Base	+100 Basis Points	+200 Basis Points	+300 Basis Points
December 31, 2021					
Projected interest income:					
Money market, other interest earning investments, and investment securities	**$ 286,047**	**$ 306,020**	**$ 343,964**	**$ 380,103**	**$ 414,696**
Loans	**836,118**	**867,676**	**1,007,875**	**1,151,879**	**1,291,113**
Total interest income	**1,122,165**	**1,173,696**	**1,351,839**	**1,531,982**	**1,705,809**
Projected interest expense:					
Deposits	**14,032**	**23,628**	**108,236**	**193,024**	**277,809**
Borrowings	**71,218**	**79,068**	**111,178**	**146,967**	**183,450**
Total interest expense	**85,250**	**102,696**	**219,414**	**339,991**	**461,259**
Net interest income	**$ 1,036,915**	**$ 1,071,000**	**$ 1,132,425**	**$ 1,191,991**	**$ 1,244,550**
Change from base	**$ (34,085)**		**$ 61,425**	**$ 120,991**	**$ 173,550**
% change from base	**(3.18)%**		**5.74 %**	**11.30 %**	**16.20 %**
December 31, 2020					
Projected interest income:					
Money market, other interest earning investments, and investment securities	$ 262,254	$ 276,027	$ 304,939	$ 325,867	$ 343,376
Loans	856,007	886,057	1,018,491	1,152,321	1,283,582
Total interest income	1,118,261	1,162,084	1,323,430	1,478,188	1,626,958
Projected interest expense:					
Deposits	17,574	26,598	106,018	185,434	264,847
Borrowings	63,262	67,864	103,057	137,662	173,915
Total interest expense	80,836	94,462	209,075	323,096	438,762
Net interest income	$ 1,037,425	$ 1,067,622	$ 1,114,355	$ 1,155,092	$ 1,188,196
Change from base	$ (30,197)		$ 46,733	$ 87,470	$ 120,574
% change from base	(2.83)%		4.38 %	8.19 %	11.29 %

Our asset sensitivity increased year over year primarily due to deposit growth, higher mix of floating rate loans, and changes in our hedging strategies.

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, 2021, 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 cash flow and fair value hedges, primarily interest rate swaps, collars, and floors, to mitigate interest rate risk. Derivatives designated as hedging instruments were in a net asset position with a fair value of $1.3 million at December 31, 2021, compared to a net asset position with a fair value of $15.2 million at December 31, 2020. See Note 20 to the consolidated financial statements for further discussion of derivative financial instruments.

Liquidity Risk

Liquidity risk arises from the possibility that we may not be able to satisfy current or future financial commitments, or may become unduly reliant on alternative funding sources. The Funds Management Committee of the Board of Directors establishes liquidity risk guidelines and, along with the Balance Sheet Management Committee, monitors liquidity risk. The objective of liquidity management is to ensure we have the ability to fund balance sheet growth and meet deposit and debt obligations in a timely and cost-effective manner. Management monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts. We maintain strategic and contingency liquidity plans to ensure sufficient available funding to satisfy requirements for balance sheet growth, properly manage capital markets' funding sources and to address unexpected liquidity requirements. On June 5, 2020, we filed an automatic shelf registration statement with the SEC that permits us to issue an unspecified amount of debt or equity securities.

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 maturity schedule for Old National Bank's time deposits is shown in the following table at December 31, 2021.

(dollars in thousands)		
Maturity Bucket	**Amount**	**Rate**
2022	$ 663,230	0.27 %
2023	149,526	0.74
2024	86,502	0.85
2025	33,469	0.66
2026	23,165	0.59
2027 and beyond	4,521	1.03
Total	$ 960,413	0.42 %

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

- Moody's Investors Service affirmed the Long-Term Rating of "A3" for Old National's senior unsecured/ issuer rating on February 17, 2021.
- Moody's Investors Service affirmed Old National Bank's long-term deposit rating of "Aa3" on February 17, 2021. The bank's short-term deposit rating was affirmed at "P-1" and the bank's issuer rating was affirmed at "A3."

Moody's Investors Service concluded a rating review of Old National Bank on February 17, 2021. The rating outlook from Moody's Investors Service was moved from "Stable" to "Ratings Under Review" on June 2, 2021 due to the merger announced June 1, 2021.

The credit ratings of Old National and Old National Bank at December 31, 2021 are shown in the following table.

	Moody's Investors 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, 2021, 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	$ 107,900	$ 714,119
Unencumbered government-issued debt securities	—	3,426,534
Unencumbered investment grade municipal securities	—	1,082,926
Unencumbered corporate securities	—	157,842
Availability of borrowings:		
Amount available from Federal Reserve discount window*	—	429,431
Amount available from Federal Home Loan Bank Indianapolis*	—	428,863
Total available funds	$ 107,900	$ 6,239,715

* 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, 2021, Old National Bancorp's other borrowings outstanding were $213.6 million. Management believes the Company has the ability to generate and obtain adequate amounts of liquidity to meet its requirements in the short-term and the long-term.

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 2020 or 2021 and is not currently required. At December 31, 2021, Old National Bank could pay dividends of $268.1 million without prior regulatory approval.

Operational/Technology/Cybersecurity Risk

Operational/technology/cybersecurity risk is the danger that inadequate information systems, operational problems, breaches in internal controls, information security breaches, fraud, or unforeseen catastrophes will result in unexpected losses and other adverse impacts to Old National, such as reputational harm. 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 cybersecurity risk including, but not limited to, cyber-attacks or other information security breaches that might allow unauthorized transactions or unauthorized access to client, team member, or company sensitive information. Metrics and measurements are used by our management team in the management of day-to-day operations to ensure effective client service, minimization of service disruptions, and oversight of cybersecurity risk. We continually monitor and report on operational, technology, and cybersecurity risks related to business disruptions and systems failures; cyber-attacks, information security or data breaches; clients, products, and business practices; damage to physical assets; employee and workplace safety; execution, delivery, and process management; and external and internal fraud.

The Enterprise Risk Management Committee of the Board of Directors is responsible for the oversight, guidance, and monitoring of risks, including operational/technology/cybersecurity risks, being taken by the Company. The monitoring is accomplished through ongoing review of management reports, data on risks and policy limits, and consistent 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 that 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.

MATERIAL CONTRACTUAL OBLIGATIONS, COMMITMENTS, AND CONTINGENT LIABILITIES

The following table presents our material fixed and determinable contractual obligations and significant commitments at December 31, 2021. 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	Over One Year	Total
Deposits without stated maturity		$ 17,608,782	$ —	$ 17,608,782
IRAs, consumer, and brokered certificates of deposit	11	663,230	297,183	960,413
Securities sold under agreements to repurchase	12	392,275	—	392,275
Federal Home Loan Bank advances	13	27,500	1,858,519	1,886,019

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

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

In addition, liabilities recorded under FASB ASC 740-10 (FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*) are not included in the table because the amount and timing of any cash payments cannot be reasonably estimated. Further discussion of income taxes and liabilities is included in Note 16 to the consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

Our most significant accounting policies are described in Note 1 to the consolidated financial statements. Certain of these 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, and we consider these policies to be our critical accounting estimates. The judgment and assumptions made are based upon historical experience, future forecasts, 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 such as goodwill, 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. The carrying value of 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 financial statements as a whole and our banking subsidiary in which the goodwill resides.

- **Pandemic.** A prolonged COVID-19 outbreak, or any other epidemic that harms the global economy, U.S. economy, or the economies in which we operate could adversely affect our operations. Based on the required annual impairment test as of August 31, 2021, we have concluded that our goodwill was not impaired. On a quarterly basis, we will continue to evaluate our qualitative assessment assumptions, which are subject to risks and uncertainties, including: (1) forecasted revenues, expenses, and cash flows; (2) current discount rates; (3) our market capitalization; (4) observable market transactions and multiples; (5) changes to the regulatory environment; and (6) the nature and amount of government support that has been and is expected to be provided in the future. A prolonged economic downturn or deterioration in the economic outlook may lead management to conclude that an interim quantitative impairment test of our goodwill is required prior to the annual impairment test conducted on August 31.

Allowance for Credit Losses for Loans

- **Description.** The allowance for credit losses for loans represents management's estimate of all expected credit losses over the expected contractual life of our loan portfolio. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the then-existing loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance for credit losses in those future periods.

  The allowance for credit losses for loans, as reported in our consolidated statements of financial condition, is adjusted by an expense for credit losses, which is recognized in earnings, and reduced by the charge-off of loan amounts, net of recoveries.

- **Judgments and Uncertainties.** We utilize a discounted cashflow approach to determine the allowance for credit losses for performing loans and nonperforming loans. Expected cashflows are created for each loan and discounted using the effective yield method. The discounted sum of expected cashflows is then compared to the amortized cost and any shortfall is recorded as reserve. Expected cashflows are created using a combination of contractual payment schedules, calculated PDs, LGD and prepayment assumptions as well as qualitative factors. For the commercial and commercial real estate loans, the PD is forecast using a regression model to determine the likelihood of a loan moving into nonaccrual within the time horizon. For residential and consumer loans, the PD is forecast using a regression model to determine the likelihood of a loan being charged-off within the time horizon. The regression models use combinations of variables to assess systematic and unsystematic risk. Variables used for unsystematic risk are borrower specific and help to gauge the risk of default from an individual borrower. Variables for systematic risk, risk inherent to all borrowers, come from the use of forward-looking economic forecasts and include variables such as unemployment rate, gross domestic product, and house price index. The LGD is defined as credit loss incurred when an obligor of the bank defaults. Qualitative factors include items such as changes in lending policies or procedures and economic uncertainty in forward-looking forecasts.

- **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.

  One of the most significant judgments used in determining the allowance for credit losses is the macroeconomic forecast provided by a third party. The economic indices sourced from the macroeconomic forecast and used in projecting loss rates include the national unemployment rate, changes in commercial real estate prices, changes in home values, and changes in the United States gross domestic product. The economic index used in the calculation to which the calculation may be most sensitive is the national unemployment rate. Each reporting period, several macroeconomic forecast scenarios are considered by management. Management selects the macroeconomic forecast that is most reflective of expectations at that point in time. Changes in the macroeconomic forecast, especially for the national unemployment rate, could significantly impact the calculated estimated credit losses.

The expense for credit loss recorded through earnings is the amount necessary to maintain the allowance for credit losses at the amount of expected credit losses inherent within the loans held for investment portfolio. The amount of expense and the corresponding level of allowance for credit losses for loans are based on our evaluation of the collectability of the loan portfolio based on historical loss experience, reasonable and supportable forecasts, and other significant qualitative and quantitative factors.

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 16 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

	Page
Report of Management	68
Report of Independent Registered Public Accounting Firm (PCAOB ID: 173)	69
Consolidated Balance Sheets	72
Consolidated Statements of Income	73
Consolidated Statements of Comprehensive Income	74
Consolidated Statements of Changes in Shareholders' Equity	75
Consolidated Statements of Cash Flows	76
Notes to Consolidated Financial Statements	77
Note 1. Basis of Presentation and Significant Accounting Policies	77
Note 2. Acquisition and Divestiture Activity	86
Note 3. Investment Securities	87
Note 4. Loans and Allowance for Credit Losses	89
Note 5. Other Real Estate Owned	103
Note 6. Premises and Equipment	103
Note 7. Leases	104
Note 8. Goodwill and Other Intangible Assets	106
Note 9. Loan Servicing Rights	107
Note 10. Qualified Affordable Housing Projects and Other Tax Credit Investments	107
Note 11. Deposits	109
Note 12. Securities Sold Under Agreements to Repurchase	109
Note 13. Federal Home Loan Bank Advances	109
Note 14. Other Borrowings	110
Note 15. Accumulated Other Comprehensive Income (Loss)	112
Note 16. Income Taxes	113
Note 17. Share-Based Compensation and Other Employee Benefit Plans	115
Note 18. Shareholders' Equity	117
Note 19. Fair Value	118
Note 20. Derivative Financial Instruments	124
Note 21. Commitments and Contingencies	127
Note 22. Financial Guarantees	128
Note 23. Revenue From Contracts With Customers	129
Note 24. Regulatory Restrictions	130
Note 25. Parent Company Financial Statements	132
Note 26. Segment Information	133

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, 2021. 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, 2021, 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, 2021 as stated in their report, which follows.

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, 2021 and 2020, 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, 2021, 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, 2021, 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, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021 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, 2021, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2020 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

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 the critical audit matter 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 Credit Losses on Loans

The allowance for credit losses (the "ACL") is an accounting estimate of expected credit losses over the contractual life of financial assets carried at amortized cost and off-balance-sheet credit exposures as described in Notes 1 and 4 of the consolidated financial statements. A financial asset (or a group of financial assets), including the Company's loan portfolio, is required to be measured at amortized cost to be presented at the net amount expected to be collected. Estimates of expected credit losses for loans are based on historical experience, current conditions and reasonable and supportable forecasts over the expected life of the loans. In order to estimate the expected credit losses, the Company utilizes several loss estimation models.

The Company utilizes a discounted cash flow ("DCF") approach with probability of default ("PD") methodology. The PD regression models use combinations of variables to assess risk including unsystematic risk to help gauge the risk of default from an individual borrower and variables for systematic risk applicable to all borrowers. Other assumptions used to determine the quantitative allowance include the loss given default (LGD), which is defined as credit loss incurred when an obligor of the bank defaults, and prepayment assumptions. Expected cashflows are created for each loan using reasonable and supportable forecasts and discounted using the loan's effective yield. The discounted sum of expected cashflows is then compared to the amortized cost and any shortfall is recorded as a component of the ACL. Qualitative adjustments are applied to the quantitative component to adjust for factors such as current conditions.

The ACL and related Provision for Credit Losses was identified by us as a critical audit matter because of the extent of auditor judgment applied and significant audit effort to evaluate the significant subjective and complex judgments made by management throughout calculation, including the need to involve our valuation services specialists. The principal considerations resulting in our determination included the following:

- Significant auditor judgment in evaluating the selection and application of the reasonable and supportable forecast of economic variables and reasonableness of other model assumptions.
- Significant auditor judgment and effort in evaluating the qualitative factors used in the calculation related to adjustments for economic uncertainty in the forward-looking forecast.
- Significant audit effort related to the completeness and accuracy of the high volume of data used and data flow between systems.

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

- Testing the effectiveness of management's internal controls over preparation and evaluation of the ACL calculation, significant model assumptions, development and reasonableness of qualitative factors, completeness and accuracy of data used in the calculation, systems used in the development of the estimate, and the appropriateness of the overall calculation.
- With the assistance of our valuation specialists, evaluating the effectiveness of management's internal controls over PD model monitoring and validation of the assumptions, calculations, and functionality of the PD and DCF models.
- Evaluating management's judgments in the selection and application of reasonable and supportable forecasts of economic variables.
- Substantively testing management's process for developing qualitative factors and assessing the reasonableness, relevance, and reliability of data used to develop qualitative factors, including evaluating management's judgments and assumptions for reasonableness.
- Substantively testing the mathematical accuracy of the DCF model at a loan level, including the completeness and accuracy of loan data used in the model.
- Substantively testing the completeness and accuracy of data used in the calculation and the data flow between the various systems.

