OLD NATIONAL BANCORP /IN/
Form 10-Q
May 02, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

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

For the transition period from ____________ to ____________

Commission File Number 1-15817

OLD NATIONAL BANCORP

(Exact name of Registrant as specified in its charter)

INDIANA	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)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (s232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit such files). Yes No

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock. The registrant has one class of common stock (no par value) with 173,979,000 shares outstanding at March 31, 2019.

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

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

OLD NATIONAL BANCORP

FORM 10-Q

TABLE OF CONTENTS

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

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

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

Anchor (MN): Anchor Bancorp, Inc.

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

Anchor (WI): Anchor BanCorp Wisconsin Inc.

AOCI: accumulated other comprehensive income (loss)

AQR: asset quality rating

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

ATM: automated teller machine

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

CReED: Indiana Community Revitalization Enhancement District Tax Credit

DTI: debt-to-income

EITF: Emerging Issues Task Force

FASB: Financial Accounting Standards Board

FDIC: Federal Deposit Insurance Corporation

FHLB: Federal Home Loan Bank

FHTC: Federal Historic Tax Credit

FICO: Fair Isaac Corporation

GAAP: U.S. generally accepted accounting principles

Klein: Klein Financial, Inc.

LGD: loss given default

LIBOR: London Interbank Offered Rate

LIHTC: Low Income Housing Tax Credit

LTV: loan-to-value

N/A: not applicable

N/M: not meaningful

NASDAQ: The NASDAQ Stock Market LLC

NOW: negotiable order of withdrawal

OTTI: other-than-temporary impairment

PCI: purchased credit impaired

PD: probability of default

PSA: prepayment speed assumptions

Renewable Energy: investment tax credits for solar projects

SAB: Staff Accounting Bulletin

SEC: Securities and Exchange Commission

TBA: to be announced

TDR: troubled debt restructuring

OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

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

Savings	2,941,361	2,944,092	3,091,101
Money market	1,780,756	1,627,882	1,130,258
Time	2,061,598	2,024,256	1,775,731
Total deposits	14,429,270	14,349,949	12,788,600
Federal funds purchased and interbank borrowings	325,030	270,135	150,026
Securities sold under agreements to repurchase	342,480	362,294	308,189
Federal Home Loan Bank advances	1,719,944	1,613,481	1,664,179
Other borrowings	251,584	247,883	248,898
Operating lease liabilities	114,040	—	—
Accrued expenses and other liabilities	150,200	195,123	157,277
Total liabilities	17,332,548	17,038,865	15,317,169
Shareholders' Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding	—	—	—
Common stock, $1.00 per share stated value, 300,000 shares authorized, 173,979; 175,141; and 152,172 shares issued and outstanding, respectively	173,979	175,141	152,172
Capital surplus	2,007,962	2,031,695	1,640,776
Retained earnings	567,311	527,684	447,696
Accumulated other comprehensive income (loss), net of tax	2,620	(44,950)	(61,526)
Total shareholders' equity	2,751,872	2,689,570	2,179,118
Total liabilities and shareholders' equity	$20,084,420	$19,728,435	$17,496,287

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

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

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

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

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

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (unaudited)

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

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

OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

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

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

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

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

OLD NATIONAL BANCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Old National Bancorp and its wholly-owned affiliates (hereinafter collectively referred to as “Old National”) and have been prepared in conformity with accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. Such principles require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and the disclosures of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, the consolidated financial statements contain all the normal and recurring adjustments necessary for a fair statement of the financial position of Old National as of March 31, 2019 and 2018, and December 31, 2018, and the results of its operations for the three months ended March 31, 2019 and 2018. Interim results do not necessarily represent annual results. These financial statements should be read in conjunction with Old National’s Annual Report for the year ended December 31, 2018.

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

NOTE 2 – RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Guidance Adopted in 2019

FASB ASC 842 – In February 2016, the FASB issued its new lease accounting guidance in ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases, with the exception of short-term leases, at the commencement date: (1) a lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged.

