OLD NATIONAL BANCORP /IN/
Form 10-Q
May 02, 2018
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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, 2018

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	**(I.R.S. Employer**
incorporation or organization)	**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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	(Do not check if a smaller reporting company)	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 152,172,000 shares outstanding at March 31, 2018.

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GLOSSARY OF ABBREVIATIONS AND ACRONYMS

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

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

Anchor (MN): Anchor Bancorp, Inc.

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

Anchor (WI): Anchor BanCorp Wisconsin Inc.

AnchorBank (WI): AnchorBank, fsb

AOCI: accumulated other comprehensive income (loss)

AQR: asset quality rating

ASC: Accounting Standards Codification

ASU: Accounting Standards Update

ATM: automated teller machine

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

CReED: Indiana Community Revitalization Enhancement District Tax Credit

DTI: debt-to-income

Dodd-Frank Act: Dodd-Frank Wall Street Reform and Consumer Protection Act

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: generally accepted accounting principles in the United States

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

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

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OLD NATIONAL BANCORP

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share data)	March 31, 2018 (unaudited)	December 31, 2017	March 31, 2017 (unaudited)
Assets			
Cash and due from banks	**$ 192,022**	$ 222,753	$ 184,974
Money market and other interest-earning investments	**86,219**	67,679	32,061
Total cash and cash equivalents	**278,241**	290,432	217,035
Trading securities, at fair value	**5,569**	5,584	5,083
Investment securities - available-for-sale, at fair value:			
U.S. Treasury	**9,295**	5,551	12,117
U.S. government-sponsored entities and agencies	**572,689**	664,286	543,034
Mortgage-backed securities	**1,477,896**	1,667,682	1,474,995
States and political subdivisions	**843,488**	530,193	452,551
Other securities	**316,495**	328,495	334,246
Total investment securities - available-for-sale	**3,219,863**	3,196,207	2,816,943
Investment securities - held-to-maturity, at amortized cost (fair value $536,143; $727,703; and $784,906, respectively)	**535,153**	684,063	741,448
Federal Home Loan Bank/Federal Reserve Bank stock, at cost	**136,206**	119,686	107,501
Loans held for sale, at fair value	**17,635**	17,930	17,373
Loans:			
Commercial	**2,811,629**	2,717,269	1,910,536
Commercial real estate	**4,449,980**	4,354,552	3,222,865
Residential real estate	**2,158,532**	2,167,053	2,112,262
Consumer credit, net of unearned income	**1,818,541**	1,879,247	1,886,110
Total loans	**11,238,682**	11,118,121	9,131,773
Allowance for loan losses	**(50,381)**	(50,381)	(49,834)
Net loans	**11,188,301**	11,067,740	9,081,939
Premises and equipment, net	**453,603**	458,074	420,866
Accrued interest receivable	**81,621**	87,102	76,674
Goodwill	**828,804**	828,051	655,018
Other intangible assets	**48,833**	53,096	34,657
Company-owned life insurance	**404,561**	403,753	353,786
Net deferred tax assets	**88,773**	110,857	165,376
Loan servicing rights	**24,380**	24,661	25,446
Assets held for sale	**6,331**	7,180	14,604
Other real estate owned and repossessed personal property	**6,735**	8,810	12,547
Other assets	**171,678**	155,066	123,349

Total assets	**$ 17,496,287**	$ 17,518,292	$ 14,869,645
Liabilities			
Deposits:			
Noninterest-bearing demand	**$ 3,655,732**	$ 3,680,807	$ 3,024,111
Interest-bearing:			
NOW	**3,135,778**	3,115,822	2,635,317
Savings	**3,091,101**	3,035,622	2,997,919
Money market	**1,130,258**	1,139,077	697,287
Time	**1,775,731**	1,634,436	1,466,718
Total deposits	**12,788,600**	12,605,764	10,821,352
Federal funds purchased and interbank borrowings	**150,026**	335,033	61,016
Securities sold under agreements to repurchase	**308,189**	384,810	345,550
Federal Home Loan Bank advances	**1,664,179**	1,609,579	1,441,030
Other borrowings	**248,898**	248,782	219,021
Accrued expenses and other liabilities	**157,277**	179,927	135,317
Total liabilities	**15,317,169**	15,363,895	13,023,286
Shareholders Equity			
Preferred stock, 2,000 shares authorized, no shares issued or outstanding			
Common stock, $1.00 per share stated value, 300,000 shares authorized, 152,172; 152,040; and 135,435 shares issued and outstanding, respectively	**152,172**	152,040	135,435
Capital surplus	**1,640,776**	1,639,499	1,350,866
Retained earnings	**447,696**	413,130	408,623
Accumulated other comprehensive income (loss), net of tax	**(61,526)**	(50,272)	(48,565)
Total shareholders equity	**2,179,118**	2,154,397	1,846,359
Total liabilities and shareholders equity	**$ 17,496,287**	$ 17,518,292	$ 14,869,645