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 10, 2022

OLD NATIONAL BANCORP
CONSOLIDATED BALANCE SHEETS

		December 31,		
(dollars and shares in thousands, except per share data)		**2021**		**2020**
Assets				
Cash and due from banks	**$**	**172,663**	$	268,208
Money market and other interest-earning investments		**649,356**		321,504
Total cash and cash equivalents		**822,019**		589,712
Equity securities, at fair value		**13,211**		2,547
Investment securities - available-for-sale, at fair value:				
U.S. Treasury		**235,584**		10,208
U.S. government-sponsored entities and agencies		**1,542,773**		841,988
Mortgage-backed securities		**3,698,831**		3,339,098
States and political subdivisions		**1,654,986**		1,492,162
Other securities		**249,892**		286,659
Total investment securities - available-for-sale		**7,382,066**		5,970,115
Federal Home Loan Bank/Federal Reserve Bank stock, at cost		**169,375**		169,433
Loans held for sale, at fair value		**35,458**		63,250
Loans:				
Commercial		**3,391,769**		3,956,422
Commercial real estate		**6,380,674**		5,946,512
Residential real estate		**2,255,289**		2,248,422
Consumer credit, net of unearned income		**1,574,114**		1,635,123
Total loans, net of unearned income		**13,601,846**		13,786,479
Allowance for credit losses		**(107,341)**		(131,388)
Net loans		**13,494,505**		13,655,091
Premises and equipment, net		**476,186**		464,408
Operating lease right-of-use assets		**69,560**		76,197
Accrued interest receivable		**84,109**		85,306
Goodwill		**1,036,994**		1,036,994
Other intangible assets		**34,678**		46,014
Company-owned life insurance		**463,324**		456,110
Other assets		**372,079**		345,445
Total assets	**$**	**24,453,564**	$	22,960,622
Liabilities				
Deposits:				
Noninterest-bearing demand	**$**	**6,303,106**	$	5,633,672
Interest-bearing:				
Checking and NOW		**5,338,022**		4,977,046
Savings		**3,798,494**		3,395,747
Money market		**2,169,160**		1,908,118
Time deposits		**960,413**		1,122,870
Total deposits		**18,569,195**		17,037,453
Federal funds purchased and interbank borrowings		**276**		1,166
Securities sold under agreements to repurchase		**392,275**		431,166
Federal Home Loan Bank advances		**1,886,019**		1,991,435
Other borrowings		**296,670**		252,787
Operating lease liabilities		**76,236**		86,598
Accrued expenses and other liabilities		**220,875**		187,361
Total liabilities		**21,441,546**		19,987,966
Commitments and contingencies (Note 21)				
Shareholders' Equity				
Preferred stock, series A, 2,000 shares authorized, no shares issued or outstanding		**—**		—
Common stock, $1.00 per share stated value, 300,000 shares authorized, 165,838 and 165,367 shares issued and outstanding, respectively		**165,838**		165,367
Capital surplus		**1,880,545**		1,875,626
Retained earnings		**968,010**		783,892
Accumulated other comprehensive income (loss), net of tax		**(2,375)**		147,771
Total shareholders' equity		**3,012,018**		2,972,656
Total liabilities and shareholders' equity	**$**	**24,453,564**	$	22,960,622

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)	2021	2020	2019
Interest Income			
Loans including fees:			
Taxable	**$ 490,042**	$ 515,980	$ 569,718
Nontaxable	**12,392**	13,908	15,919
Investment securities:			
Taxable	**98,031**	98,953	113,832
Nontaxable	**37,595**	33,899	29,248
Money market and other interest-earning investments	**589**	568	1,670
Total interest income	**638,649**	663,308	730,387
Interest Expense			
Deposits	**10,954**	28,169	69,364
Federal funds purchased and interbank borrowings	**—**	1,296	5,656
Securities sold under agreements to repurchase	**397**	854	2,517
Federal Home Loan Bank advances	**21,075**	27,274	37,452
Other borrowings	**9,823**	9,621	11,125
Total interest expense	**42,249**	67,214	126,114
Net interest income	**596,400**	596,094	604,273
Provision for credit losses (1)	**(28,812)**	38,395	4,747
Net interest income after provision for credit losses	**625,212**	557,699	599,526
Noninterest Income			
Wealth management fees	**40,409**	36,806	37,072
Service charges on deposit accounts	**34,685**	35,081	44,915
Debit card and ATM fees	**20,739**	20,178	21,652
Mortgage banking revenue	**42,558**	62,775	26,622
Investment product fees	**24,639**	21,614	21,785
Capital markets income	**21,997**	22,480	13,270
Company-owned life insurance	**10,589**	12,031	11,539
Debt securities gains (losses), net	**4,327**	10,767	1,923
Other income	**14,276**	17,542	20,539
Total noninterest income	**214,219**	239,274	199,317
Noninterest Expense			
Salaries and employee benefits	**284,098**	293,590	289,452
Occupancy	**54,834**	55,316	55,255
Equipment	**16,704**	16,690	16,903
Marketing	**12,684**	10,874	15,898
Data processing	**47,047**	41,086	37,589
Communication	**10,073**	9,731	10,702
Professional fees	**20,077**	15,755	22,854
FDIC assessment	**6,059**	6,722	6,030
Amortization of intangibles	**11,336**	14,091	16,911
Amortization of tax credit investments	**6,770**	18,788	2,749
Other expense	**30,887**	58,774	34,144
Total noninterest expense	**500,569**	541,417	508,487
Income before income taxes	**338,862**	255,556	290,356
Income tax expense	**61,324**	29,147	52,150
Net income	**$ 277,538**	$ 226,409	$ 238,206
Net income per common share - basic	**1.68**	1.37	1.39
Net income per common share - diluted	**1.67**	1.36	1.38
Weighted average number of common shares outstanding - basic	**165,178**	165,509	171,907
Weighted average number of common shares outstanding - diluted	**165,929**	166,177	172,687
Dividends per common share	**0.56**	0.56	0.52

(1) Beginning January 1, 2020, with the adoption of CECL, calculation is based on current expected credit loss methodology. Prior to January 1, 2020, calculation was based on incurred loss methodology.

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)	**2021**	**2020**	**2019**
Net income	**$ 277,538**	$ 226,409	$ 238,206
Other comprehensive income (loss):			
Change in debt securities available-for-sale:			
Unrealized holding gains (losses) for the period	**(187,955)**	125,214	123,006
Reclassification adjustment for securities (gains) losses realized in income	**(4,327)**	(10,767)	(1,923)
Income tax effect	**43,997**	(25,243)	(27,604)
Unrealized gains (losses) on available-for-sale debt securities	**(148,285)**	89,204	93,479
Change in securities held-to-maturity:			
Adjustment for securities transferred to available-for-sale	**—**	—	8,200
Amortization of unrealized losses on securities transferred from available-for-sale	**—**	—	2,812
Income tax effect	**—**	—	(2,497)
Changes from securities held-to-maturity	**—**	—	8,515
Change in cash flow hedges:			
Net unrealized derivative gains (losses) on cash flow hedges	**1,898**	8,261	(543)
Reclassification adjustment for (gains) losses realized in net income	**(4,605)**	(5,153)	(596)
Income tax effect	**666**	(764)	280
Changes from cash flow hedges	**(2,041)**	2,344	(859)
Change in defined benefit pension plans:			
Amortization of net loss recognized in income	**239**	21	30
Income tax effect	**(59)**	(5)	(8)
Changes from defined benefit pension plans	**180**	16	22
Other comprehensive income (loss), net of tax	**(150,146)**	91,564	101,157
Comprehensive income	**$ 127,392**	$ 317,973	$ 339,363

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, December 31, 2018	$ 175,141	$ 2,031,695	$ 527,684	$ (44,950)	$ 2,689,570
Cumulative effect of change in accounting principles	—	—	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
Cumulative effect of change in accounting principles	—	—	(31,150)	—	(31,150)
Balance, January 1, 2020	169,616	1,944,445	651,035	56,207	2,821,303
Net income	—	—	226,409	—	226,409
Other comprehensive income (loss)	—	—	—	91,564	91,564
Dividends - common stock ($0.56 per share)	—	—	(92,946)	—	(92,946)
Common stock issued	43	534	—	—	577
Common stock repurchased	(5,115)	(77,243)	—	—	(82,358)
Share-based compensation expense	—	7,707	—	—	7,707
Stock activity under incentive compensation plans	823	183	(606)	—	400
Balance, December 31, 2020	**165,367**	**1,875,626**	**783,892**	**147,771**	**2,972,656**
Net income	**—**	**—**	**277,538**	**—**	**277,538**
Other comprehensive income (loss)	**—**	**—**	**—**	**(150,146)**	**(150,146)**
Dividends - common stock ($0.56 per share)	**—**	**—**	**(92,829)**	**—**	**(92,829)**
Common stock issued	**35**	**548**	—	**—**	**583**
Common stock repurchased	**(208)**	**(3,523)**	—	**—**	**(3,731)**
Share-based compensation expense	**—**	**7,497**	—	**—**	**7,497**
Stock activity under incentive compensation plans	**644**	**397**	**(591)**	**—**	**450**
Balance, December 31, 2021	**$ 165,838**	**$ 1,880,545**	**$ 968,010**	**$ (2,375)**	**$ 3,012,018**

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)	**2021**	**2020**	**2019**
Cash Flows From Operating Activities			
Net income	**$ 277,538**	$ 226,409	$ 238,206
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**27,276**	28,911	26,719
Amortization of other intangible assets	**11,336**	14,091	16,911
Amortization of tax credit investments	**6,770**	18,788	2,749
Net premium amortization on investment securities	**16,305**	18,798	19,210
Accretion income related to acquired loans	**(16,747)**	(23,331)	(42,772)
Share-based compensation expense	**7,497**	7,707	7,993
Provision for credit losses	**(28,812)**	38,395	4,747
Debt securities (gains) losses, net	**(4,327)**	(10,767)	(1,923)
Net (gains) losses on sales of loans and other assets	**(36,677)**	(23,787)	(7,370)
Increase in cash surrender value of company-owned life insurance	**(10,589)**	(12,031)	(11,539)
Residential real estate loans originated for sale	**(1,215,015)**	(1,432,488)	(854,848)
Proceeds from sales of residential real estate loans	**1,274,812**	1,455,067	834,024
(Increase) decrease in interest receivable	**1,198**	(183)	4,340
(Increase) decrease in other assets	**2,641**	(105,969)	22,253
Increase (decrease) in accrued expenses and other liabilities	**17,174**	20,210	(24,944)
Net cash flows provided by (used in) operating activities	**330,380**	219,820	233,756
Cash Flows From Investing Activities			
Purchases of investment securities available-for-sale	**(3,321,653)**	(2,803,406)	(2,366,089)
Purchases of Federal Home Loan Bank/Federal Reserve Bank stock	**—**	(10,025)	(21,142)
Purchases of equity securities	**(11,000)**	—	—
Proceeds from maturities, prepayments, and calls of investment securities available-for-sale	**1,511,510**	1,990,383	1,175,272
Proceeds from sales of investment securities available-for-sale	**198,886**	299,885	424,140
Proceeds from maturities, prepayments, and calls of investment securities held-to-maturity	**—**	—	115,648
Proceeds from sales of investment securities held-to-maturity	**—**	—	9,921
Proceeds from sales of Federal Home Loan Bank/Federal Reserve Bank stock	**58**	4,691	23
Proceeds from sales of equity securities	**544**	39,296	130
Loan originations and payments, net	**206,145**	(1,644,119)	163,551
Proceeds from company-owned life insurance death benefits	**3,375**	4,888	6,796
Proceeds from sale of premises and equipment and other assets	**29,244**	7,826	3,769
Purchases of premises and equipment and other assets	**(48,692)**	(30,871)	(37,423)
Net cash flows provided by (used in) investing activities	**(1,431,583)**	(2,141,452)	(525,404)
Cash Flows From Financing Activities			
Net increase (decrease) in:			
Deposits	**1,531,742**	2,484,056	203,448
Federal funds purchased and interbank borrowings	**(890)**	(349,248)	80,279
Securities sold under agreements to repurchase	**(38,891)**	103,384	(34,512)
Other borrowings	**36,187**	4,171	(4,377)
Payments for maturities of Federal Home Loan Bank advances	**(146,505)**	(751,505)	(377,978)
Payments for modification of Federal Home Loan Bank advances	**(2,156)**	(31,124)	—
Proceeds from Federal Home Loan Bank advances	**50,000**	950,000	575,000
Cash dividends paid on common stock	**(92,829)**	(92,946)	(89,474)
Common stock repurchased	**(3,731)**	(82,358)	(102,413)
Proceeds from exercise of stock options	**—**	—	280
Common stock issued	**583**	577	567
Net cash flows provided by (used in) financing activities	**1,333,510**	2,235,007	250,820
Net increase (decrease) in cash and cash equivalents	**232,307**	313,375	(40,828)
Cash and cash equivalents at beginning of period	**589,712**	276,337	317,165
Cash and cash equivalents at end of period	**$ 822,019**	$ 589,712	$ 276,337

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

NATURE OF OPERATIONS

Old National Bancorp, a financial holding company headquartered in Evansville, Indiana, operates primarily in Indiana, Kentucky, Michigan, Minnesota, and Wisconsin. Its principal subsidiary is Old National Bank. Through its bank and non-bank affiliates, Old National Bancorp provides to its clients a plethora 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 subsidiaries (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 for Community Reinvestment Act qualified investments and mutual funds held in trusts associated with deferred compensation plans for former directors. Equity securities are recorded at fair value with changes in fair value recognized in other income.

Investment Securities

Old National classified all of its debt investment securities as available-for-sale at December 31, 2021 and December 31, 2020. Debt securities classified as available-for-sale are recorded at fair value with the unrealized gains and losses recorded in other comprehensive income, net of tax. 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.

Available-for-sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For available-for sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security and the issuer, among other factors. If this assessment indicates that a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes. Accrued interest receivable on available-for-sale debt securities is excluded from the estimate of credit losses.

Federal Home Loan Bank/Federal Reserve Bank Stock

Old National is a member of the FHLB system and its regional Federal Reserve Bank. Members are required to own a certain amount of stock based on the level of borrowings and other factors. FHLB and Federal Reserve Bank stock are 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. Conventional mortgage production is sold with servicing rights retained. Certain loans, such as government guaranteed mortgage loans are sold on servicing released basis. Mortgage loans held for immediate sale in the secondary market were $35.5 million at December 31, 2021, compared to $63.3 million at December 31, 2020.

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 credit 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 but not received is reversed against earnings. 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.

Old National has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. PCD loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and initial allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is accreted or amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through provision for credit losses.

Allowance for Credit Losses for Loans

Credit quality within the loans held for investment portfolio is continuously monitored by management and is reflected within the allowance for credit losses for loans. With the adoption of ASC 326 effective January 1, 2020, the allowance for credit losses is an estimate of expected losses inherent within the Company's loans held for investment portfolio. Credit quality is assessed and monitored by evaluating various attributes and the results of those evaluations are utilized in underwriting new loans and in our process for estimating expected credit losses. Expected credit loss inherent in non-cancelable off-balance-sheet credit exposures is accounted for as a separate liability included in other liabilities on the balance sheet. The allowance for credit losses for loans held for investment is adjusted by a credit loss expense, which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries. Old National has made a policy election to report accrued interest receivable as a separate line item on the balance sheet.

The allowance for credit loss estimation process involves procedures to appropriately consider the unique characteristics of its loan portfolio segments. These segments are further disaggregated into loan classes based on the level at which credit risk is monitored. When computing the level of expected credit losses, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history, delinquency status, and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. In future periods evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the allowance and credit loss expense in those future periods.

The allowance level is influenced by loan volumes, loan AQR migration or delinquency status, changes in historical loss experience, and other conditions influencing loss expectations, such as reasonable and supportable forecasts of economic conditions. The methodology for estimating the amount of expected credit losses reported in the allowance for credit losses has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

We utilize a discounted cashflow approach to determine the allowance for credit losses for performing loans and nonperforming loans. Expected cashflows are created for each loan and discounted using the effective yield method. The discounted sum of expected cashflows is then compared to the amortized cost and any shortfall is recorded as reserve. Expected cashflows are created using a combination of contractual payment schedules, calculated PDs, LGD, and prepayment assumptions as well as qualitative factors. For the commercial and commercial real estate loans, the PD is forecast using a regression model to determine the likelihood of a loan moving into nonaccrual within the time horizon. For residential and consumer loans, the PD is forecast using a regression model to determine the likelihood of a loan being charged-off within the time horizon. The regression models use combinations of variables to assess systematic and unsystematic risk. Variables used for unsystematic risk are borrower specific and help to gauge the risk of default from an individual borrower. Variables for systematic risk, risk inherent to all borrowers, come from the use of forward-looking economic forecasts and include variables such as unemployment rate, gross domestic product, and house price index. The LGD is defined as credit loss incurred when an obligor of the bank defaults. Qualitative factors include items such as changes in lending policies or procedures and economic uncertainty in forward-looking forecasts.

Prior to the adoption of ASC 326 on January 1, 2020, Old National calculated allowance for loan losses using incurred losses methodology. Further information regarding Old National's policies and methodology used to estimate the allowance for credit losses for loans is presented in Note 4 to the consolidated financial statements.

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 – 10 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

Goodwill arises from business combinations and is determined as the excess of the cost of acquired entities over the fair value of identifiable assets acquired less liabilities assumed as of the acquisition date. Amortization of goodwill and indefinite-lived assets is not recorded. However, the recoverability of goodwill and other intangible assets are tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. 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 included in other assets on the balance sheet.

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; or (5) 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 clients, 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 bank subsidiary 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. Old National maintains an allowance for credit 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 credit losses for loans, modified to take into account the probability of a drawdown on the commitment. The allowance for credit losses on unfunded loan commitments is classified as a liability account on the balance sheet and is adjusted as a provision for credit loss expense included in other expense.

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 and are included in other assets on the balance sheet. 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 credit 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, stock appreciation rights, 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 and appreciation rights, while the market price of our Common Stock at the date of grant is used for restricted stock awards. The market price of our Common Stock at the date of grant less the present value of dividends expected to be paid during the performance period is used for restricted stock units where the performance measure is based on an internal performance measure. 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 ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. See Note 21 to the consolidated financial statements for further disclosure.

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 supplemental cash flow information:

	Years Ended December 31,		
(dollars in thousands)	**2021**	2020	2019
Cash payments:			
Interest	**$ 42,196**	$ 70,043	$ 127,713
Income taxes (net of refunds)	**31,875**	24,436	5,494
Noncash Investing and Financing Activities:			
Securities transferred from held-to-maturity to available-for-sale	**—**	—	381,992
Transfer of premises and equipment to assets held for sale	**9,539**	16,661	2,689
Operating lease right-of-use assets obtained in exchange for lease obligations	**776**	(116)	113,498
Finance lease right-of-use assets obtained in exchange for lease obligations	**7,477**	5,225	7,871

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. Alternatively, a gain is recorded if the fair value of the net assets acquired exceeds the purchase price. 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 Stock issued is determined based on the market price of the stock as of the closing of the acquisition. Acquisition costs are expensed when incurred. There were no acquisitions during 2021, 2020, or 2019.

Impact of Accounting Changes

Accounting Guidance Adopted in 2021

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 became effective for fiscal years ending after December 15, 2020 and did not have a material impact on the 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 became effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years and did not have a material impact on the financial statements.