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

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

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

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

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

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

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

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

FASB ASC 815 – In October 2018, the FASB issued ASU No. 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting. In the United States, eligible benchmark interest rates under Topic 815 are interest rates on direct Treasury obligations of the U.S. government ("UST"), the London Interbank Offered Rate ("LIBOR") swap rate, and the Overnight Index Swap ("OIS") Rate based on the Fed Funds Effective Rate. When the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, in August 2017, it introduced the Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Rate as the fourth permissible U.S. benchmark rate.

The new ASU adds the OIS rate based on SOFR as a U.S. benchmark interest rate to facilitate the LIBOR to SOFR transition and provide sufficient lead time for entities to prepare for changes to interest rate risk hedging strategies for both risk management and hedge accounting purposes. The amendments in this update became effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years and the financial statement impact immediately upon adoption was immaterial. The future financial statement impact will depend on any new contracts entered into using new benchmark rates, as well as any existing contracts that get migrated from LIBOR to new benchmark interest rates. The Company has formed a working group who is developing a transition plan for all exposed contracts migrating from LIBOR to SOFR. Additionally, the working group is monitoring industry specific transition guidance around a LIBOR contract's "fallback" language with the industry goal to minimize or eliminate value transfers resulting from the transition.

Accounting Guidance Issued But Not Yet Adopted

FASB ASC 326 – In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL"). The main objective of this amendment is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. The amendment requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to enhance their credit loss estimates. The amendment requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The current expected credit loss measurement will be used to estimate the allowance for credit losses ("ACL") over the life of the financial assets. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2019. Early adoption will be permitted beginning after December 15, 2018.

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

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

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

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

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

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

FASB ASC 350 – In January 2017, the FASB issued ASU No. 2017-04, Intangibles: Goodwill and Other: Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the amendments eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, the income tax effects of tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The amendments also eliminate the requirements for any reporting unit with a zero or negative carrying amount to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the qualitative impairment test is necessary. The amendments should be applied on a prospective basis. The nature of and reason for the change in accounting principle should be disclosed upon transition. The amendments in this update should be adopted for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted on testing dates after January 1, 2017. Old National is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 820 – In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The updated guidance improves the disclosure requirements on fair value measurements. The ASU removes certain disclosures required by Topic 820 related to transfers between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements; and for nonpublic entities, the changes in unrealized gains and losses for the period included in earnings for recurring Level 3 fair value measurements held at the end of the reporting period. The ASU modifies certain disclosures required by Topic 820 related to disclosure of transfers into and out of Level 3 of the fair value hierarchy and purchases and issues of Level 3 assets and liabilities for nonpublic entities; the requirement to disclose the timing of liquidation of an investee's assets and the date when restrictions from redemption might lapse only if the investee has communicated the timing to the entity or announced the timing publicly for investments in certain entities that calculate net asset value; and clarification that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The ASU adds certain disclosure requirements related to changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. The amendments in this update become effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted. Old National is currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 715 – In August 2018, the FASB issued ASU No. 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans. The amendments in this update modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The amendments in this update become effective for fiscal years ending after December 15, 2020 and will not have a material impact on the consolidated financial statements.

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

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

NOTE 3 – ACQUISITION AND DIVESTITURE ACTIVITY

Acquisition

Klein Financial, Inc.

Effective November 1, 2018, Old National completed the acquisition of Minnesota-based Klein through a 100% stock merger. Klein was a bank holding company with KleinBank as its wholly-owned subsidiary. Founded in 1907 and headquartered in Chaska, Minnesota with 18 full-service branches, KleinBank was the largest family-owned community bank serving the Twin Cities and its western communities. Old National believes that it will be able to achieve cost savings by integrating the two companies and combining accounting, data processing, retail and lending support, and other administrative functions, which will enable Old National to achieve economies of scale in these areas.

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

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

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

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

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

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

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

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

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

NOTE 4 – NET INCOME PER SHARE

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

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

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

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

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

NOTE 5 – INVESTMENT SECURITIES

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

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

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

	Three Months Ended March 31,	
(dollars in thousands)	2019	2018
Proceeds from sales of available-for-sale securities	$8,681	$84,257
Proceeds from calls of available-for-sale securities	23,685	17,436
Total	$32,366	$101,693
Realized gains on sales of available-for-sale securities	$71	$2,008
Realized gains on calls of available-for-sale securities	3	1
Realized losses on sales of available-for-sale securities	(148)	(1,257)
Realized losses on calls of available-for-sale securities	(29)	(49)
Other securities gains (losses) (1)	—	85
Net debt securities gains (losses)	$(103)	$788

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

(1

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

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

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

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

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

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

December 31, 2018
Held-to-Maturity
U.S. government-sponsored entities

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

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

Management evaluates debt securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

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

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

At March 31, 2019, Old National's securities portfolio consisted of 2,057 securities, 532 of which were in an unrealized loss position. The unrealized losses attributable to our U.S. Treasury, U.S. government-sponsored entities and agencies, agency mortgage-backed securities, states and political subdivisions, and other securities are the result of fluctuations in interest rates. Our pooled trust preferred securities are discussed below. At March 31, 2019, we had no intent to sell any securities that were in an unrealized loss position nor is it expected that we would be required to sell any securities.

Pooled Trust Preferred Securities

At March 31, 2019, our securities portfolio contained two pooled trust preferred securities with a fair value of $8.1 million and unrealized losses of $5.7 million. These securities are not subject to FASB ASC 325-10 and are evaluated using collateral-specific assumptions to estimate the expected future interest and principal cash flows. For the three months ended March 31, 2019 and 2018, our analysis indicated no OTTI on these securities.

The table below summarizes the relevant characteristics of our pooled trust preferred securities as well as our single issuer trust preferred securities that are included in the "other securities" category in this footnote. Each of the pooled trust preferred securities support a more senior tranche of security holders. Both pooled trust preferred securities have experienced credit defaults. However, these securities have excess subordination and are not other-than-temporarily impaired as a result of their class hierarchy, which provides more loss protection.

Trust preferred securities March 31, 2019 (dollars in thousands)	Class	Lowest Credit	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2019	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a % of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral

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

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

Equity securities are recorded at fair value and totaled $6.2 million at March 31, 2019 and $5.6 million at December 31, 2018. There were gains on equity securities of $0.2 million during the three months ended March 31, 2019 and $0.1 million during the three months ended March 31, 2018. Old National also has equity securities without readily determinable fair values that are included in other assets that totaled $76.6 million at March 31, 2019 and $79.2 million at December 31, 2018. These are illiquid investments that consist of partnerships, limited liability companies, and other ownership interests that support affordable housing, economic development, and community revitalization initiatives in low-to-moderate income neighborhoods. There have been no impairments or downward adjustments on these securities in the three months ended March 31, 2019 or 2018.

NOTE 6 – LOANS HELD FOR SALE

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

NOTE 7 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Old National's loans consist primarily of loans made to consumers and commercial clients in various industries including manufacturing, agribusiness, transportation, mining, wholesaling, and retailing. Most of Old National's lending activity occurs within our principal geographic markets of Indiana, Kentucky, Michigan, Wisconsin, and Minnesota. Old National manages concentrations of credit exposure by industry, product, geography, customer relationship, and loan size. While loans to lessors of both residential and non-residential real estate exceed 10% of total loans, no individual sub-segment category within those broader categories reaches the 10% threshold.

The composition of loans by lending classification was as follows:

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

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

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

Commercial

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

Commercial Real Estate

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

Included with commercial real estate are construction loans, which are underwritten utilizing independent appraisal reviews, sensitivity analysis of absorption and lease rates, financial analysis of the developers and property owners, and feasibility studies, if available. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders (including Old National), sales of developed property, or an interim loan commitment from Old National until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

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

Residential

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, Old National typically establishes a maximum loan-to-value ratio and generally requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in residential property values. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Consumer

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

Allowance for Loan Losses

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

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

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

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

Old National's activity in the allowance for loan losses for the three months ended March 31, 2019 and 2018 was as follows:

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

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

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
March 31, 2019					
Allowance for loan losses:					
Individually evaluated for impairment	$ 4,534	$ 6,336	$ —	$ —	$ 10,870
Collectively evaluated for impairment	15,867	18,680	2,301	7,528	44,376
Loans acquired with deteriorated credit quality	5	153	1	154	313
Total allowance for loan losses	$ 20,406	$ 25,169	$ 2,302	$ 7,682	$ 55,559
Loans and leases outstanding:					
Individually evaluated for impairment	$ 34,660	$ 78,055	$ —	$ —	$ 112,715
Collectively evaluated for impairment	3,002,256	4,921,352	2,234,966	1,755,393	11,913,967
Loans acquired with deteriorated credit quality	5,874	24,213	8,919	3,289	42,295
Total loans and leases outstanding	$ 3,042,790	$ 5,023,620	$ 2,243,885	$ 1,758,682	$ 12,068,977
December 31, 2018					
Allowance for loan losses:					

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

Credit Quality

Old National's management monitors the credit quality of its loans in an on-going manner. Internally, management assigns an AQR to each non-homogeneous commercial and commercial real estate loan in the portfolio, with the exception of certain FICO-scored small business loans. The primary determinants of the AQR are based upon the reliability of the primary source of repayment and the past, present, and projected financial condition of the borrower. The AQR will also consider current industry conditions. Major factors used in determining the AQR can vary based on the nature of the loan, but commonly include factors such as debt service coverage, internal cash flow, liquidity, leverage, operating performance, debt burden, FICO scores, occupancy, interest rate sensitivity, and expense burden. Old National uses the following definitions for risk ratings:

Criticized. Special mention loans that have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Classified – Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Classified – Nonaccrual. Loans classified as nonaccrual have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, in doubt.

Classified – Doubtful. Loans classified as doubtful have all the weaknesses inherent in those classified as nonaccrual, with the added characteristic that the weaknesses make collection in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Pass rated loans are those loans that are other than criticized, classified – substandard, classified – nonaccrual, or classified – doubtful.

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

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

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Old National considers the performance of the loan portfolio and its impact on the allowance for loan losses. For residential and consumer loan classes, Old National also evaluates credit quality based on the aging status of the loan and by payment activity. The following table presents the recorded investment in residential and consumer loans based on payment activity at March 31, 2019 and December 31, 2018:

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

Impaired Loans

Large commercial credits are subject to individual evaluation for impairment. Retail credits and other small balance credits that are part of a homogeneous group are not tested for individual impairment unless they are modified as a TDR. A loan is considered impaired when it is probable that contractual interest and principal payments will not be collected either for the amounts or by the dates as scheduled in the loan agreement. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net, at the present value of estimated cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Old National's policy, for all but PCI loans, is to recognize interest income on impaired loans unless the loan is placed on nonaccrual status.

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

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

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

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

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

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

For all loan classes, a loan is generally placed on nonaccrual status when principal or interest becomes 90 days past due unless it is well secured and in the process of collection, or earlier when concern exists as to the ultimate collectibility of principal or interest. Interest accrued during the current year on such loans is reversed against interest income. Interest accrued in the prior year, if any, is charged to the allowance for loan losses. Cash interest received on these loans is applied to the principal balance until the principal is recovered or until the loan returns to accrual status. Loans may be returned to accrual status when all the principal and interest amounts contractually due are brought current, remain current for a prescribed period, and future payments are reasonably assured.

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

Old National's past due loans at March 31, 2019 and December 31, 2018 were as follows:

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

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

Loan Participations

Old National has loan participations, which qualify as participating interests, with other financial institutions. At March 31, 2019, these loans totaled $952.5 million, of which $471.6 million had been sold to other financial institutions and $480.9 million was retained by Old National. The loan participations convey proportionate ownership rights with equal priority to each participating interest holder; involve no recourse (other than ordinary representations and warranties) to, or subordination by, any participating interest holder; all cash flows are divided among the participating interest holders in proportion to each holder's share of ownership; and no holder has the right to pledge the entire financial asset unless all participating interest holders agree.

Troubled Debt Restructurings

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

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

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

If we are unable to resolve a nonperforming loan issue, the credit will be charged off when it is apparent there will be a loss. For large commercial type loans, each relationship is individually analyzed for evidence of apparent loss based on quantitative benchmarks or subjectively based upon certain events or particular circumstances. Generally, Old National charges off small commercial loans scored through our small business credit center with contractual balances under $250,000 that are 90 days or more delinquent and do not have adequate collateral support. For residential and consumer loans, a charge off is recorded at the time foreclosure is initiated or when the loan becomes 120 to 180 days past due, whichever is earlier.