FASB ASC 321, 323, and 815 – In January 2020, the FASB issued ASU No. 2020-01, *Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions Between Topic 321, Topic 323, and Topic 815 (a Consensus of the Emerging Issues Task Force).* The ASU clarifies the interaction between ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* and the ASU on equity method investments. ASU 2016-01 provides companies with an alternative to measure certain equity securities without a readily determinable fair value at cost, minus impairment, if any, unless an observable transaction for an identical or similar security occurs. ASU 2020-01 clarifies that for purposes of applying the Topic 321 measurement alternative, an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting under Topic 323, immediately before applying or upon discontinuing the equity method. In addition, the new ASU provides direction that a company should not consider whether the underlying securities would be accounted for under the equity method or the fair value option when it is determining the accounting for certain forward contracts and purchased options, upon either settlement or exercise. The amendments in this update became effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The amendments are to be applied prospectively and did not have a material impact on the consolidated financial statements.

Acquisitions and Dispositions of Businesses and Related Pro Forma Information – In May 2020, the SEC issued a final rule that revises the circumstances that require financial statements and related pro forma information for acquisitions and dispositions of businesses. The intent of the rule is to allow for more meaningful conclusions on when an acquired or disposed business is significant as well as to improve the related disclosure requirements. The changes are intended to improve the financial information about acquired or disposed businesses, facilitate more timely access to capital, and reduce the complexity and costs to prepare the disclosure. The final rule was effective January 1, 2021.

FASB ASC 310 – In October 2020, the FASB issued ASU No. 2020-08, *Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs*, to clarify that an entity should reevaluate whether a callable debt security is within the scope of ASC paragraph 310-20-35-33 for each reporting period. The ASU was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The new guidance did not have a material impact on the consolidated financial statements.

FASB ASC 470 – In October 2020, the FASB issued ASU No. 2020-09, *Debt (Topic 470) Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762*, which amends and supersedes various SEC paragraphs to reflect SEC Release No. 33-10762. That release amends the financial disclosure requirements applicable to registered debt offerings that include credit enhancements, such as subsidiary guarantees. These changes are intended to both improve the quality of disclosure and increase the likelihood that issuers will conduct debt offerings on a registered basis. The final rules were effective on January 4, 2021. The amendments did not have a material impact on the consolidated financial statements.

Codification Improvements – In October 2020, the FASB issued ASU No. 2020-10, *Codification Improvements*. The amendments improve codification by having all disclosure-related guidance available in the disclosure sections of the codification. Prior to this ASU, various disclosure requirements or options to present information on the face of the financial statements or as a note to the financial statements were not included in the appropriate disclosure sections of the codification. The codification improvements also contain various other minor amendments to codification that are not expected to have a significant effect on current accounting practice. The amendments became effective for annual periods beginning after December 15, 2020.

FASB ASC 848 – In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, which provides temporary, optional guidance to ease the potential burden in accounting for, or recognizing the effects of, the transition away from the LIBOR or other interbank offered rate on financial reporting. To help with the transition to new reference rates, the ASU provides optional expedients and exceptions for applying GAAP to affected contract modifications and hedge accounting relationships. The main provisions include:

- A change in a contract's reference interest rate would be accounted for as a continuation of that contract rather than as the creation of a new one for contracts, including loans, debt, leases, and other arrangements, that meet specific criteria.
- When updating its hedging strategies in response to reference rate reform, an entity would be allowed to preserve its hedge accounting.

The guidance is applicable only to contracts or hedge accounting relationships that reference LIBOR or another reference rate expected to be discontinued. Because the guidance is meant to help entities through the transition period, it will be in effect for a limited time and will not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022, except for hedging relationships existing as of December 31, 2022, for which an entity has elected certain optional expedients that are retained through the end of the hedging relationship. The amendments in this ASU are effective March 12, 2020 through December 31, 2022.

ASU 2020-04 permits relief solely for reference rate reform actions and permits different elections over the effective date for legacy and new activity. Accordingly, Old National is evaluating and reassessing the elections on a quarterly basis. For current elections in effect regarding the assertion of the probability of forecasted transactions, Old National elects the expedient to assert the probability of the hedged interest payments and receipts regardless of any expected modification in terms related to reference rate reform.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which addresses questions about whether Topic 848 can be applied to derivative instruments that do not reference a rate that is expected to be discontinued but that use an interest rate for margining, discounting, or contract price alignment that is expected to be modified as a result of reference rate reform, commonly referred to as the "discounting transition." The amendments clarify that certain optional expedients and exceptions in Topic 848 do apply to derivatives that are affected by the discounting transition. The amendments in ASU 2021-01 are effective immediately.

Old National believes the adoption of this guidance on activities subsequent to December 31, 2021 through December 31, 2022 will not have a material impact on the consolidated financial statements.

Guidance on Non-TDR Loan Modifications due to COVID-19 – The CAA, which was signed into law on December 27, 2020, extends certain provisions of the CARES Act. Section 4013 of the CARES Act provided temporary relief from TDR accounting and is amended by Division N, Section 540 of the CAA, by extending the end date from December 31, 2020, to the earlier of January 1, 2022, or 60 days after the date on which the COVID-19 national emergency terminates. In response, the OCC updated its two-page reference guide, "TDR Designation and COVID-19 Loan Modifications," to conform to the extended TDR provisions. In accordance with such guidance, we are offering short-term modifications made in response to COVID-19 to borrowers who are current and otherwise not past due. These include short-term (180 days or less) modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. See Note 4 to the consolidated financial statements for further information on non-TDR loan modifications.

Accounting Guidance Pending Adoption

FASB ASC 470 and 815 – In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging— Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, to clarify the accounting for certain financial instruments with characteristics of liabilities and equity. The amendments in this update reduce the number of accounting models for convertible debt instruments and convertible preferred stock by removing the cash conversion model and the beneficial conversion feature model. Limiting the accounting models will result in fewer embedded conversion features being separately recognized from the host contract. Convertible instruments that continue to be subject to separation models are (1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting and (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in-capital. In addition, this ASU improves disclosure requirements for convertible instruments and earnings-per-share guidance. The ASU also revises the derivative scope exception guidance to reduce form-over-substance-based accounting conclusions driven by remote contingent events. The amendments in this update are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption will be permitted, but no earlier than for fiscal years beginning after December 15, 2020. Old National is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

FASB ASC 842 – In July 2021, the FASB issued ASU 2021-05, *Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments*, to amend the lease classification requirements for lessors to align them with practice under ASC Topic 840. Lessors should classify and account for a lease with variable lease payments that do not depend on a reference index or a rate as an operating lease if both of the following criteria are met: (1) The lease would have been classified as a sales-type lease or a direct financing lease in accordance with the classification criteria in ASC paragraphs 842-10-25-2 through 25-3; and (2) The lessor would have otherwise recognized a day-one loss. When a lease is classified as operating, the lessor does not recognize a net investment in the lease, does not derecognize the underlying asset, and, therefore, does not recognize a selling profit or loss. The amendments in this update are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted. Old National is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

FASB ASC 205, 942, and 946 – In August 2021, the FASB issued ASU 2021-06, *Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants.* This ASU incorporates recent SEC rule changes into the FASB Codification, including SEC Final Rule Releases No. 33-10786, *Amendments to Financial Disclosures about Acquired and Disposed Businesses*, and No. 33-10835, *Update of Statistical Disclosures for Bank and Savings and Loan Registrants*. The amendments in this update are effective upon addition to the FASB Codification and will not have a material impact on the consolidated financial statements.

FASB ASC 805 – In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities From Contracts With Customers*, to address diversity in practice and inconsistency related to the accounting for revenue contracts with customers acquired in a business combination. The amendments require that the acquirer recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. At the acquisition date, an acquirer should account for the related revenue contracts in accordance with Topic 606 as if it had originated the contracts. The ASU also provides certain practical expedients for acquirers when recognizing and measuring acquired contract assets and contract liabilities from revenue contracts in a business combination and applies to contract assets and contract liabilities from other contracts to which the provisions of Topic 606 apply. The amendments in this update are effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. Entities should apply the amendments prospectively to business combinations that occur after the effective date. Early adoption is permitted, including in any interim period, for public business entities for periods for which financial statements have not yet been issued, and for all other entities for periods for which financial statements have not yet been made available for issuance. The new guidance will not have a material impact on the consolidated financial statements.

NOTE 2 – ACQUISITION AND DIVESTITURE ACTIVITY

Pending Acquisition

First Midwest Bancorp, Inc.

On May 30, 2021, Old National entered into a definitive merger agreement with First Midwest to combine in an all-stock merger of equals transaction. Under the terms of the merger agreement, which was unanimously approved by the Boards of Directors of both companies, First Midwest stockholders will receive 1.1336 shares of Old National common stock for each share of First Midwest common stock they own. Holders of First Midwest Common Stock will receive cash in lieu of fractional shares. Each share of 7.000% fixed-rate non-cumulative perpetual preferred stock, Series A, no par value, and each share of 7.000% fixed-rate non-cumulative perpetual preferred stock, Series C, no par value, of First Midwest will be converted into the right to receive one share of a newly created series of preferred stock of Old National having terms that are not materially less favorable than the First Midwest preferred stock. Following completion of the transaction, former First Midwest stockholders are expected to collectively represent approximately 44% of the combined company. The new organization will operate under the Old National Bancorp and Old National Bank names, with headquarters and the main office located in Evansville, Indiana and commercial and consumer banking operations headquartered in Chicago, Illinois. First Midwest reported loans totaling $14.665 billion, assets totaling $21.778 billion, and deposits totaling $17.191 billion at December 31, 2021. Based on Old National's December 31, 2021 closing price of $18.12 per share, this represents a total transaction value of approximately $2.4 billion. The transaction value is likely to change until closing due to fluctuations in the price of Old National common stock and is also subject to adjustment under certain circumstances as provided in the merger agreement. During the third quarter of 2021, we received approval of the merger from the OCC and the shareholders of Old National and First Midwest. On January 25, 2022, the OCC granted us an extension of 60 days to April 20, 2022 for consummating the bank merger. On January 27, 2022, we received Federal Reserve approval for the merger. With all necessary regulatory approvals received, the merger is expected to occur after the close of business and after the end of regular trading hours on the NASDAQ Stock Market on February 15, 2022, subject to customary closing conditions.

Transaction costs totaling $11.0 million associated with the merger have been expensed through December 31, 2021 and additional transaction and integration costs will be expensed in future periods as incurred.

Divestitures

Based on an ongoing assessment of our service and delivery network, Old National consolidated 31 banking centers throughout its footprint in 2020: ten banking centers in each of Wisconsin and Indiana, five in Michigan, four in Minnesota, and two in Kentucky.

NOTE 3 – INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale investment securities portfolio and the corresponding amounts of unrealized gains, unrealized losses, and basis adjustments recognized in accumulated other comprehensive income (loss):

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Basis Adjustments (1)	Fair Value
December 31, 2021					
Available-for-Sale					
U.S. Treasury	**$ 234,555**	**$ 1,233**	**$ (7,751)**	**$ 7,547**	**$ 235,584**
U.S. government-sponsored entities and agencies	**1,575,994**	**7,354**	**(37,014)**	**(3,561)**	**1,542,773**
Mortgage-backed securities - Agency	**3,737,484**	**27,421**	**(66,074)**	**—**	**3,698,831**
States and political subdivisions	**1,587,172**	**69,696**	**(1,882)**	**—**	**1,654,986**
Pooled trust preferred securities	**13,756**	**—**	**(4,260)**	**—**	**9,496**
Other securities	**235,072**	**6,578**	**(1,254)**	**—**	**240,396**
Total available-for-sale securities	**$ 7,384,033**	**$ 112,282**	**$ (118,235)**	**$ 3,986**	**$ 7,382,066**
December 31, 2020					
Available-for-Sale					
U.S. Treasury	$ 9,909	$ 299	$ —	$ —	$ 10,208
U.S. government-sponsored entities and agencies	841,133	5,744	(3,921)	(968)	841,988
Mortgage-backed securities - Agency	3,249,002	91,086	(990)	—	3,339,098
States and political subdivisions	1,405,868	86,325	(31)	—	1,492,162
Pooled trust preferred securities	13,763	—	(5,850)	—	7,913
Other securities	265,079	14,260	(593)	—	278,746
Total available-for-sale securities	$ 5,784,754	$ 197,714	$ (11,385)	$ (968)	$ 5,970,115

(1) Basis adjustments represent the cumulative fair value adjustments included in the carrying amounts of fixed-rate investment securities assets in fair value hedging arrangements.

Proceeds from sales or calls of available-for-sale investment securities and the resulting realized gains and realized losses were as follows:

	Years Ended December 31,		
(dollars in thousands)	2021	2020	2019
Proceeds from sales of available-for-sale debt securities	**$ 198,886**	$ 299,885	$ 424,140
Proceeds from calls of available-for-sale debt securities	**158,818**	465,179	441,851
Total	**$ 357,704**	$ 765,064	$ 865,991
Realized gains on sales of available-for-sale debt securities	**$ 4,188**	$ 11,172	$ 4,620
Realized gains on calls of available-for-sale debt securities	**317**	121	93
Realized losses on sales of available-for-sale debt securities	**(145)**	(500)	(2,760)
Realized losses on calls of available-for-sale debt securities	**(33)**	(26)	(30)
Debt securities gains (losses), net	**$ 4,327**	$ 10,767	$ 1,923

Investment securities pledged to secure public and other funds had a carrying value of $2.701 billion at December 31, 2021 and $2.427 billion at December 31, 2020.

At December 31, 2021, Old National had a concentration of investment securities issued by certain states and their political subdivisions. The aggregate market value issued by Indiana was $647.6 million, which represented 21.5% of shareholders' equity. Of the Indiana municipal bonds, 97% are rated "A" or better, and the remaining 3% generally represent non-rated local interest bonds where Old National has a market presence.

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, 2021 Amortized Cost	Fair Value	Weighted Average Yield
Available-for-Sale			
Within one year	$ 101,565	$ 102,886	2.87 %
One to five years	2,377,074	2,389,054	2.05 %
Five to ten years	2,496,036	2,449,808	1.75 %
Beyond ten years	2,409,358	2,440,318	2.40 %
Total	$ 7,384,033	$ 7,382,066	2.07 %

The following table summarizes the available-for-sale investment securities with unrealized losses for which an allowance for credit losses has not been recorded 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, 2021						
Available-for-Sale						
U.S. Treasury	$ 91,063	$ (7,751)	$ —	$ —	$ 91,063	$ (7,751)
U.S. government-sponsored entities and agencies	1,032,566	(21,167)	312,949	(15,847)	1,345,515	(37,014)
Mortgage-backed securities - Agency	2,415,923	(59,277)	163,685	(6,797)	2,579,608	(66,074)
States and political subdivisions	178,570	(1,849)	2,729	(33)	181,299	(1,882)
Pooled trust preferred securities	—	—	9,496	(4,260)	9,496	(4,260)
Other securities	56,976	(943)	21,133	(311)	78,109	(1,254)
Total available-for-sale	$ 3,775,098	$ (90,987)	$ 509,992	$ (27,248)	$ 4,285,090	$ (118,235)
December 31, 2020						
Available-for-Sale						
U.S. government-sponsored entities and agencies	$ 355,528	$ (3,921)	$ —	$ —	$ 355,528	$ (3,921)
Mortgage-backed securities - Agency	275,833	(895)	3,572	(95)	279,405	(990)
States and political subdivisions	3,497	(31)	—	—	3,497	(31)
Pooled trust preferred securities	—	—	7,913	(5,850)	7,913	(5,850)
Other securities	19,404	(70)	24,871	(523)	44,275	(593)
Total available-for-sale	$ 654,262	$ (4,917)	$ 36,356	$ (6,468)	$ 690,618	$ (11,385)

Available-for-sale debt securities in unrealized loss positions are evaluated for impairment related to credit losses at least quarterly. For available-for sale debt securities in an unrealized loss position, we first assess whether we intend to sell, or it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for sale debt securities that do not meet the criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security and the issuer, among other factors. If this assessment indicates that a credit loss exists, we compare the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis for the security, a credit loss exists and an allowance for credit losses is recorded, limited to the amount that the fair value of the security is less than its amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of applicable taxes. No allowance for credit losses for available-for-sale debt securities was needed at December 31, 2021 or December 31, 2020. Accrued interest receivable on available-for-sale debt securities is excluded from the estimate of credit losses and totaled $35.5 million at December 31, 2021 and $27.0 million at December 31, 2020.

The U.S. government sponsored entities and agencies and mortgage-backed securities – agency are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major credit rating agencies, and have a long history of no credit losses. Therefore, for those securities, we do not record expected credit losses.

Prior to the adoption of ASC 326 on January 1, 2020, we did not record OTTI in 2019.

At December 31, 2021, Old National's securities portfolio consisted of 1,918 securities, 357 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. Old National's pooled trust preferred securities are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. At December 31, 2021, 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.

Old National's pooled trust preferred securities have experienced credit defaults. However, we believe that the value of the instruments lies in the full and timely interest payments that will be received through maturity, the steady amortization that will be experienced until maturity, and the full return of principal by the final maturity of the collateralized debt obligations. Old National did not recognize any losses on these securities for the years ended December 31, 2021 or December 31, 2020.