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

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

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

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

TDRs included with nonaccrual loans totaled $27.0 million at March 31, 2019 and $26.3 million at December 31, 2018. Old National has allocated specific reserves to customers whose loan terms have been modified in TDRs totaling $3.8 million at March 31, 2019 and $3.0 million at December 31, 2018. At March 31, 2019, Old National had committed to lend an additional $5.0 million to customers with outstanding loans that are classified as TDRs.

The pre-modification and post-modification outstanding recorded investments of loans modified as TDRs during the three months ended March 31, 2019 and 2018 are the same except for when the loan modifications involve the forgiveness of principal. The following table presents loans by class modified as TDRs that occurred during the three months ended March 31, 2019 and 2018:

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

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

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

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

The terms of certain other loans were modified during 2019 and 2018 that did not meet the definition of a TDR. It is our process to review all classified and criticized loans that, during the period, have been renewed, have entered into a forbearance agreement, have gone from principal and interest to interest only, or have extended the maturity date. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on its debt in the foreseeable future without the modification. The evaluation is performed under our internal underwriting policy. We also evaluate whether a concession has been granted or if we were adequately compensated through a market interest rate, additional collateral or a bona fide guarantee. We also consider whether the modification was insignificant relative to the other terms of the agreement or the delay in a payment.

PCI loans are not considered impaired until after the point at which there has been a degradation of cash flows below our expected cash flows at acquisition. If a PCI loan is subsequently modified, and meets the definition of a TDR, it will be removed from PCI accounting and accounted for as a TDR only if the PCI loan was being accounted for individually. If the PCI loan is being accounted for as part of a pool, it will not be removed from the pool. As of March 31, 2019, it has not been necessary to remove any loans from PCI accounting.

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

Purchased Credit Impaired Loans

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

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

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

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

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

The accretable difference on PCI loans is the difference between the expected cash flows and the net present value of expected cash flows with such difference accreted into earnings using the effective yield method over the term of the loans. Accretion recorded as loan interest income totaled $2.0 million during the three months ended March 31, 2019 and $4.5 million during the three months ended March 31, 2018. Improvement in cash flow expectations has resulted in a reclassification from nonaccretable difference to accretable yield as shown in the table below.

Accretable yield of PCI loans, or income expected to be collected, was as follows:

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

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

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

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

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

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

NOTE 8 – OTHER REAL ESTATE OWNED

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

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

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

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NOTE 9 – PREMISES AND EQUIPMENT

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

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

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

Finance Leases

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

NOTE 10 – LEASES

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

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

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

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

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

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

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

The components of lease expense were as follows:

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

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

Supplemental balance sheet information related to leases was as follows:

(dollars in thousands)	March 31, 2019
Operating Leases	
Operating lease right-of-use assets	$109,916
Operating lease liabilities	114,040
Finance Leases	
Premises and equipment, net	7,335
Other borrowings	7,432
Weighted-Average Remaining Lease Term	
Operating leases	11.0 years
Finance leases	12.1 years
Weighted-Average Discount Rate	

Operating leases	3.45	%
Finance leases	4.48	%

Supplemental cash flow information related to leases was as follows:

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

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

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

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

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

NOTE 11 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

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

Estimated amortization expense for future years is as follows:

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

NOTE 12 – LOAN SERVICING RIGHTS

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 14 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

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

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

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

	At March 31, 2019				
	Remaining Contractual Maturity of the Agreements				
	Overnight and	Up to		Greater Than	
(dollars in thousands)	Continuous	30 Days	30-90 Days	90 days	Total
Repurchase Agreements:					
U.S. Treasury and agency securities	$342,480	$ —	$ —	$ —	$342,480
Total	$342,480	$ —	$ —	$ —	$342,480

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

NOTE 15 – FEDERAL HOME LOAN BANK ADVANCES

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

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

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

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

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

NOTE 16 – OTHER BORROWINGS

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

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

unsecured notes		
Junior subordinated debentures (variable rates of 3.93% to 6.39%) maturing April 2032 to June 2037	60,310	60,310
Other basis adjustments	(2,910)	(3,046)
Old National Bank:		
Finance lease liabilities	7,432	5,262
Subordinated debentures (fixed rate 5.75%)	12,000	12,000
Other	583	(773)
Total other borrowings	$ 251,584	$ 247,883

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

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

Senior Notes

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

Junior Subordinated Debentures

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

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

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

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

(dollars in thousands)

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

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

Subordinated Debentures

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

Finance Lease Liabilities

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

NOTE 17 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(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
Three Months Ended March 31, 2019					
Balance at beginning of period	$ (37,348)	$ (8,515)	$ 1,099	$ (186)	$ (44,950)
Other comprehensive income (loss) before reclassifications	47,711	—	(296)	—	47,415
Amounts reclassified from AOCI to income (1)	79	351	(290)	15	155
Balance at end of period	$ 10,442	$ (8,164)	$ 513	$ (171)	$ 2,620
Three Months Ended March 31, 2018					
Balance at beginning of period	$ (35,557)	$ (12,107)	$ (2,337)	$ (271)	$ (50,272)
Amount reclassified from AOCI to retained earnings for cumulative effect of change in accounting principle	—	—	(52)	—	(52)
Amounts reclassified from AOCI to retained	(7,583)	(2,600)	(509)	(59)	(10,751)

earnings related to the Tax Cuts and Jobs Act of 2017					
Other comprehensive income (loss) before reclassifications	(8,872)	4,514	3,444	—	(914)
Amounts reclassified from AOCI to income (1)	(593)	456	580	20	463
Balance at end of period	$ (52,605)	$ (9,737)	$ 1,126	$ (310)	$ (61,526)

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

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

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

NOTE 18 – EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan

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

NOTE 19 – SHARE-BASED COMPENSATION

At March 31, 2019, Old National had 3.9 million shares remaining available for issuance under the Company's Amended and Restated 2008 Incentive Compensation Plan. The granting of awards to key employees is typically in the form of restricted stock awards or units.

Restricted Stock Awards

Old National granted 82 thousand time-based restricted stock awards to certain key officers during the three months ended March 31, 2019, with shares vesting generally over a thirty-six month period. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. At March 31, 2019, unrecognized compensation expense was estimated to be $4.9 million for unvested restricted stock awards. The cost is expected to be recognized over a weighted-average period of 2.0 years.

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

Restricted Stock Units

Old National granted 326 thousand shares of performance based restricted stock units to certain key officers during the three months ended March 31, 2019, with shares vesting at the end of a thirty-six month period based on the achievement of certain targets. For certain awards, the level of performance could increase or decrease the percentage of shares earned. Compensation expense is recognized on a straight-line basis over the vesting period. Shares are subject to certain restrictions and risk of forfeiture by the participants. At March 31, 2019, unrecognized compensation expense was estimated to be $7.8 million. The cost is expected to be recognized over a weighted-average period of 2.2 years.

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

Stock Options

Old National has not granted stock options since 2009. However, Old National did acquire stock options through prior year acquisitions. Old National did not record any share-based compensation expense related to these stock options during the three months ended March 31, 2019 or 2018.

Stock Appreciation Rights

Old National has never granted stock appreciation rights. However, Old National did acquire stock appreciation rights through a prior year acquisition. Old National did not record any incremental expense associated with the conversion of these stock appreciation rights during the three months ended March 31, 2019 or 2018. At March 31, 2019, 61 thousand stock appreciation rights remained outstanding.

NOTE 20 – INCOME TAXES

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

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

Effective tax rate	18.9 %	9.4 %

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

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

Unrecognized Tax Benefits

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

Net Deferred Tax Assets

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

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

Through the acquisition of Anchor (WI) in the second quarter of 2016 and Lafayette Savings Bank in the fourth quarter of 2014, both former thrifts, Old National Bank's retained earnings at March 31, 2019 include base-year bad debt reserves, created for tax purposes prior to 1988, totaling $52.8 million. Of this total, $50.9 million was acquired from Anchor (WI), and $1.9 million was acquired from Lafayette Savings Bank. Base-year reserves are subject to recapture in the unlikely event that Old National Bank (1) makes distributions in excess of current and accumulated earnings and profits, as calculated for federal income tax purposes, (2) redeems its stock, or (3) liquidates. Old National Bank has no intention of making such a nondividend distribution. Accordingly, under current accounting principles, a related deferred income tax liability of $13.0 million has not been recognized.