Equity Securities

Old National's equity securities with readily determinable fair values totaled $13.2 million at December 31, 2021 and $2.5 million at December 31, 2020. There were gains on equity securities of $0.2 million during 2021, $1.4 million during 2020, and $0.7 million during 2019. Old National also has equity securities without readily determinable fair values that are included in other assets that totaled $186.0 million at December 31, 2021 and $105.8 million at December 31, 2020. These equity securities without readily determinable fair values 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 were no impairments or adjustments on equity securities without readily determinable fair values, except for amortization of tax credit investments during 2021 and 2019. There were impairments on these securities totaling $117 thousand in 2020.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans

Old National's loans consist primarily of loans made to consumers and commercial clients in many diverse 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, Minnesota, and Wisconsin. Old National manages concentrations of credit exposure by industry, product, geography, client 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 loan categories used to monitor and analyze interest income and yields are different than the portfolio segments used to determine the allowance for credit losses for loans. The allowance for credit losses was calculated by pooling loans of similar credit risk characteristics and credit monitoring procedures. The four loan portfolios are classified into seven segments of loans - commercial, commercial real estate, BBCC, residential real estate, indirect, direct, and home equity. The commercial and commercial real estate loan categories shown on the balance sheet include the same pool of loans as the commercial, commercial real estate, and BBCC portfolio segments. The consumer loan category shown on the balance sheet is comprised of the same loans in the indirect, direct, and home equity portfolio segments. The portfolio segment reclassifications follow:

(dollars in thousands)	Statement Balance	Segment Portfolio Reclassifications	After Reclassifications
December 31, 2021			
Commercial	**$ 3,391,769**	**$ (191,557)**	**$ 3,200,212**
Commercial real estate	**6,380,674**	**(159,190)**	**6,221,484**
BBCC	**N/A**	**350,747**	**350,747**
Residential real estate	**2,255,289**	**—**	**2,255,289**
Consumer	**1,574,114**	**(1,574,114)**	**N/A**
Indirect	**N/A**	**873,139**	**873,139**
Direct	**N/A**	**140,385**	**140,385**
Home equity	**N/A**	**560,590**	**560,590**
Total	**$ 13,601,846**	**$ —**	**$ 13,601,846**
December 31, 2020			
Commercial	$ 3,956,422	$ (198,722)	$ 3,757,700
Commercial real estate	5,946,512	(171,701)	5,774,811
BBCC	N/A	370,423	370,423
Residential real estate	2,248,422	—	2,248,422
Consumer	1,635,123	(1,635,123)	N/A
Indirect	N/A	913,902	913,902
Direct	N/A	164,807	164,807
Home equity	N/A	556,414	556,414
Total	$ 13,786,479	$ —	$ 13,786,479

The composition of loans by portfolio segment follows:

(dollars in thousands)	December 31, 2021	December 31, 2020
Commercial (1) (2)	**$ 3,200,212**	$ 3,757,700
Commercial real estate	**6,221,484**	5,774,811
BBCC	**350,747**	370,423
Residential real estate	**2,255,289**	2,248,422
Indirect	**873,139**	913,902
Direct	**140,385**	164,807
Home equity	**560,590**	556,414
Total loans	**13,601,846**	13,786,479
Allowance for credit losses	**(107,341)**	(131,388)
Net loans	**$ 13,494,505**	$ 13,655,091

(1) Includes direct finance leases of $25.1 million at December 31, 2021 and $32.3 million at December 31, 2020.
(2) Includes remaining PPP loans of $169.0 million at December 31, 2021 and $943.0 million December 31, 2020.

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

Commercial

Commercial loans are classified primarily 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 clients.

Section 1102 of the CARES Act created the PPP, a program administered by the SBA to provide loans to small businesses for payroll and other basic expenses during the COVID-19 pandemic. Old National participated in the PPP as a lender. These loans are eligible to be forgiven if certain conditions are satisfied and are fully guaranteed by the SBA. Additionally, loan payments will also be deferred for the first six months of the loan term. No collateral or personal guarantees were required. Neither the government nor lenders are permitted to charge the recipients any fees. During 2020, Old National originated over 9,700 loans with balances of approximately $1.518 billion to new and existing clients through the PPP.

On December 27, 2020, the CAA was signed into law. The CAA, among other things, extended the life of the PPP, effectively creating a second round of PPP loans for eligible businesses. Old National participated in the CAA's second round of PPP lending. During 2021, Old National originated approximately 6,200 loans totaling $583.7 million through the second round of the PPP. Additionally, section 541 of the CAA extended the relief provided by the CARES Act for financial institutions to suspend the GAAP accounting treatment for troubled debt restructuring to January 1, 2022.

At December 31, 2021, remaining PPP loans totaled $169.0 million.

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 230%, 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, 2021.

BBCC

BBCC loans are typically granted to small businesses with gross revenues of less than $5 million and aggregate debt of less than $1 million. Old National has established minimum debt service coverage ratios, minimum FICO scores for owners and guarantors, and the ability to show relatively stable earnings as criteria to help mitigate risk. Repayment of these loans depends on the personal income of the borrowers and the cash flows of the business. These factors can be affected by changes in economic conditions such as unemployment levels.

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. Portfolio risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Indirect

Indirect loans are secured by automobile collateral, generally new and used cars and trucks from auto dealers that operate within our footprint. Old National typically mitigates the risk of indirect loans by establishing minimum FICO scores, maximum loan-to-value ratios, and maximum debt-to-income ratios. Repayment of these loans depends largely on the personal income of the borrowers, which can be affected by changes in economic conditions such as unemployment levels. Portfolio risk is mitigated by the fact that the loans are of smaller amounts spread over many borrowers, conservative credit policies, and ongoing reviews of dealer relationships.

Direct

Direct loans are typically secured by collateral such as auto or real estate or are unsecured. Old National has established conservative underwriting standards such as minimum FICO scores, maximum loan-to-value ratios, and maximum debt-to-income ratios. Repayment of these loans depends largely on the personal income of the borrowers, which can be affected by changes in economic conditions such as unemployment levels. Portfolio risk is mitigated by the fact that the loans are of smaller amounts spread over many borrowers along with conservative credit policies.

Home Equity

Home equity loans are generally secured by 1-4 family residences that are owner occupied. Old National has established conservative underwriting standards such as minimum FICO scores, maximum loan-to-value ratios, and maximum debt-to-income ratios. Repayment of these loans depends largely on the personal income of the borrowers, which can be affected by changes in economic conditions such as unemployment levels. Portfolio risk is mitigated by the fact that the loans are of smaller amounts spread over many borrowers, along with conservative credit policies as well as monitoring of updated borrower credit scores.

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 is presented in the following table:

	Years Ended December 31,		
(dollars in thousands)	**2021**	2020	2019
Balance at beginning of period	**$ 2,444**	$ 2,345	$ 9,310
New loans	**41,962**	1,848	1,218
Repayments	**(20,093)**	(1,715)	(2,063)
Officer and director changes	**—**	(34)	(6,120)
Balance at end of period	**$ 24,313**	$ 2,444	$ 2,345

Allowance for Credit Losses

Loans

Credit quality within the loans held for investment portfolio is continuously monitored by management and is reflected within the allowance for credit losses for loans. The allowance for credit losses is an estimate of expected losses inherent within the Company's loans held for investment portfolio. Credit quality is assessed and monitored by evaluating various attributes and the results of those evaluations are utilized in underwriting new loans and in our process for estimating expected credit losses. Expected credit loss inherent in non-cancelable off-balance-sheet credit exposures is accounted for as a separate liability included in other liabilities on the balance sheet. The allowance for credit losses for loans held for investment is adjusted by a credit loss expense, which is reported in earnings, and reduced by the charge-off of loan amounts, net of recoveries. Old National has made a policy election to report accrued interest receivable as a separate line item on the balance sheet. Accrued interest receivable on loans is excluded from the estimate of credit losses and totaled $47.6 million at December 31, 2021 and $57.3 million at December 31, 2020.

The allowance for credit loss estimation process involves procedures to appropriately consider the unique characteristics of its loan portfolio segments. These segments are further disaggregated into loan classes based on the level at which credit risk is monitored. When computing the level of expected credit losses, credit loss assumptions are estimated using a model that categorizes loan pools based on loss history, delinquency status, and other credit trends and risk characteristics, including current conditions and reasonable and supportable forecasts about the future. Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. In future periods evaluations of the overall loan portfolio, in light of the factors and forecasts then prevailing, may result in significant changes in the allowance and credit loss expense in those future periods.

The allowance level is influenced by loan volumes, loan AQR migration or delinquency status, changes in historical loss experience, and other conditions influencing loss expectations, such as reasonable and supportable forecasts of economic conditions. The methodology for estimating the amount of expected credit losses reported in the allowance for credit losses has two basic components: first, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans; and second, a pooled component for estimated expected credit losses for pools of loans that share similar risk characteristics.

The allowance for credit losses decreased for the year ended December 31, 2021 primarily due to changes in the economic forecast. The forecast scenario includes improved unemployment and house price index. In addition to the quantitative inputs, several qualitative factors were considered. These factors include the risk that unemployment and gross domestic product prove to be more severe and/or prolonged than our baseline forecast, the consumption of the vaccine is less than anticipated, the presence of communicable strains of the virus, and supply chain issues. The mitigating impact of the economy remaining open was also considered. Old National's activity in the allowance for credit losses for loans by portfolio segment was as follows:

(dollars in thousands)	Balance at Beginning of Period	Impact of Adopting ASC 326	Sub-Total	Charge-offs	Recoveries	Provision for Credit Losses	Balance at End of Period
Year Ended December 31, 2021							
Allowance for credit losses:							
Commercial	**$ 30,567**	**$ —**	**$ 30,567**	**$ (1,228)**	**$ 791**	**$ (2,898)**	**$ 27,232**
Commercial real estate	**75,810**	**—**	**75,810**	**(264)**	**4,403**	**(15,945)**	**64,004**
BBCC	**6,120**	**—**	**6,120**	**(144)**	**105**	**(3,623)**	**2,458**
Residential real estate	**12,608**	**—**	**12,608**	**(346)**	**339**	**(3,254)**	**9,347**
Indirect	**3,580**	**—**	**3,580**	**(1,087)**	**1,682**	**(2,432)**	**1,743**
Direct	**855**	**—**	**855**	**(1,159)**	**777**	**55**	**528**
Home equity	**1,848**	**—**	**1,848**	**(82)**	**978**	**(715)**	**2,029**
Total	**$ 131,388**	**$ —**	**$ 131,388**	**$ (4,310)**	**$ 9,075**	**$ (28,812)**	**$ 107,341**
Year Ended December 31, 2020							
Allowance for credit losses:							
Commercial	$ 21,359	$ 7,150	$ 28,509	$ (5,593)	$ 3,629	$ 4,022	$ 30,567
Commercial real estate	20,535	25,548	46,083	(4,323)	4,515	29,535	75,810
BBCC	2,279	3,702	5,981	(95)	140	94	6,120
Residential real estate	2,299	6,986	9,285	(824)	633	3,514	12,608
Indirect	5,319	(1,669)	3,650	(2,754)	1,922	762	3,580
Direct	1,863	(1,059)	804	(1,763)	819	995	855
Home equity	965	689	1,654	(201)	922	(527)	1,848
Total	$ 54,619	$ 41,347	$ 95,966	$ (15,553)	$ 12,580	$ 38,395	$ 131,388

PPP loans were factored in the provision for credit losses for the years ended December 31, 2021 and 2020; however, due to the SBA guaranty and our borrowers' adherence to the PPP terms, the provision impact was insignificant.

Unfunded Loan Commitments

Old National maintains an allowance for credit 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 credit losses for loans, modified to take into account the probability of a drawdown on the commitment. The allowance for credit losses on unfunded loan commitments is classified as a liability account on the balance sheet. Old National's activity in the allowance for credit losses on unfunded loan commitments was as follows:

	Years Ended December 31,	
(dollars in thousands)	**2021**	**2020**
Allowance for credit losses on unfunded loan commitments:		
Balance at beginning of period	**$ 11,689**	$ 2,656
Impact of adopting ASC 326	**—**	4,549
Sub-Total	**11,689**	7,205
Expense (reversal of expense) for credit losses	**(810)**	4,484
Balance at end of period	**$ 10,879**	$ 11,689

Credit Quality

Old National's management monitors the credit quality of its loans on an ongoing basis with the AQR for commercial loans reviewed annually or at renewal and the performance of its residential and consumer loans based upon the accrual status refreshed at least quarterly. Internally, management assigns an AQR to each non-homogeneous commercial, commercial real estate, and BBCC loan in the portfolio. The primary determinants of the AQR are 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 following table summarizes the amortized cost of term loans by risk category of commercial, commercial real estate, and BBCC loans by loan portfolio segment and class of loan:

	Origination Year								
(dollars in thousands)	2021	2020	2019	2018	2017	Prior	Revolving	Revolving to Term	Total
December 31, 2021									
Commercial:									
Risk Rating:									
Pass	$ 918,456	$ 563,869	$ 271,158	$ 98,468	$ 156,136	$ 235,639	$ 667,628	$ 130,470	$3,041,824
Criticized	9,998	7,885	6,660	—	7,809	2,658	14,601	10,076	59,687
Classified:									
Substandard	14,773	14,468	10,200	9,849	5,521	945	6,883	10,322	72,961
Nonaccrual	1,069	3,507	1,276	3,721	1,448	—	845	7,796	19,662
Doubtful	—	178	—	288	337	5,275	—	—	6,078
Total	$ 944,296	$ 589,907	$ 289,294	$ 112,326	$ 171,251	$ 244,517	$ 689,957	$ 158,664	$3,200,212
Commercial real estate:									
Risk Rating:									
Pass	$1,555,880	$1,474,271	$ 846,921	$ 481,508	$ 462,176	$ 611,680	$ 42,609	$ 451,544	$5,926,589
Criticized	27,622	24,790	39,914	—	21,614	22,157	—	34,387	170,484
Classified:									
Substandard	4,706	12,118	9,933	9,058	18,165	11,351	2,291	4,339	71,961
Nonaccrual	1,620	2,997	—	1,627	3,419	8,905	315	871	19,754
Doubtful	6,653	—	1,970	342	11,218	12,513	—	—	32,696
Total	$1,596,481	$1,514,176	$ 898,738	$ 492,535	$ 516,592	$ 666,606	$ 45,215	$ 491,141	$6,221,484
BBCC:									
Risk Rating:									
Pass	$ 81,710	$ 69,749	$ 54,580	$ 34,461	$ 25,113	$ 8,296	$ 47,571	$ 18,778	$ 340,258
Criticized	1,320	1,170	841	160	—	—	670	1,578	5,739
Classified:									
Substandard	284	24	79	7	187	465	103	239	1,388
Nonaccrual	—	88	—	—	66	162	—	1,136	1,452
Doubtful	—	25	284	1,391	—	210	—	—	1,910
Total	$ 83,314	$ 71,056	$ 55,784	$ 36,019	$ 25,366	$ 9,133	$ 48,344	$ 21,731	$ 350,747

(dollars in thousands)	Origination Year 2020	2019	2018	2017	2016	Prior	Revolving	Revolving to Term	Total
December 31, 2020									
Commercial:									
Risk Rating:									
Pass	$1,675,964	$ 420,736	$ 171,228	$ 227,710	$ 124,041	$ 262,538	$ 549,849	$ 148,508	$3,580,574
Criticized	23,982	9,603	15,003	9,508	3,383	5,369	10,307	2,685	79,840
Classified:									
Substandard	6,501	6,369	10,077	9,836	2,774	8,441	15,344	3,049	62,391
Nonaccrual	2,600	3,754	4,701	6,951	49	4,379	778	7,013	30,225
Doubtful	—	—	1,016	2,748	296	610	—	—	4,670
Total	$1,709,047	$ 440,462	$ 202,025	$ 256,753	$ 130,543	$ 281,337	$ 576,278	$ 161,255	$3,757,700
Commercial real estate:									
Risk Rating:									
Pass	$1,537,226	$1,041,305	$ 749,102	$ 677,119	$ 496,086	$ 513,658	$ 28,122	$ 382,219	$5,424,837
Criticized	6,874	49,271	26,464	46,994	17,648	33,490	—	19,804	200,545
Classified:									
Substandard	11,451	4,700	13,565	26,691	5,308	8,665	—	2,911	73,291
Nonaccrual	1,408	2,054	5,393	9,456	1,635	12,564	—	313	32,823
Doubtful	—	1,832	—	18,926	19,283	3,274	—	—	43,315
Total	$1,556,959	$1,099,162	$ 794,524	$ 779,186	$ 539,960	$ 571,651	$ 28,122	$ 405,247	$5,774,811
BBCC:									
Risk Rating:									
Pass	$ 94,828	$ 73,913	$ 49,875	$ 36,288	$ 24,946	$ 5,327	$ 52,393	$ 19,353	$ 356,923
Criticized	1,599	1,403	621	414	643	—	868	1,259	6,807
Classified:									
Substandard	233	1,417	195	246	33	—	317	701	3,142
Nonaccrual	161	551	134	200	—	—	89	1,466	2,601
Doubtful	—	3	847	70	—	30	—	—	950
Total	$ 96,821	$ 77,287	$ 51,672	$ 37,218	$ 25,622	$ 5,357	$ 53,667	$ 22,779	$ 370,423

For residential real estate and consumer loan classes, Old National evaluates credit quality based on the aging status of the loan and by payment activity. The performing or nonperforming status is updated on an on-going basis dependent upon improvement and deterioration in credit quality. The following table presents the amortized cost of term residential real estate and consumer loans based on payment activity:

	Origination Year								
(dollars in thousands)	2021	2020	2019	2018	2017	Prior	Revolving	Revolving to Term	Total
December 31, 2021									
Residential real estate:									
Performing	**$ 625,582**	**$ 632,705**	**$ 272,600**	**$ 72,766**	**$ 103,866**	**$ 529,293**	**$ 12**	**$ 105**	**$2,236,929**
Nonperforming	**96**	**165**	**166**	**350**	**855**	**16,728**	**—**	**—**	**18,360**
Total	**$ 625,678**	**$ 632,870**	**$ 272,766**	**$ 73,116**	**$ 104,721**	**$ 546,021**	**$ 12**	**$ 105**	**$2,255,289**
Indirect:									
Performing	**$ 361,485**	**$ 231,156**	**$ 146,978**	**$ 68,513**	**$ 41,598**	**$ 20,819**	**$ —**	**$ 9**	**$ 870,558**
Nonperforming	**262**	**524**	**614**	**510**	**430**	**241**	**—**	**—**	**2,581**
Total	**$ 361,747**	**$ 231,680**	**$ 147,592**	**$ 69,023**	**$ 42,028**	**$ 21,060**	**$ —**	**$ 9**	**$ 873,139**
Direct:									
Performing	**$ 34,058**	**$ 16,135**	**$ 14,396**	**$ 14,579**	**$ 7,432**	**$ 15,831**	**$ 36,812**	**$ 192**	**$ 139,435**
Nonperforming	**13**	**53**	**130**	**133**	**35**	**536**	**42**	**8**	**950**
Total	**$ 34,071**	**$ 16,188**	**$ 14,526**	**$ 14,712**	**$ 7,467**	**$ 16,367**	**$ 36,854**	**$ 200**	**$ 140,385**
Home equity:									
Performing	**$ —**	**$ —**	**$ 633**	**$ 349**	**$ 535**	**$ —**	**$ 539,057**	**$ 16,768**	**$ 557,342**
Nonperforming	**—**	**—**	**16**	**9**	**41**	**1**	**258**	**2,923**	**3,248**
Total	**$ —**	**$ —**	**$ 649**	**$ 358**	**$ 576**	**$ 1**	**$ 539,315**	**$ 19,691**	**$ 560,590**

	Origination Year								
	2020	2019	2018	2017	2016	Prior	Revolving	Revolving to Term	Total
December 31, 2020									
Residential real estate:									
Performing	$ 624,435	$ 453,132	$ 132,107	$ 190,376	$ 202,457	$ 620,999	$ —	$ 122	$2,223,628
Nonperforming	65	251	680	892	2,131	20,775	—	—	24,794
Total	$ 624,500	$ 453,383	$ 132,787	$ 191,268	$ 204,588	$ 641,774	$ —	$ 122	$2,248,422
Indirect:									
Performing	$ 352,989	$ 253,514	$ 134,893	$ 96,587	$ 52,225	$ 21,088	$ —	$ 77	$ 911,373
Nonperforming	22	443	777	666	429	192	—	—	2,529
Total	$ 353,011	$ 253,957	$ 135,670	$ 97,253	$ 52,654	$ 21,280	$ —	$ 77	$ 913,902
Direct:									
Performing	$ 32,499	$ 29,189	$ 30,510	$ 16,182	$ 8,527	$ 19,465	$ 26,028	$ 1,229	$ 163,629
Nonperforming	22	141	171	64	247	526	4	3	1,178
Total	$ 32,521	$ 29,330	$ 30,681	$ 16,246	$ 8,774	$ 19,991	$ 26,032	$ 1,232	$ 164,807
Home equity:									
Performing	$ 1	$ 997	$ 444	$ 891	$ 238	$ —	$ 529,275	$ 20,314	$ 552,160
Nonperforming	—	37	—	—	11	116	94	3,996	4,254
Total	$ 1	$ 1,034	$ 444	$ 891	$ 249	$ 116	$ 529,369	$ 24,310	$ 556,414

Nonaccrual and Past Due Loans

Old National does not record interest on nonaccrual loans until principal is recovered. For all loan classes, a loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectability of principal or interest. Interest accrued but not received is reversed against earnings. 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.

The following table presents the aging of the amortized cost basis in past due loans by class of loans:

(dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days or More	Total Past Due	Current	Total Loans
December 31, 2021						
Commercial	**$ 2,723**	**$ 617**	**$ 1,603**	**$ 4,943**	**$ 3,195,269**	**$ 3,200,212**
Commercial real estate	**1,402**	**280**	**7,042**	**8,724**	**6,212,760**	**6,221,484**
BBCC	**747**	**162**	**109**	**1,018**	**349,729**	**350,747**
Residential	**8,273**	**2,364**	**4,554**	**15,191**	**2,240,098**	**2,255,289**
Indirect	**3,888**	**867**	**554**	**5,309**	**867,830**	**873,139**
Direct	**687**	**159**	**162**	**1,008**	**139,377**	**140,385**
Home equity	**693**	**199**	**777**	**1,669**	**558,921**	**560,590**
Total	**$ 18,413**	**$ 4,648**	**$ 14,801**	**$ 37,862**	**$ 13,563,984**	**$ 13,601,846**
December 31, 2020						
Commercial	$ 2,977	$ 664	$ 2,100	$ 5,741	$ 3,751,959	$ 3,757,700
Commercial real estate	887	128	27,272	28,287	5,746,524	5,774,811
BBCC	894	882	61	1,837	368,586	370,423
Residential	11,639	3,296	7,666	22,601	2,225,821	2,248,422
Indirect	5,222	960	492	6,674	907,228	913,902
Direct	753	533	426	1,712	163,095	164,807
Home equity	1,075	377	1,663	3,115	553,299	556,414
Total	$ 23,447	$ 6,840	$ 39,680	$ 69,967	$ 13,716,512	$ 13,786,479

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due 90 days or more and still accruing by class of loan:

	December 31, 2021			December 31, 2020		
(dollars in thousands)	Nonaccrual Amortized Cost	Nonaccrual With No Related Allowance	Past Due 90 Days or More and Accruing	Nonaccrual Amortized Cost	Nonaccrual With No Related Allowance	Past Due 90 Days or More and Accruing
Commercial	**$ 25,740**	**$ 9,574**	**$ —**	$ 34,895	$ 3,394	$ 122
Commercial real estate	**52,450**	**25,139**	**—**	76,138	22,152	20
BBCC	**3,362**	**—**	**—**	3,551	—	—
Residential	**18,360**	**—**	**—**	24,794	—	—
Indirect	**2,581**	**—**	**4**	2,529	—	12
Direct	**950**	**—**	**3**	1,178	27	13
Home equity	**3,248**	**—**	**—**	4,254	45	—
Total	**$ 106,691**	**$ 34,713**	**$ 7**	$ 147,339	$ 25,618	$ 167

Interest income recognized on nonaccrual loans was insignificant during the years ended December 31, 2021 and 2020.

When management determines that foreclosure is probable, expected credit losses for collateral dependent loans are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. A loan is considered collateral dependent when the borrower is experiencing financial difficulty and the loan is expected to be repaid substantially through the operation or sale of the collateral. The class of loan represents the primary collateral type associated with the loan. Significant quarter over quarter changes are reflective of changes in nonaccrual status and not necessarily associated with credit quality indicators like appraisal value. The following table presents the amortized cost basis of collateral dependent loans by class of loan:

	Type of Collateral				
(dollars in thousands)	Real Estate	Blanket Lien	Investment Securities/Cash	Auto	Other
December 31, 2021					
Commercial	**$ 8,100**	**$ 13,816**	**$ 3,394**	**$ 80**	**$ 302**
Commercial Real Estate	**38,657**	**—**	**961**	**—**	**6,653**
BBCC	**1,895**	**1,331**	**43**	**93**	**—**
Residential	**18,360**	**—**	**—**	**—**	**—**
Indirect	**—**	**—**	**—**	**2,581**	**—**
Direct	**724**	**—**	**1**	**152**	**20**
Home equity	**3,248**	**—**	**—**	**—**	**—**
Total	**$ 70,984**	**$ 15,147**	**$ 4,399**	**$ 2,906**	**$ 6,975**
December 31, 2020					
Commercial	$ 8,976	$ 19,253	$ 5,379	$ 394	$ 893
Commercial Real Estate	60,844	472	1,137	—	13,685
BBCC	1,425	1,929	63	134	—
Residential	24,794	—	—	—	—
Indirect	—	—	—	2,529	—
Direct	901	—	2	235	29
Home equity	4,254	—	—	—	—
Total	$ 101,194	$ 21,654	$ 6,581	$ 3,292	$ 14,607

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At December 31, 2021, these loans totaled $1.256 billion, of which $619.6 million had been sold to other financial institutions and $636.1 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 includes 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. 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 credit losses for the difference between the carrying value of the loan and its computed value. To determine the computed 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, 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:

(dollars in thousands)	Beginning Balance	(Charge-offs)/ Recoveries	(Payments)/ Disbursements	Additions	Ending Balance
Year Ended December 31, 2021					
Commercial	**$ 11,090**	**$ —**	**$ (4,535)**	**$ 901**	**$ 7,456**
Commercial real estate	**17,606**	**24**	**(2,166)**	**1,694**	**17,158**
BBCC	**112**	**8**	**(33)**	**—**	**87**
Residential	**2,824**	**(4)**	**(385)**	**—**	**2,435**
Indirect	**—**	**3**	**(3)**	**—**	**—**
Direct	**739**	**2**	**(101)**	**2,064**	**2,704**
Home equity	**282**	**3**	**(86)**	**—**	**199**
Total	**$ 32,653**	**$ 36**	**$ (7,309)**	**$ 4,659**	**$ 30,039**
Year Ended December 31, 2020					
Commercial	$ 12,412	$ 633	$ (4,557)	$ 2,602	$ 11,090
Commercial real estate	14,277	4,801	(8,502)	7,030	17,606
BBCC	578	(19)	(447)	—	112
Residential	3,107	—	(283)	—	2,824
Indirect	—	9	(9)	—	—
Direct	983	23	(267)	—	739
Home equity	381	3	(102)	—	282
Total	$ 31,738	$ 5,450	$ (14,167)	$ 9,632	$ 32,653

TDRs included within nonaccrual loans totaled $11.7 million at December 31, 2021 and $14.9 million at December 31, 2020. Old National has allocated specific reserves to clients whose loan terms have been modified as TDRs totaling $0.7 million at December 31, 2021 and $1.6 million at December 31, 2020. Old National had not committed to lend any additional funds to clients with outstanding loans that were classified as TDRs at December 31, 2021 or December 31, 2020.

The pre-modification and post-modification outstanding recorded investments of loans modified as TDRs during the years ended December 31, 2021, 2020, and 2019 are the same except for when the loan modifications involve the forgiveness of principal. The following table presents loans modified as TDRs that occurred during the years ended December 31, 2021, 2020, and 2019:

(dollars in thousands)		Total
Year Ended December 31, 2021		
TDR:		
Number of loans		**3**
Pre-modification outstanding recorded investment	**$**	**4,659**
Post-modification outstanding recorded investment		**4,659**
Year Ended December 31, 2020		
TDR:		
Number of loans		4
Pre-modification outstanding recorded investment	$	9,632
Post-modification outstanding recorded investment		9,632
Year Ended December 31, 2019		
TDR:		
Number of loans		14
Pre-modification outstanding recorded investment	$	21,131
Post-modification outstanding recorded investment		21,131

The TDRs that occurred during 2021 decreased the allowance for credit losses by $0.9 million and resulted in no charge-offs during 2021. The TDRs that occurred during 2020 increased the allowance for credit losses by $0.3 million and resulted in no charge-offs during 2020. 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.

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 2021, 2020, and 2019.

The terms of certain other loans were modified during 2021 and 2020 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.

In general, once a modified loan is considered a TDR, the loan will always be considered a TDR 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.

Non-TDR Loan Modifications due to COVID-19

In March 2020, the Interagency Statement was issued by our banking regulators that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act further provides that a qualified loan modification is exempt by law from classification as a TDR as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak declared by the President of the United States under the National Emergencies Act terminates. The Interagency Statement was subsequently revised in April 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations. Additionally, section 541 of the CAA extends the relief provided by the CARES Act for financial institutions to suspend the GAAP accounting treatment for troubled debt restructuring to January 1, 2022. After this date, we will follow the GAAP accounting treatment to determine if new modifications meet the definition of a TDR. In accordance with such guidance, during 2020 and throughout 2021 we offered short-term modifications in response to COVID-19 to borrowers who were current and otherwise not past due. These included short-term (180 days or less) modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that were insignificant. These loan deferrals totaled $6.4 million at December 31, 2021.

Allowance for Loan Losses (Prior to January 1, 2020)

Prior to the adoption of ASC 326 on January 1, 2020, Old National calculated allowance for loan losses using incurred losses methodology. The following tables are disclosures related to the allowance for loan losses in the year ended December 31, 2019.

Old National's activity in the allowance for loan losses was as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
Year Ended December 31, 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

The following table presents Old National's average balance of impaired loans. Only purchased loans that had experienced subsequent impairment since the date acquired (excluding loans acquired with deteriorated credit quality) are included in the table below.

(dollars in thousands)	Year Ended December 31, 2019
Average Recorded Investment	
With no related allowance recorded:	
Commercial	$ 22,629
Commercial Real Estate - Construction	6,465
Commercial Real Estate - Other	39,401
Residential	2,052
Consumer	923
With an allowance recorded:	
Commercial	15,816
Commercial Real Estate - Construction	6,912
Commercial Real Estate - Other	20,420
Residential	981
Consumer	1,219
Total	$ 116,818

The following table presents activity in TDRs:

(dollars in thousands)	Beginning Balance	(Charge-offs)/ Recoveries	(Payments)/ Disbursements	Additions	Ending Balance
Year Ended December 31, 2019					
Commercial	$ 10,275	$ (1,911)	$ (3,733)	$ 10,231	$ 14,862
Commercial real estate	27,671	(2,112)	(23,182)	10,027	12,404
Residential	3,390	—	(971)	557	2,976
Consumer	2,374	13	(1,207)	316	1,496
Total	$ 43,710	$ (4,010)	$ (29,093)	$ 21,131	$ 31,738

NOTE 5 – OTHER REAL ESTATE OWNED

Other real estate owned in included in other assets on the balance sheet. The following table presents activity in other real estate owned:

	Years Ended December 31,		
(dollars in thousands)	**2021**	2020	2019
Balance at beginning of period	**$ 1,324**	$ 2,169	$ 3,232
Additions (1)	**1,955**	965	1,192
Sales	**(1,164)**	(1,505)	(2,077)
Impairments	**(85)**	(305)	(178)
Balance at end of period (2)	**$ 2,030**	$ 1,324	$ 2,169

(1) Includes repossessed personal property of $0.1 million at December 31, 2021 and $0.2 million at December 31, 2020.

Foreclosed residential real estate property recorded as a result of obtaining physical possession of the property included in the table above totaled $0.1 million at December 31, 2021 and $0.8 million at December 31, 2020. Consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process totaled $1.7 million at December 31, 2021 and $2.7 million at December 31, 2020.

NOTE 6 – PREMISES AND EQUIPMENT

The composition of premises and equipment was as follows:

	December 31,	
(dollars in thousands)	**2021**	2020
Land	**$ 71,014**	$ 72,600
Buildings	**394,400**	373,660
Furniture, fixtures, and equipment	**118,124**	110,735
Leasehold improvements	**46,330**	44,734
Total	**629,868**	601,729
Accumulated depreciation	**(153,682)**	(137,321)
Premises and equipment, net	**$ 476,186**	$ 464,408

Depreciation expense was $27.3 million in 2021, $28.9 million in 2020, and $26.7 million in 2019.

Finance Leases

Old National leases certain banking center buildings and equipment under finance leases that are included in premises and equipment. See Notes 7 and 14 to the consolidated financial statements for detail regarding these leases.

NOTE 7 – LEASES

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 sheets. Finance leases are included in premises and equipment and other borrowings in our consolidated balance sheets.

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 5 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 when incurred. 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.

Old National has lease agreements with lease and non-lease components, which are generally accounted for separately. For real estate leases, non-lease components and other non-components, such as common area maintenance charges, real estate taxes, and insurance are not included in the measurement of the lease liability since they are generally able to be segregated. For certain equipment leases, Old National accounts for the lease and non-lease components as a single lease component using the practical expedient available for that class of assets.

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	Years Ended December 31, 2021	2020	2019
Operating lease cost	Occupancy/Equipment expense	**$ 12,336**	$ 23,548	$ 17,001
Finance lease cost:				
Amortization of right-of-use assets	Occupancy expense	**2,356**	1,044	651
Interest on lease liabilities	Interest expense	**431**	364	320
Short-term lease cost	Occupancy expense	**—**	—	6
Sub-lease income	Occupancy expense	**(438)**	(512)	(703)
Total		**$ 14,685**	$ 24,444	$ 17,275

Supplemental balance sheet information related to leases was as follows:

	December 31,	
(dollars in thousands)	**2021**	**2020**
Operating Leases		
Operating lease right-of-use assets	**$ 69,560**	$ 76,197
Operating lease liabilities	**76,236**	86,598
Finance Leases		
Premises and equipment, net	**16,451**	11,351
Other borrowings	**17,233**	11,813
Weighted-Average Remaining Lease Term (in Years)		
Operating leases	**10.4**	10.6
Finance leases	**7.6**	10.3
Weighted-Average Discount Rate		
Operating leases	**3.34 %**	3.40 %
Finance leases	**3.02 %**	3.46 %

Supplemental cash flow information related to leases was as follows:

	Years Ended December 31,		
(dollars in thousands)	**2021**	**2020**	**2019**
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	**$ 13,823**	$ 15,906	$ 17,493
Operating cash flows from finance leases	**431**	364	320
Financing cash flows from finance leases	**2,057**	819	465

The following table presents future undiscounted lease payments by lease classification at December 31, 2021:

(dollars in thousands)	Operating Leases	Finance Leases
2022	$ 13,024	$ 2,906
2023	9,564	2,943
2024	8,516	2,959
2025	8,380	2,943
2026	7,972	1,706
Thereafter	43,410	5,914
Total undiscounted lease payments	90,866	19,371
Amounts representing interest	(14,630)	(2,138)
Lease liability	$ 76,236	$ 17,233

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, 2021:

(dollars in thousands)		Tenant Leases
2022	$	2,465
2023		1,747
2024		1,558
2025		1,182
2026		671
Thereafter		2,376
Total undiscounted lease payments	$	9,999

NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Years Ended December 31,					
(dollars in thousands)		**2021**		**2020**		**2019**
Balance at beginning of period	**$**	**1,036,994**	$	1,036,994	$	1,036,258
Acquisitions and adjustments		**—**		—		736
Balance at end of period	**$**	**1,036,994**	$	1,036,994	$	1,036,994

Old National performed the required annual goodwill impairment test as of August 31, 2021 and there was no impairment. No events or circumstances since the August 31, 2021 annual impairment test were noted that would indicate it was more likely than not a goodwill impairment exists.

The gross carrying amounts and accumulated amortization of other intangible assets were as follows:

(dollars in thousands)		Gross Carrying Amount		Accumulated Amortization and Impairment		Net Carrying Amount
December 31, 2021						
Core deposit	**$**	**92,754**	**$**	**(60,036)**	**$**	**32,718**
Customer trust relationships		**16,547**		**(14,587)**		**1,960**
Total intangible assets	**$**	**109,301**	**$**	**(74,623)**	**$**	**34,678**
December 31, 2020						
Core deposit	$	112,723	$	(69,623)	$	43,100
Customer trust relationships		16,547		(13,633)		2,914
Total intangible assets	$	129,270	$	(83,256)	$	46,014

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 2021, 2020, or 2019. Total amortization expense associated with intangible assets was $11.3 million in 2021, $14.1 million in 2020, and $16.9 million in 2019.

Estimated amortization expense for future years is as follows:

(dollars in thousands)		
2022	$	9,014
2023		7,053
2024		5,645
2025		4,509
2026		3,386
Thereafter		5,071
Total	$	34,678

NOTE 9 – LOAN SERVICING RIGHTS

Loan servicing rights are included in other assets on the balance sheet. At December 31, 2021, loan servicing rights derived from mortgage loans sold with servicing retained totaled $30.0 million, compared to $26.7 million at December 31, 2020. Loans serviced for others are not reported as assets. The principal balance of mortgage loans serviced for others was $3.662 billion at December 31, 2021, compared to $3.613 billion at December 31, 2020. Custodial escrow balances maintained in connection with serviced loans were $18.2 million at December 31, 2021 and $16.2 million at December 31, 2020.

The following table summarizes the carrying values and activity related to loan servicing rights and the related valuation allowance:

	Years Ended December 31,					
(dollars in thousands)		**2021**		2020		2019
Balance at beginning of period	**$**	**28,124**	$	25,399	$	24,512
Additions		**11,759**		12,810		6,499
Amortization		**(9,798)**		(10,085)		(5,612)
Balance before valuation allowance at end of period		**30,085**		28,124		25,399
Valuation allowance:						
Balance at beginning of period		**(1,407)**		(31)		(15)
(Additions)/recoveries		**1,361**		(1,376)		(16)
Balance at end of period		**(46)**		(1,407)		(31)
Loan servicing rights, net	**$**	**30,039**	$	26,717	$	25,368

At December 31, 2021, the fair value of servicing rights was $33.8 million, which was determined using a discount rate of 9% and a conditional prepayment rate of 10%. At December 31, 2020, the fair value of servicing rights was $26.8 million, which was determined using a discount rate of 9% and a conditional prepayment rate of 14%.

NOTE 10 – 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, 2021, 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:

(dollars in thousands)		December 31, 2021		December 31, 2020	
Investment	**Accounting Method**	**Investment**	**Unfunded Commitment (1)**	**Investment**	**Unfunded Commitment**
LIHTC	Proportional amortization	**$ 68,989**	**$ 41,355**	$ 33,609	$ 6,845
FHTC	Equity	**21,241**	**15,252**	18,660	22,398
NMTC	Proportional amortization	**18,727**	**—**	6,120	—
Renewable Energy	Equity	**1,985**	**—**	3,611	862
Total		**$ 110,942**	**$ 56,607**	$ 62,000	$ 30,105

(1) All commitments will be paid by Old National by December 31, 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:

(dollars in thousands)	Amortization Expense (1)	Tax Expense (Benefit) Recognized (2)
Year Ended December 31, 2021		
LIHTC	**$ 3,450**	**$ (4,543)**
FHTC	**2,557**	**(2,884)**
NMTC	**2,887**	**(3,625)**
Renewable Energy	**1,326**	**(562)**
Total	**$ 10,220**	**$ (11,614)**
Year Ended December 31, 2020		
LIHTC	$ 3,105	$ (4,071)
FHTC	13,237	(15,582)
NMTC	900	(1,100)
Renewable Energy	4,651	(4,122)
Total	$ 21,893	$ (24,875)
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)

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

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

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

NOTE 11 – DEPOSITS

At December 31, 2021, the scheduled maturities of total time deposits were as follows:

(dollars in thousands)		
Due in 2022	$	663,230
Due in 2023		149,526
Due in 2024		86,502
Due in 2025		33,469
Due in 2026		23,165
Thereafter		4,521
Total	$	960,413

The aggregate amount of time deposits in denominations that met or exceeded the FDIC insurance limit of $250,000 totaled $252.8 million at December 31, 2021 and $285.1 million at December 31, 2020.

NOTE 12 – 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)		**2021**		**2020**
Outstanding at year-end	**$**	**392,275**	$	431,166
Average amount outstanding		**392,777**		375,961
Maximum amount outstanding at any month-end		**405,278**		438,039
Weighted-average interest rate:				
During year		**0.10 %**		0.23 %
End of year		**0.10**		0.12

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

	At December 31, 2021									
	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	**$**	**392,275**	**$**	**—**	**$**	**—**	**$**	**—**	**$**	**392,275**
Total	**$**	**392,275**	**$**	**—**	**$**	**—**	**$**	**—**	**$**	**392,275**

The fair value of securities pledged to secure repurchase agreements may decline. Old National has pledged securities valued at 109% of the gross outstanding balance of repurchase agreements at December 31, 2021 to manage this risk.

NOTE 13 – FEDERAL HOME LOAN BANK ADVANCES

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

	December 31,			
(dollars in thousands)		**2021**		**2020**
FHLB advances (fixed rates 0.45% to 4.96% and variable rates 0.07% to 0.09%) maturing October 2022 to January 2041	**$**	**1,902,655**	$	1,999,160
Fair value hedge basis adjustments and unamortized prepayment fees		**(16,636)**		(7,725)
Total other borrowings	**$**	**1,886,019**	$	1,991,435

FHLB advances had weighted-average rates of 1.30% at December 31, 2021 and 1.32% at December 31, 2020. Investment securities and residential real estate loans collateralize these borrowings up to 140% of outstanding debt.

In 2021, Old National modified $50.0 million pertaining to two FHLB advances, which lowered their weighted average effective rates from 1.53% to 0.33%. In 2020, Old National modified $500.0 million pertaining to four FHLB advances, which lowered their weighted average effective rates from 2.00% to 1.28%. At December 31, 2021, unamortized prepayment fees related to all debt modifications totaled $26.2 million, compared to $30.0 million at December 31, 2020.

Contractual maturities of FHLB advances at December 31, 2021 were as follows:

(dollars in thousands)		
Due in 2022	$	27,500
Due in 2023		155
Due in 2024		25,000
Due in 2025		550,000
Due in 2026		100,000
Thereafter		1,200,000
Fair value hedge basis adjustments and unamortized prepayment fees		(16,636)
Total	$	1,886,019

NOTE 14 – OTHER BORROWINGS

The following table summarizes Old National's other borrowings:

	December 31,			
(dollars in thousands)		**2021**		**2020**
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 notes		**(403)**		(559)
Junior subordinated debentures (variable rates of 1.72% to 1.97%) maturing March 2035 to June 2037		**42,000**		42,000
Other basis adjustments		**(3,044)**		(3,195)
Old National Bank:				
Finance lease liabilities		**17,233**		11,813
Subordinated debentures (variable rate 4.49%)		**12,000**		12,000
Leveraged loans for NMTC (fixed rates of 1.00% to 1.43%) maturing December 2046 to December 2052		**51,045**		15,300
Other		**2,839**		428
Total other borrowings	**$**	**296,670**	$	252,787

Contractual maturities of other borrowings at December 31, 2021 were as follows:

(dollars in thousands)		
Due in 2022	$	2,497
Due in 2023		2,582
Due in 2024		177,649
Due in 2025		2,686
Due in 2026		1,495
Thereafter		110,369
Unamortized debt issuance costs and other basis adjustments		(608)
Total	$	296,670

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." Junior subordinated debentures qualify as Tier 2 capital for regulatory purposes, subject to certain limitations.

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

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

The following table summarizes the terms of our outstanding junior subordinated debentures as of December 31, 2021:

(dollars in thousands) Name of Trust	Issuance Date	Issuance Amount	Rate	Rate at December 31, 2021	Maturity Date
St. Joseph Capital Trust II	March 2005	$ 5,000	3-month LIBOR plus 1.75%	1.97 %	March 17, 2035
Anchor Capital Trust III	August 2005	5,000	3-month LIBOR plus 1.55%	1.77 %	September 30, 2035
Home Federal Statutory Trust I	September 2006	15,000	3-month LIBOR plus 1.65%	1.85 %	September 15, 2036
Monroe Bancorp Capital Trust I	July 2006	3,000	3-month LIBOR plus 1.60%	1.72 %	October 7, 2036
Tower Capital Trust 3	December 2006	9,000	3-month LIBOR plus 1.69%	1.86 %	March 1, 2037
Monroe Bancorp Statutory Trust II	March 2007	5,000	3-month LIBOR plus 1.60%	1.80 %	June 15, 2037
Total		$ 42,000			

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 had 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%.

Leveraged Loans

The leveraged loans are directly related to the New Markets Tax Credit structure. As part of the transaction structure, Old National has the right to sell its interest in the entity that received the leveraged loans at an agreed upon price to the leveraged lender at the end of the New Markets Tax Credit seven year compliance period. See Note 10 to the consolidated financial statements for additional information on the Company's New Markets Tax Credit investments.

Finance Lease Liabilities

Old National has long-term finance lease liabilities for certain banking centers and equipment totaling $17.2 million at December 31, 2021. See Note 7 to the consolidated financial statements for a maturity analysis of the Company's finance lease liabilities.

NOTE 15 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table summarizes the changes within each classification of AOCI, net of tax:

(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
Year Ended December 31, 2021					
Balance at beginning of period	**$ 145,335**	**$ —**	**$ 2,584**	**$ (148)**	**$ 147,771**
Other comprehensive income (loss) before reclassifications	**(144,948)**	**—**	**1,433**	**—**	**(143,515)**
Amounts reclassified from AOCI to income (1)	**(3,337)**	**—**	**(3,474)**	**180**	**(6,631)**
Balance at end of period	**$ (2,950)**	**$ —**	**$ 543**	**$ 32**	**$ (2,375)**
Year Ended December 31, 2020					
Balance at beginning of period	$ 56,131	$ —	$ 240	$ (164)	$ 56,207
Other comprehensive income (loss) before reclassifications	97,596	—	6,230	—	103,826
Amounts reclassified from AOCI (1)	(8,392)	—	(3,886)	16	(12,262)
Balance at end of period	$ 145,335	$ —	$ 2,584	$ (148)	$ 147,771
Year Ended December 31, 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 (1)	(1,485)	2,096	(449)	22	184
Balance at end of period	$ 56,131	$ —	$ 240	$ (164)	$ 56,207

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

The following table summarizes the significant amounts reclassified out of each component of AOCI:

(dollars in thousands)	Years Ended December 31, 2021	2020	2019	
Details about AOCI Components	**Amount Reclassified from AOCI**			**Affected Line Item in the Statement of Income**
Unrealized gains and losses on available-for-sale debt securities	**$ 4,327**	$ 10,767	$ 1,923	Debt securities gains (losses), net
	(990)	(2,375)	(438)	Income tax (expense) benefit
	$ 3,337	$ 8,392	$ 1,485	Net income
Unrealized gains and losses on held-to-maturity securities	**$ —**	$ —	$ (2,812)	Interest income (expense)
	—	—	716	Income tax (expense) benefit
	$ —	$ —	$ (2,096)	Net income
Gains and losses on cash flow hedges Interest rate contracts	**$ 4,605**	$ 5,153	$ 596	Interest income (expense)
	(1,131)	(1,267)	(147)	Income tax (expense) benefit
	$ 3,474	$ 3,886	$ 449	Net income
Amortization of defined benefit pension items				
Actuarial gains (losses)	**$ (239)**	$ (21)	$ (30)	Salaries and employee benefits
	59	5	8	Income tax (expense) benefit
	$ (180)	$ (16)	$ (22)	Net income
Total reclassifications for the period	**$ 6,631**	$ 12,262	$ (184)	Net income

NOTE 16 – 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)	**2021**	2020	2019
Provision at statutory rate of 21%	**$ 71,161**	$ 53,667	$ 60,975
Tax-exempt income:			
Tax-exempt interest	**(11,066)**	(10,776)	(10,243)
Section 291/265 interest disallowance	**114**	189	435
Company-owned life insurance income	**(2,138)**	(2,290)	(2,423)
Tax-exempt income	**(13,090)**	(12,877)	(12,231)
State income taxes	**9,308**	4,840	6,720
Tax credit investments - federal	**(5,212)**	(15,159)	(4,411)
Other, net	**(843)**	(1,324)	1,097
Income tax expense	**$ 61,324**	$ 29,147	$ 52,150
Effective tax rate	**18.1 %**	11.4 %	18.0 %

The higher effective tax rate in 2021 when compared to 2020 was primarily the result of an increase in pre-tax book income and lower tax credits.

The lower effective tax rate in 2020 when compared to 2019 was primarily the result of an increase in federal tax credits available in 2020.

The provision for income taxes consisted of the following components:

	Years Ended December 31,		
(dollars in thousands)	**2021**	2020	2019
Current expense:			
Federal	**$ 31,943**	$ 19,223	$ 22,908
State	**8,461**	6,498	4,490
Deferred expense:			
Federal	**17,514**	3,188	20,402
State	**3,406**	238	4,350
Deferred income tax expense	**20,920**	3,426	24,752
Income tax expense	**$ 61,324**	$ 29,147	$ 52,150

Net Deferred Tax Assets

Net deferred tax assets are included in other assets on the balance sheet. Significant components of net deferred tax assets (liabilities) were as follows:

	December 31,	
(dollars in thousands)	2021	2020
Deferred Tax Assets		
Allowance for credit losses, net of recapture	**$ 28,843**	$ 34,971
Benefit plan accruals	**18,348**	20,076
Net operating loss carryforwards	**14,823**	18,982
Deferred gain on securities	**1,215**	2,102
Acquired loans	**8,039**	11,989
Operating lease liabilities	**22,961**	24,245
Unrealized losses on available-for-sale investment securities	**3,003**	—
Tax credit investments and other partnerships	**301**	1,054
Other, net	**1,914**	488
Total deferred tax assets	**99,447**	113,907
Deferred Tax Liabilities		
Purchase accounting	**(18,524)**	(18,232)
Loan servicing rights	**(7,379)**	(6,582)
Premises and equipment	**(16,972)**	(14,008)
Prepaid expenses	**(796)**	(955)
Operating lease right-of-use assets	**(21,129)**	(21,569)
Unrealized gains on available-for-sale investment securities	**—**	(40,756)
Unrealized gains on hedges	**(177)**	(1,080)
Other, net	**(1,564)**	(1,555)
Total deferred tax liabilities	**(66,541)**	(104,737)
Net deferred tax assets	**$ 32,906**	$ 9,170

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, 2021 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, 2021 or 2020 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 $36.7 million at December 31, 2021 and $52.4 million at December 31, 2020. 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 2030 to 2033. Old National has recorded state net operating loss carryforwards totaling $116.1 million at December 31, 2021 and $132.2 million at December 31, 2020. If not used, the state net operating loss carryforwards will expire from 2027 to 2033.

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

Unrecognized Tax Benefits

Old National reduced an immaterial amount of unrecognized tax benefits to zero in 2020 after an Internal Revenue Service audit was finalized.