No valuation allowance was recorded at March 31, 2019 or December 31, 2018 because, based on current expectations, Old National believes it will generate sufficient income in future years to realize deferred tax assets. Old

National has federal net operating loss carryforwards totaling $97.1 million at March 31, 2019 and $104.5 million at December 31, 2018. This federal net operating loss was acquired from the acquisition of Anchor (WI) in 2016. If not used, the federal net operating loss carryforwards will expire from 2028 to 2033. Old National has alternative minimum tax ("AMT") credit carryforwards totaling $6.3 million at March 31, 2019 and $10.1 million at December 31, 2018. The enactment of H.R. 1 eliminates the parallel tax system known as the AMT and allows any existing AMT credits to be used to reduce regular tax or be refunded from 2018 to 2021. ASC 740 allows for the reclassification of the AMT credit from a deferred tax asset to a current tax asset, except for the amount limited by section 382. Old National has $2.5 million of AMT credit carryforward subject to section 382 limitations. The $2.5 million is maintained in deferred tax assets and the remaining $3.8 million has been reclassified to a current tax asset. Old National has federal tax credit carryforwards of $3.1 million at March 31, 2019 and $1.8 million at December 31, 2018. The federal tax credits consist mainly of energy efficient home credits, low income housing credits, and research and development credits that, if not used, will expire from 2025 to 2039. Old National has recorded state net operating loss carryforwards totaling $165.0 million at March 31, 2019 and $165.6 million at December 31, 2018. If not used, the state net operating loss carryforwards will expire from 2024 to 2033.

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

NOTE 21 – DERIVATIVE FINANCIAL INSTRUMENTS

As part of our overall interest rate risk management, Old National uses derivative instruments, including interest rate swaps, collars, caps, and floors. The notional amount of these derivative instruments was $1.332 billion at March 31, 2019 and $1.482 billion at December 31, 2018. These derivative financial instruments at March 31, 2019 consisted of $857.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, $175.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances, and $300.0 million notional amount interest rate collars related to a variable-rate commercial loan pool. Derivative financial instruments at December 31, 2018 consisted of $757.0 million notional amount of receive-fixed, pay-variable interest rate swaps on certain of its FHLB advances, $525.0 million notional amount of pay-fixed, receive-variable interest rate swaps on certain of its FHLB advances, and $200.0 million notional amount interest rate collars related to a variable-rate commercial loan pool. These hedges were entered into to manage interest rate risk. Derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

In accordance with ASC 815-20-35-1, subsequent changes in fair value for a hedging instrument that has been designated and qualifies as part of a hedging relationship should be accounted for in the following manner:

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

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

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

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

Commitments to fund certain mortgage loans (interest rate lock commitments) and forward commitments for the future delivery of mortgage loans to third party investors are considered derivatives. These derivative contracts do not qualify for hedge accounting. At March 31, 2019, the notional amount of the interest rate lock commitments was $68.9 million and forward commitments were $73.5 million. At December 31, 2018, the notional amount of the interest rate lock commitments was $27.6 million and forward commitments were $34.5 million. It is our practice to enter into forward commitments for the future delivery of residential mortgage loans to third party investors when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from our commitment to fund the loans.

Old National also enters into derivative instruments for the benefit of its customers. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $877.1 million at March 31, 2019. The notional amounts of these customer derivative instruments and the offsetting counterparty derivative instruments were $793.4 million at December 31, 2018. These derivative contracts do not qualify for hedge accounting. These instruments include interest rate swaps, caps, and collars. Commonly, Old National will economically hedge significant exposures related to these derivative contracts entered into for the benefit of customers by entering into offsetting contracts with approved, reputable, independent counterparties with substantially matching terms.

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

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

Amounts reported in AOCI related to cash flow hedges will be reclassified to interest income or interest expense as interest payments are received or paid on Old National's derivative instruments. During the next 12 months, we estimate that $0.7 million will be reclassified to interest income and $0.6 million will be reclassified to interest expense.