Old National and its subsidiaries file a consolidated U.S. federal income tax return, as well as filing various state returns. The 2018 through 2021 tax years are open and subject to examination.

NOTE 17 – SHARE-BASED COMPENSATION AND OTHER EMPLOYEE BENEFIT PLANS

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, 2021, 2.3 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 $7.5 million in 2021, $7.7 million in 2020, and $8.0 million in 2019. The total income tax benefit was $1.8 million in 2021, $1.9 million in 2020, and $2.0 million in 2019.

Restricted Stock Awards

Restricted stock awards require certain service requirements and commonly have vesting periods of three 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, 2021		
Nonvested balance at beginning of period	**558**	**$15.51**
Granted during the year	**254**	**17.28**
Vested during the year	**(243)**	**15.92**
Forfeited during the year	**(15)**	**14.76**
Nonvested balance at end of period	**554**	**$16.16**

As of December 31, 2021, there was $6.0 million of total unrecognized compensation cost related to nonvested restricted stock awards. 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 $4.3 million in 2021, $2.9 million in 2020, and $3.4 million in 2019.

Restricted Stock Units

Restricted stock units require certain performance requirements and have vesting periods of three years. The level of performance could increase or decrease the number of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants.

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, 2021		
Nonvested balance at beginning of period	**911**	**$14.18**
Granted during the year	**184**	**15.64**
Vested during the year	**(242)**	**14.26**
Dividend equivalents adjustment	**33**	**14.05**
Nonvested balance at end of period	**886**	**$14.80**

As of December 31, 2021, there was $3.8 million of total unrecognized compensation cost related to nonvested restricted stock units. The cost is expected to be recognized over a weighted-average period of 1.7 years.

Stock Options and Appreciation Rights

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.

As of December 31, 2021, all options were fully vested and all compensation costs had been expensed. At December 31, 2021, the outstanding shares consisted of stock appreciation rights acquired through prior year acquisitions.

A summary of the activity in stock appreciation rights in 2021 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, 2021				
Outstanding at beginning of period	**41**	**$4.24**		
Exercised	**(13)**	**4.12**		
Outstanding at end of period	**28**	**$4.30**	**0.47**	**$387.4**
Options exercisable at end of year	**28**	**$4.30**	**0.47**	**$387.4**

Information related to stock option and appreciation rights follows:

(dollars in thousands)	Year Ended December 31, 2021	2020	2019
Intrinsic value of options/appreciation rights exercised	**$ 171**	$ 213	$ 178
Cash received from options/appreciation rights exercises	**—**	—	280
Tax benefit realized from options/appreciation rights exercises	**68**	85	71

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 2021, 25 thousand shares were issued to directors, compared to 28 thousand shares in 2020, and 12 thousand shares in 2019.

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. Old National matches 75% of employee compensation deferral contributions of the first 4% of compensation, and 50% of the next 4% of compensation. In addition to matching contributions, Old National may make discretionary contributions to the 401(k) Plan in the form of Old National stock or cash. Our Board of Directors designated no discretionary profit sharing contributions in 2021, 2020, or 2019. 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 0.5 million at December 31, 2021 and 0.6 million at December 31, 2020. 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 2021, $9.5 million in 2020, and $9.8 million in 2019.

NOTE 18 – SHAREHOLDERS' EQUITY

Dividend Reinvestment and Stock Purchase Plan

Old National has a dividend reinvestment and stock purchase plan under which common shares issued may be either repurchased shares or authorized and previously unissued shares. A new plan became effective on August 12, 2021, with total authorized and unissued common shares reserved for issuance of 3.3 million. At December 31, 2021, 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 2021, 35,000 shares were issued related to this plan with proceeds of approximately $583,000. In 2020, 43,000 shares were issued related to this plan with proceeds of approximately $577,000.

Share Repurchase Plan

In the first quarter of 2021, the Board of Directors approved the repurchase of up to $100 million of shares of Common Stock, as conditions warrant, through January 31, 2022. During 2021 and through January 31, 2022, no common shares were repurchased under the plan.

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.

(dollars and shares in thousands, except per share data)	Years Ended December 31, 2021	2020	2019
Basic Net Income Per Share			
Net income	**$ 277,538**	$ 226,409	$ 238,206
Weighted average common shares outstanding	**165,178**	165,509	171,907
Basic Net Income Per Share	**$ 1.68**	$ 1.37	$ 1.39
Diluted Net Income Per Share			
Net income	**$ 277,538**	$ 226,409	$ 238,206
Weighted average common shares outstanding	**165,178**	165,509	171,907
Effect of dilutive securities:			
Restricted stock	**729**	632	733
Stock options and appreciation rights	**22**	36	47
Weighted average shares outstanding	**165,929**	166,177	172,687
Diluted Net Income Per Share	**$ 1.67**	$ 1.36	$ 1.38

NOTE 19 – 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 and equity securities: The fair values for investment securities and equity 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).

Recurring Basis

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, 2021 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	**$ 13,211**	**$ 13,211**	**$ —**	**$ —**
Investment securities available-for-sale:				
U.S. Treasury	**235,584**	**235,584**	**—**	**—**
U.S. government-sponsored entities and agencies	**1,542,773**	**—**	**1,542,773**	**—**
Mortgage-backed securities - Agency	**3,698,831**	**—**	**3,698,831**	**—**
States and political subdivisions	**1,654,986**	**—**	**1,654,986**	**—**
Pooled trust preferred securities	**9,496**	**—**	**—**	**9,496**
Other securities	**240,396**	**—**	**240,396**	**—**
Residential loans held for sale	**35,458**	**—**	**35,458**	**—**
Derivative assets	**74,226**	**—**	**74,226**	**—**
Financial Liabilities				
Derivative liabilities	**41,872**	**—**	**41,872**	**—**

		Fair Value Measurements at December 31, 2020 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	$ 2,547	$ 2,547	$ —	$ —
Investment securities available-for-sale:				
U.S. Treasury	10,208	10,208	—	—
U.S. government-sponsored entities and agencies	841,988	—	841,988	—
Mortgage-backed securities - Agency	3,339,098	—	3,339,098	—
States and political subdivisions	1,492,162	—	1,492,162	—
Pooled trust preferred securities	7,913	—	—	7,913
Other securities	278,746	—	278,746	—
Residential loans held for sale	63,250	—	63,250	—
Derivative assets	140,201	—	140,201	—
Financial Liabilities				
Derivative liabilities	18,187	—	18,187	—

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

(dollars in thousands)	Pooled Trust Preferred Securities	States and Political Subdivisions
Year Ended December 31, 2021		
Balance at beginning of period	**$ 7,913**	**$ —**
Accretion (amortization) of discount or premium	**20**	**—**
Sales/payments received	**(27)**	**—**
Increase (decrease) in fair value of securities	**1,590**	**—**
Balance at end of period	**$ 9,496**	**$ —**
Year Ended December 31, 2020		
Balance at beginning of period	$ 8,222	$ 40
Accretion (amortization) of discount or premium	15	—
Sales/payments received	(64)	(40)
Increase (decrease) in fair value of securities	(260)	—
Balance at end of period	$ 7,913	$ —
Year Ended December 31, 2019		
Balance at beginning of period	$ 8,495	$ 4,108
Accretion (amortization) of discount or premium	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

The accretion of discounts or amortization of premiums on securities in the table above is included in interest income. The increase or decrease in the fair value of securities in the table above is included in the unrealized holding gains (losses) for the period in the statement of other comprehensive 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.

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) (4)
December 31, 2021				
Pooled trust preferred securities	**$ 9,496**	Discounted cash flow	Constant prepayment rate (1)	0.0%
			Additional asset defaults (2)	5.7% - 8.5% (6.5%)
			Expected asset recoveries (3)	0.0% - 46.0% (14.1%)
December 31, 2020				
Pooled trust preferred securities	$ 7,913	Discounted cash flow	Constant prepayment rate (1)	0.0%
			Additional asset defaults (2)	6.0% - 8.7% (6.8%)
			Expected asset recoveries (3)	0.0% - 23.2% (7.3%)

(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%.
(4) Unobservable inputs are weighted by the estimated number of defaults and current performing collateral of the instruments.

Significant changes in any of the unobservable inputs used in the fair value measurement in isolation would have resulted 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 would have an impact that is directionally opposite from a change in the expected recovery of a defaulted pool asset.

Non-Recurring Basis

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

		Fair Value Measurements at December 31, 2021 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 Loans:				
Commercial loans	$ 2,634	$ —	$ —	$ 2,634
Commercial real estate loans	16,308	—	—	16,308
Loan servicing rights	140	—	140	—

Commercial and commercial real estate loans that are deemed collateral dependent are valued using the discounted cash flows. The liquidation amounts are based on the fair value of the underlying collateral using 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 commercial and commercial real estate loans had a principal amount of $21.0 million, with a valuation allowance of $2.1 million at December 31, 2021. Old National recorded provision recapture associated with these loans totaling $0.1 million in 2021.

Other real estate owned and other repossessed property is measured at fair value less costs to sell. Old National did not have any other real estate owned or repossessed property measured at fair value on a non-recurring basis at December 31, 2021. There were write-downs of other real estate owned of $23 thousand in 2021.

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, 2021 totaled $46 thousand. Old National recorded recoveries associated with these loan servicing rights totaling $1.4 million in 2021.

Assets measured at fair value on a non-recurring basis at December 31, 2020 are summarized below:

		Fair Value Measurements at December 31, 2020 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 Loans:				
Commercial loans	$ 10,747	$ —	$ —	$ 10,747
Commercial real estate loans	40,653	—	—	40,653
Loan servicing rights	26,717	—	26,717	—

At December 31, 2020, commercial and commercial real estate loans that were deemed collateral dependent had a principal amount of $57.2 million, with a valuation allowance of $5.8 million. Old National recorded provision expense associated with these loans totaling $2.1 million in 2020.

Old National did not have any other real estate owned or other repossessed property measured at fair value on a non-recurring basis at December 31, 2020. There were write-downs of other real estate owned of $0.2 million in 2020.

The valuation allowance for loan servicing rights with impairments at December 31, 2020 totaled $1.4 million. There were impairments associated with these loan servicing rights totaling $1.4 million in 2020.

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)(1)
December 31, 2021					
Collateral Dependent Loans					
Commercial loans	**$**	**2,634**	Discounted cash flow	Discount for type of property, age of appraisal, and current status	14% - 15% (14%)
Commercial real estate loans		**16,308**	Discounted cash flow	Discount for type of property, age of appraisal, and current status	6% -10% (8%)
December 31, 2020					
Collateral Dependent Loans					
Commercial loans	$	10,747	Discounted cash flow	Discount for type of property, age of appraisal, and current status	0% - 33% (12%)
Commercial real estate loans		40,653	Discounted cash flow	Discount for type of property, age of appraisal, and current status	0% - 18% (7%)

(1) Unobservable inputs were weighted by the relative fair value of the instruments.

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 $1.5 million in 2021, $2.0 million in 2020, and $1.4 million in 2019.

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 was as follows:

(dollars in thousands)		Aggregate Fair Value		Difference		Contractual Principal
December 31, 2021						
Residential loans held for sale	**$**	**35,458**	**$**	**1,342**	**$**	**34,116**
December 31, 2020						
Residential loans held for sale	$	63,250	$	3,485	$	59,765

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

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

(dollars in thousands)	Other Gains and (Losses)	Interest Income	Interest (Expense)	Total Changes in Fair Values Included in Current Period Earnings
Year Ended December 31, 2021				
Residential loans held for sale	**$ (2,139)**	**$ 2**	**$ (6)**	**$ (2,143)**
Year Ended December 31, 2020				
Residential loans held for sale	$ 1,962	$ 18	$ (24)	$ 1,956

Financial Instruments Not Carried at Fair Value

The carrying amounts and estimated fair values of financial instruments not carried at fair value were as follows:

		Fair Value Measurements at December 31, 2021 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	**$ 822,019**	**$ 822,019**	**$ —**	**$ —**
Loans, net:				
Commercial	**3,363,175**	**—**	**—**	**3,335,009**
Commercial real estate	**6,315,574**	**—**	**—**	**6,211,854**
Residential real estate	**2,245,942**	**—**	**—**	**2,216,900**
Consumer credit	**1,569,814**	**—**	**—**	**1,582,600**
Accrued interest receivable	**84,109**	**688**	**35,790**	**47,631**
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	**$ 6,303,106**	**$ 6,303,106**	**$ —**	**$ —**
Checking, NOW, savings, and money market interest-bearing deposits	**11,305,676**	**11,305,676**	**—**	**—**
Time deposits	**960,413**	**—**	**968,658**	**—**
Federal funds purchased and interbank borrowings	**276**	**276**	**—**	**—**
Securities sold under agreements to repurchase	**392,275**	**392,275**	**—**	**—**
FHLB advances	**1,886,019**	**—**	**1,935,140**	**—**
Other borrowings	**296,670**	**—**	**311,532**	**—**
Accrued interest payable	**5,496**	**—**	**5,496**	**—**
Standby letters of credit	**454**	**—**	**—**	**454**
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	**$ —**	**$ —**	**$ —**	**$ 4,678**

(dollars in thousands)	Carrying Value	Fair Value Measurements at December 31, 2020 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	$ 589,712	$ 589,712	$ —	$ —
Loans, net:				
Commercial	3,922,642	—	—	3,912,948
Commercial real estate	5,867,795	—	—	5,797,447
Residential real estate	2,235,814	—	—	2,264,274
Consumer credit	1,628,840	—	—	1,618,365
Accrued interest receivable	85,306	21	27,977	57,308
Financial Liabilities				
Deposits:				
Noninterest-bearing demand deposits	$ 5,633,672	$ 5,633,672	$ —	$ —
Checking, NOW, savings, and money market interest-bearing deposits	10,280,911	10,180,911	99,957	—
Time deposits	1,122,870	—	1,140,922	—
Federal funds purchased and interbank borrowings	1,166	1,166	—	—
Securities sold under agreements to repurchase	431,166	431,166	—	—
FHLB advances	1,991,435	—	2,092,033	—
Other borrowings	252,787	—	254,612	—
Accrued interest payable	5,443	—	5,443	—
Standby letters of credit	462	—	—	462
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$ —	$ —	$ —	$ 11,822

The methods utilized to measure the fair value of financial instruments at December 31, 2021 and 2020 represent an approximation of exit price, however, an actual exit price may differ.

NOTE 20 – 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. Derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

Credit risk arises from the possible inability of counterparties to meet the terms of their contracts. Old National's exposure is limited to the termination 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.

Derivatives Designated as Hedges

Subsequent changes in fair value for a hedging instrument that has been designated and qualifies as part of a hedging relationship are 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.

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 are 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.

The change in fair value of the hedging instrument that is included in the assessment of hedge effectiveness is presented in the same income statement line item that is used to present the earnings effect of the hedged item.

Cash Flow Hedges

Interest rate swaps of certain borrowings were designated as cash flow hedges totaling $150.0 million notional amount at December 31, 2021 and $325.0 million notional amount at December 31, 2020. Interest rate collars and floors related to variable-rate commercial loan pools were designated as cash flow hedges totaling $600.0 million notional amount at December 31, 2021 and $400.0 million notional amount at December 31, 2020. The hedges were determined to be effective during all periods presented and we expect them to remain effective during the remaining terms.

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.

Old National has designated its interest rate floor 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 floor strike rate. No payments are required if the index remains above the floor strike rate.

Fair Value Hedges

Interest rate swaps of certain borrowings were designated as fair value hedges totaling $377.5 million notional amount at December 31, 2021 and $379.0 million notional amount at December 31, 2020. Interest rate swaps of certain available-for-sale investment securities were designated as fair value hedges totaling $910.0 million notional amount at December 31, 2021 and $347.5 million notional amount at December 31, 2020. The hedges were determined to be effective during all periods presented and we expect them to remain effective during the remaining terms.

The following table summarizes Old National's derivatives designated as hedges:

	December 31, 2021			December 31, 2020		
		Fair Value			Fair Value	
(dollars in thousands)	Notional	Assets (1)	Liabilities (2)	Notional	Assets (1)	Liabilities (2)
Cash flow hedges:						
Interest rate collars and floors on loan pools	**$ 600,000**	**$ 459**	**$ 2,173**	$ 400,000	$ 6,636	$ —
Interest rate swaps on borrowings	**150,000**	**4,316**	**—**	325,000	628	1,816
Fair value hedges:						
Interest rate swaps on investment securities	**909,957**	**10,961**	**14,643**	347,516	1,145	172
Interest rate swaps on borrowings	**377,500**	**2,475**	**96**	379,000	8,793	—
Total		**$ 18,211**	**$ 16,912**		$ 17,202	$ 1,988

(1) Derivative assets are included in other assets on the balance sheet.
(2) Derivative liabilities are included in other liabilities on the balance sheet.

The effect of derivative instruments in fair value hedging relationships on the consolidated statements of income were as follows:

(dollars in thousands) Derivatives in Fair Value Hedging Relationships	Location of Gain or (Loss) Recognized 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
Year Ended December 31, 2021							
Interest rate contracts	Interest income/(expense)	**$**	**(6,413)**	Fixed-rate debt	Interest income/(expense)	**$**	**6,296**
Interest rate contracts	Interest income/(expense)		**(4,656)**	Fixed-rate investment securities	Interest income/(expense)		**4,954**
Total		**$**	**(11,069)**			**$**	**11,250**
Year Ended December 31, 2020							
Interest rate contracts	Interest income/(expense)	$	7,238	Fixed-rate debt	Interest income/(expense)	$	(7,283)
Interest rate contracts	Interest income/(expense)		973	Fixed-rate investment securities	Interest income/(expense)		(967)
Total		$	8,211			$	(8,250)
Year Ended December 31, 2019							
Interest rate contracts	Interest income/(expense)	$	12,577	Fixed-rate debt	Interest income/(expense)	$	(12,587)

The effect of derivative instruments in cash flow hedging relationships on the consolidated statements of income were as follows:

		Years Ended December 31,			Years Ended December 31,		
		2021	**2020**	**2019**	**2021**	**2020**	**2019**
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)	**$ 1,898**	$ 8,261	$ (543)	**$ 4,605**	$ 5,153	$ 596

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 $1.5 million will be reclassified to interest income and $0.1 million will be reclassified to interest expense.

Derivatives Not Designated as Hedges

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, 2021, the notional amounts of the interest rate lock commitments were $90.7 million and forward commitments were $126.1 million. At December 31, 2020, the notional amounts of the interest rate lock commitments were $224.7 million and forward commitments were $261.0 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 clients. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $2.433 billion at December 31, 2021. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $2.008 billion at December 31, 2020. 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 clients 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 clients. Old National does not designate these foreign currency forward contracts for hedge accounting treatment.

The following table summarizes Old National's derivatives not designated as hedges:

	December 31, 2021			December 31, 2020		
		Fair Value			Fair Value	
(dollars in thousands)	Notional	Assets (1)	Liabilities (2)	Notional	Assets (1)	Liabilities (2)
Interest rate lock commitments	$ 90,731	$ 2,352	$ —	$ 224,719	$ 9,375	$ —
Forward mortgage loan contracts	126,107	242	—	261,027	—	2,335
Customer interest rate swaps	2,433,177	52,439	11,658	2,008,149	113,300	133
Counterparty interest rate swaps (3)	2,433,177	583	12,956	2,008,149	—	13,543
Customer foreign currency forward contracts	10,292	399	—	9,990	324	—
Counterparty foreign currency forward contracts	10,205	—	346	9,854	—	188
Total		$ 56,015	$ 24,960		$ 122,999	$ 16,199

(1) Derivative assets are included in other assets on the balance sheet.
(2) Derivative liabilities are included in other liabilities on the balance sheet.
(3) The fair values of certain counterparty interest rate swaps are zero due to the settlement of centrally-cleared variation margin rules. The net adjustment was $28.9 million as of December 31, 2021 and $100.4 million as of December 31, 2020.

The effect of derivatives not designated as hedging instruments on the consolidated statements of income were as follows:

		Years Ended December 31,		
(dollars in thousands)		2021	2020	2019
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)	$ 279	$ (551)	$ (174)
Mortgage contracts	Mortgage banking revenue	(4,446)	5,692	789
Foreign currency contracts	Other income/(expense)	(104)	13	50
Total		$ (4,271)	$ 5,154	$ 665

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

NOTE 21 – COMMITMENTS AND CONTINGENCIES

COVID-19

The COVID-19 pandemic has created economic and financial disruptions that have adversely affected, and are likely to continue to adversely affect, the business, financial condition, and results of operations of the Company and its clients. The COVID-19 pandemic caused changes in the behavior of clients, businesses, and their employees, including illness, quarantines, social distancing practices, cancellation of events and travel, business and school shutdowns, reduction in commercial activity and financial transactions, supply chain interruptions, increased unemployment, and overall economic and financial market instability. Future effects, including additional actions taken by federal, state, and local governments to contain COVID-19 or treat its impact, are unknown. However, if these actions are sustained, it may adversely impact several industries within our geographic footprint and impair the ability of Old National's clients to fulfill their contractual obligations to the Company. This could cause Old National to experience a material adverse effect on our business operations, asset valuations, financial condition, and results of operations. Material adverse impacts may include all or a combination of valuation impairments on Old National's intangible assets, investments, loans, loan servicing rights, deferred tax assets, or counter-party risk derivatives.

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 $4.489 billion and standby letters of credit of $75.7 million at December 31, 2021. At December 31, 2021, approximately $4.151 billion of the loan commitments had fixed rates and $338.2 million had floating rates, with the floating interest rates ranging from 0% to 14%. At December 31, 2020, loan commitments totaled $3.720 billion and standby letters of credit totaled $86.9 million. These commitments are not reflected in the consolidated financial statements. The allowance for unfunded loan commitments totaled $10.9 million at December 31, 2021 and $11.7 million at December 31, 2020.

Old National had credit extensions with various unaffiliated banks related to letter of credit commitments issued on behalf of Old National's clients totaling $21.8 million at December 31, 2021 and $7.9 million at December 31, 2020. Old National provided collateral to the unaffiliated banks to secure credit extensions totaling $6.5 million at December 31, 2021 and $7.5 million December 31, 2020. 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, 2021, the conversion ratio was 1.6181. 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, 2021 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 22 – FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires 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, 2021, the notional amount of standby letters of credit was $75.7 million, which represented the maximum amount of future funding requirements, and the carrying value was $0.5 million. At December 31, 2020, the notional amount of standby letters of credit was $86.9 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 $97.7 million at December 31, 2021.

NOTE 23 – 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)	2021	2020	2019
Wealth management fees	**$ 40,409**	$ 36,806	$ 37,072
Service charges on deposit accounts	**34,685**	35,081	44,915
Debit card and ATM fees	**20,739**	20,178	21,652
Investment product fees	**24,639**	21,614	21,785
Other income:			
Merchant processing fees	**3,733**	3,150	3,105
Gain (loss) on other real estate owned	**298**	240	254
Safe deposit box fees	**999**	957	1,206
Insurance premiums and commissions	**114**	407	815
Total	**$ 125,616**	$ 118,433	$ 130,804

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

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

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

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

NOTE 24 – REGULATORY RESTRICTIONS

Restrictions on Cash and Due from Banks

Prior to March of 2020, Old National's affiliate bank was required to maintain reserve balances on hand and with the Federal Reserve Bank that are interest-bearing and unavailable for investment purposes. The Federal Reserve Board reduced reserve requirement ratios to 0% effective March 26, 2020. This action eliminated reserve requirements for all depository institutions. Old National had cash and due from banks which was held as collateral for collateralized swap positions of $14.6 million at December 31, 2021 and $7.8 million at December 31, 2020.

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 2019, 2020, or 2021 and is not currently required.

Restrictions on the Payment of Dividends

Old National has traditionally paid a quarterly dividend to common shareholders. 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 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. Capital amounts and classifications are also subject to qualitative judgments by 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, 2021, 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:

	Actual		Regulatory Guidelines Minimum (1)		Prompt Corrective Action "Well Capitalized" Guidelines	
(dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2021						
Total capital to risk-weighted assets						
Old National Bancorp	**$ 2,119,176**	**12.77 %**	**$ 1,741,789**	**10.50 %**	**N/A**	**N/A %**
Old National Bank	**2,119,405**	**12.82**	**1,735,385**	**10.50**	**1,652,748**	**10.00**
Common equity Tier 1 capital to risk-weighted assets						
Old National Bancorp	**1,998,056**	**12.04**	**1,161,193**	**7.00**	**N/A**	**N/A**
Old National Bank	**2,040,285**	**12.34**	**1,156,923**	**7.00**	**1,074,286**	**6.50**
Tier 1 capital to risk-weighted assets						
Old National Bancorp	**1,998,056**	**12.04**	**1,410,020**	**8.50**	**N/A**	**N/A**
Old National Bank	**2,040,285**	**12.34**	**1,404,835**	**8.50**	**1,322,198**	**8.00**
Tier 1 capital to average assets						
Old National Bancorp	**1,998,056**	**8.59**	**930,318**	**4.00**	**N/A**	**N/A**
Old National Bank	**2,040,285**	**8.81**	**926,821**	**4.00**	**1,158,526**	**5.00**
December 31, 2020						
Total capital to risk-weighted assets						
Old National Bancorp	$ 1,949,757	12.69 %	$ 1,613,753	10.50 %	N/A	N/A %
Old National Bank	1,973,180	12.90	1,606,657	10.50	1,530,149	10.00
Common equity Tier 1 capital to risk-weighted assets						
Old National Bancorp	1,805,194	11.75	1,075,835	7.00	N/A	N/A
Old National Bank	1,870,617	12.23	1,071,104	7.00	994,597	6.50
Tier 1 capital to risk-weighted assets						
Old National Bancorp	1,805,194	11.75	1,306,371	8.50	N/A	N/A
Old National Bank	1,870,617	12.23	1,300,627	8.50	1,224,119	8.00
Tier 1 capital to average assets						
Old National Bancorp	1,805,194	8.20	880,845	4.00	N/A	N/A
Old National Bank	1,870,617	8.67	863,087	4.00	1,078,859	5.00

(1) Basel III Capital Rules require 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. In March 2020, the OCC, the Board of Governors of the Federal Reserve System, and the FDIC published an interim final rule to delay the estimated impact on regulatory capital stemming from the implementation of CECL. The interim final rule maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). Old National is adopting the capital transition relief over the permissible five-year period.

NOTE 25 – 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)	2021	2020
Assets		
Deposits in affiliate bank	**$ 102,953**	$ 73,340
Equity securities	**3,257**	2,435
Investment securities - available-for-sale	**13,888**	14,198
Investment in affiliates:		
Banking subsidiaries	**3,053,575**	3,037,930
Non-banks	**4,949**	4,969
Other assets	**83,531**	89,776
Total assets	**$ 3,262,153**	$ 3,222,648
Liabilities and Shareholders' Equity		
Other liabilities	**$ 36,582**	$ 36,746
Other borrowings	**213,553**	213,246
Shareholders' equity	**3,012,018**	2,972,656
Total liabilities and shareholders' equity	**$ 3,262,153**	$ 3,222,648

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

	Years Ended December 31,		
(dollars in thousands)	2021	2020	2019
Income			
Dividends from affiliates	**$ 125,000**	$ 230,000	$ 165,000
Debt securities gains (losses), net	**334**	574	631
Other income	**3,030**	3,622	2,209
Other income from affiliates	**5**	5	5
Total income	**128,369**	234,201	167,845
Expense			
Interest on borrowings	**8,285**	8,649	10,203
Other expenses	**13,951**	16,351	15,505
Total expense	**22,236**	25,000	25,708
Income before income taxes and equity in undistributed earnings of affiliates	**106,133**	209,201	142,137
Income tax expense (benefit)	**(5,113)**	(5,317)	(6,165)
Income before equity in undistributed earnings of affiliates	**111,246**	214,518	148,302
Equity in undistributed earnings of affiliates	**166,292**	11,891	89,904
Net income	**$ 277,538**	$ 226,409	$ 238,206

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

	Years Ended December 31,		
(dollars in thousands)	**2021**	**2020**	**2019**
Cash Flows From Operating Activities			
Net income	**$ 277,538**	$ 226,409	$ 238,206
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	**30**	46	52
Debt securities (gains) losses, net	**(334)**	(574)	(631)
Share-based compensation expense	**7,497**	7,707	7,993
(Increase) decrease in other assets	**10,547**	(51)	(3,685)
Increase (decrease) in other liabilities	**(4,918)**	1,084	1,046
Equity in undistributed earnings of affiliates	**(166,292)**	(11,891)	(89,904)
Net cash flows provided by (used in) operating activities	**124,068**	222,730	153,077
Cash Flows From Investing Activities			
Proceeds from dissolution of subsidiary	**—**	—	224
Proceeds from sales of investment securities	**1,000**	—	—
Proceeds from sales of equity securities	**540**	4,431	130
Purchases of investment securities	**(15)**	(10,073)	(3,085)
Proceeds from sales of premises and equipment	**—**	354	847
Purchases of premises and equipment	**(3)**	(354)	(869)
Net cash flows provided by (used in) investing activities	**1,522**	(5,642)	(2,753)
Cash Flows From Financing Activities			
Payments for maturities/redemptions of other borrowings	**—**	(10,310)	(8,000)
Cash dividends paid on common stock	**(92,829)**	(92,946)	(89,474)
Common stock repurchased	**(3,731)**	(82,358)	(102,413)
Proceeds from exercise of stock options	**—**	—	280
Common stock issued	**583**	577	567
Net cash flows provided by (used in) financing activities	**(95,977)**	(185,037)	(199,040)
Net increase (decrease) in cash and cash equivalents	**29,613**	32,051	(48,716)
Cash and cash equivalents at beginning of period	**73,340**	41,289	90,005
Cash and cash equivalents at end of period	**$ 102,953**	$ 73,340	$ 41,289

NOTE 26 – 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 banking centers 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 banking centers 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 banking center locations are considered by management to be aggregated into one reportable operating segment, community banking.

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, the system of controls 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.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

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, 2021. The applicable information appearing in the Proxy Statement for the 2022 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, 2021. The applicable information appearing in our Proxy Statement for the 2022 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") 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, 2021. The applicable information appearing in the Proxy Statement for the 2022 annual meeting is incorporated by reference.

EQUITY COMPENSATION PLAN INFORMATION

The following table contains information concerning the Amended and Restated 2008 Incentive Compensation Plan approved by the Company's shareholders, as of December 31, 2021.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,468,181	$15.11	2,271,477
Equity compensation plans not approved by security holders	—	—	—
Total	1,468,181	$15.11	2,271,477

At December 31, 2021, 2.3 million shares remain available for issuance under the Amended and Restated 2008 Incentive Compensation Plan.

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, 2021. The applicable information appearing in the Proxy Statement for the 2022 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, 2021. The applicable information appearing in the Proxy Statement for the 2022 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 report under "Item 8. Financial Statements and Supplementary Data."

   Report of Independent Registered Public Accounting Firm
   Consolidated Balance Sheets – December 31, 2021 and 2020
   Consolidated Statements of Income – Years Ended December 31, 2021, 2020, and 2019
   Consolidated Statements of Comprehensive Income – Years Ended December 31, 2021, 2020, and 2019
   Consolidated Statements of Changes in Shareholders' Equity – Years Ended December 31, 2021, 2020, and 2019
   Consolidated Statements of Cash Flows – Years Ended December 31, 2021, 2020, and 2019
   Notes to Consolidated Financial Statements

2. Financial Statements 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 May 30, 2021 by and between Old National and First Midwest Bancorp, Inc. (the schedules have been omitted pursuant to Item 601(a)(5) 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 2, 2021).
3.1	Fifth Amended and Restated Articles of Incorporation of Old National, amended April 30, 2020 (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 18, 2020).
3.2	Amended and Restated By-Laws of Old National, amended April 30, 2020 (incorporated by reference to Exhibit 3.2 of Old National's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 18, 2020).
4.1	Description of Old National Bancorp capital stock (incorporated by reference to Exhibit 4.1 of Old National's Annual Report on Form 10-K for the year ended December 31, 2019).
4.2	Description of Old National Bancorp debt securities (incorporated by reference to Exhibit 4.2 of Old National's Annual Report on Form 10-K for the year ended December 31, 2019).
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 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).*
10.2	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).*
10.3	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).*
10.4	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).*
10.5	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).*
10.6	Form of 2020 Internal Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10.20 of Old National's Annual Report on Form 10-K for the year ended December 31, 2019).*
10.7	Form of 2020 Relative Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10.21 of Old National's Annual Report on Form 10-K for the year ended December 31, 2019).*
10.8	Form of 2020 Restricted Stock Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10.22 of Old National's Annual Report on Form 10-K for the year ended December 31, 2019).*
10.9	Old National Bancorp Amended and Restated 2020 Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.23 of Old National's Annual Report on Form 10-K for the year ended December 31, 2019).*
10.10	Old National Bancorp Amended and Restated 2020 Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.24 of Old National's Annual Report on Form 10-K for the year ended December 31, 2019).*
10.11	Old National Bancorp Amended and Restated 2008 Incentive Compensation Plan (incorporated by reference to Appendix II of Old National's Definitive Proxy Statement filed with the Securities and Exchange Commission on March 8, 2021).*
10.12	Amendment of the 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 8, 2021).*
10.13	Form of Employment Agreement dated as of March 10, 2021 between Old National and each of its named executive officers, James C. Ryan III; James A. Sandgren; Brendon B. Falconer; Jeffrey L. Knight; and Kendra L. Vanzo (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 March 11, 2021).*
10.14	Form of 2021 Internal Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10.1 of Old National's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 28, 2021).*
10.15	Form of 2021 Relative Performance Units Award Agreement between Old National and certain key associates (incorporated by reference to Exhibit 10.2 of Old National's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on April 28, 2021).*

10.16	Form of 2021 Restricted Stock Award Agreement between Old National and certain key associates (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 April 28, 2021).*
10.17	Stock Purchase and Dividend Reinvestment Plan (incorporated by reference to Old National's Registration Statement on Form S-3, Registration No. 333-258774 filed with the Securities and Exchange Commission on August 13, 2021).
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, 2021, 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, 2021, formatted in inline XBRL and contained in Exhibit 101.

* Management contract or compensatory plan or arrangement

ITEM 16. FORM 10-K SUMMARY

None.

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 10, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 10, 2022, by the following persons on behalf of Old National and in the capacities indicated.

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/ Daniel S. Hermann
Daniel S. Hermann, Director

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

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

By: /s/ Austin M. Ramirez
Austin M. Ramirez, 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)