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

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

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

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

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

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

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

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

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

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

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

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

(dollars in thousands)		Three Months Ended March 31,		Three Months Ended March 31,	
		2019	2018	2019	2018
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)	$(392)	$4,563	$385	$(769)

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

(dollars in thousands)		Three Months Ended March 31, 2019	2018
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)	$(37)	$—
Mortgage contracts	Mortgage banking revenue	1,022	638
Foreign currency contracts	Other income/(expense)	3	17
Total		$988	$655

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

NOTE 22 – COMMITMENTS AND CONTINGENCIES

Litigation

In the normal course of business, Old National Bancorp and its subsidiaries have been named, from time to time, as defendants in various legal actions. Certain of the actual or threatened legal actions may include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages.

Old National contests liability and/or the amount of damages as appropriate in each pending matter. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases where claimants seek substantial or indeterminate damages or where investigations and proceedings are in the early stages, Old National cannot predict with certainty the loss or range of loss, if any, related to such matters, how or if such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, or other relief, if any, might be. Subject to the foregoing, Old National believes, based on current knowledge and after consultation with counsel, that the outcome of such pending matters will not have a material adverse effect on the consolidated financial condition of Old National, although the outcome of such matters could be material to Old National's operating results and cash flows for a particular future period, depending on, among other things, the level of Old National's revenues or income for such period. Old National will accrue for a loss contingency if (1) it is probable that a future event will occur and confirm the loss and (2) the amount of the loss can be reasonably estimated.

Old National is not currently involved in any material litigation.

Credit-Related Financial Instruments

In the normal course of business, Old National's banking affiliates have entered into various agreements to extend credit, including loan commitments of $3.743 billion and standby letters of credit of $100.2 million at March 31, 2019. At March 31, 2019, approximately $3.478 billion of the loan commitments had fixed rates and $265.3 million had floating rates, with the floating interest rates ranging from 1% to 16%. At December 31, 2018, loan commitments totaled $3.566 billion and standby letters of credit totaled $319.0 million. These commitments are not reflected in the consolidated financial statements. The allowance for unfunded loan commitments totaled $2.2 million at March 31, 2019 and $2.5 million at December 31, 2018.

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

Visa Class B Restricted Shares

In 2008, Old National received Visa Class B restricted shares as part of Visa's initial public offering. These shares are transferable only under limited circumstances until they can be converted into the publicly traded Class A common shares. This conversion will not occur until the final settlement of certain litigation for which Visa is indemnified by the holders of Visa's Class B shares, including Old National. Visa funded an escrow account from its initial public offering to settle these litigation claims. Increases in litigation claims requiring Visa to fund the escrow account due to insufficient funds will result in a reduction of the conversion ratio of each Visa Class B share to unrestricted Class A shares. As of March 31, 2019, the conversion ratio was 1.6298. Based on the existing transfer restriction and the uncertainty of the outcome of the Visa litigation, the 56,210 Class B shares that Old National owns at March 31, 2019 are carried at a zero cost basis and are included in other assets with our equity securities that have no readily determinable fair value.

NOTE 23 – FINANCIAL GUARANTEES

Old National holds instruments, in the normal course of business with clients, that are considered financial guarantees in accordance with FASB ASC 460-10 (FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*), which requires Old National to record the instruments at fair value. Standby letters of credit guarantees are issued in connection with agreements made by clients to counterparties. Standby letters of credit are contingent upon failure of the client to perform the terms of the underlying contract. Credit risk associated with standby letters of credit is essentially the same as that associated with extending loans to clients and is subject to normal credit policies. The term of these standby letters of credit is typically one year or less. At March 31, 2019, the notional amount of standby letters of credit was $100.2 million, which represented the maximum amount of future funding requirements, and the carrying value was $$0.5 million. At December 31, 2018, the notional amount of standby letters of credit was $319.0 million, which represented the maximum amount of future funding requirements, and the carrying value was $0.5 million.

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

NOTE 24 – SEGMENT INFORMATION

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

NOTE 25 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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

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

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

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

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

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

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

Financial Assets							
Equity securities	$5,582	$	5,582	$	—	$	—
Investment securities available-for-sale:							
U.S. Treasury	5,301		5,301		—		—
U.S. government-sponsored entities and agencies	628,151						