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars and shares in thousands, except per share data)	Three Months Ended March 31, 2018	2017
Interest Income		
Loans including fees:		
Taxable	**$ 118,389**	$ 92,201
Nontaxable	**3,874**	3,179
Investment securities:		
Taxable	**18,804**	15,685
Nontaxable	**6,549**	7,372
Money market and other interest-earning investments	**90**	31
Total interest income	**147,706**	118,468
Interest Expense		
Deposits	**7,255**	4,383
Federal funds purchased and interbank borrowings	**1,017**	356
Securities sold under agreements to repurchase	**359**	256
Federal Home Loan Bank advances	**7,780**	5,312
Other borrowings	**2,723**	2,360
Total interest expense	**19,134**	12,667
Net interest income	**128,572**	105,801
Provision for loan losses	**380**	347
Net interest income after provision for loan losses	**128,192**	105,454
Noninterest Income		
Wealth management fees	**9,026**	8,999
Service charges on deposit accounts	**10,759**	9,843
Debit card and ATM fees	**4,865**	4,236
Mortgage banking revenue	**4,192**	4,226
Investment product fees	**5,515**	4,989
Capital markets income	**498**	1,031
Company-owned life insurance	**2,605**	2,149
Net securities gains (losses)	**788**	1,500
Recognition of deferred gain on sale leaseback transactions	**395**	537
Other income	**3,746**	5,410
Total noninterest income	**42,389**	42,920

Noninterest Expense		
Salaries and employee benefits	**64,179**	56,564
Occupancy	**13,280**	12,134
Equipment	**3,565**	3,227
Marketing	**3,697**	3,050
Data processing	**8,884**	7,608
Communication	**3,064**	2,414
Professional fees	**2,730**	2,651
Loan expense	**1,744**	1,631
Supplies	**722**	579
FDIC assessment	**2,645**	2,487
Other real estate owned expense	**349**	1,115
Amortization of intangibles	**3,609**	3,020
Amortization of tax credit investments	**716**	
Other expense	**8,457**	5,411
Total noninterest expense	**117,641**	101,891
Income before income taxes	**52,940**	46,483
Income tax expense	**4,957**	10,491
Net income	**$ 47,983**	$ 35,992
Net income per common share - basic	**$ 0.32**	$ 0.27
Net income per common share - diluted	**0.31**	0.27
Weighted average number of common shares outstanding - basic	**151,721**	134,912
Weighted average number of common shares outstanding - diluted	**152,370**	135,431
Dividends per common share	**$ 0.13**	$ 0.13

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

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OLD NATIONAL BANCORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2018	2017
Net income	**$ 47,983**	$ 35,992
Other comprehensive income (loss):		
Change in securities available-for-sale:		
Unrealized holding gains (losses) for the period	**(25,794)**	15,780
Reclassification for securities transferred to held-to-maturity	**14,007**	
Reclassification adjustment for securities gains realized in income	**(788)**	(1,500)
Income tax effect	**3,110**	(5,260)
Unrealized gains (losses) on available-for-sale securities	**(9,465)**	9,020
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 fair value for securities held-to-maturity previously recognized into accumulated other comprehensive income	**591**	449
Income tax effect	**(1,026)**	(154)
Changes from securities held-to-maturity	**4,970**	295
Cash flow hedges:		
Net unrealized derivative gains (losses) on cash flow hedges	**4,563**	580
Reclassification adjustment for losses realized in net income	**769**	1,799
Income tax effect	**(1,308)**	(904)
Changes from cash flow hedges	**4,024**	1,475
Defined benefit pension plans:		
Amortization of net loss recognized in income	**51**	27
Income tax effect	**(31)**	(10)
Changes from defined benefit pension plans	**20**	17
Other comprehensive income (loss), net of tax	**(451)**	10,807
Comprehensive income	**$ 47,532**	$ 46,799

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

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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, 2016	$ 135,159	$ 1,348,338	$ 390,292	$ (59,372)	$ 1,814,417
Net income			35,992		35,992
Other comprehensive income (loss)				10,807	10,807
Dividends - common stock ($0.13 per share)			(17,602)		(17,602)
Common stock issued	5	86			91
Common stock repurchased	(70)	(1,197)			(1,267)
Stock-based compensation expense		1,331			1,331
Stock activity under incentive compensation plans	341	2,308	(59)		2,590
Balance at March 31, 2017	$ 135,435	$ 1,350,866	$ 408,623	$ (48,565)	$ 1,846,359
Balance at December 31, 2017	**$ 152,040**	**$ 1,639,499**	**$ 413,130**	**$ (50,272)**	**$ 2,154,397**
Cumulative effect of change in accounting principles (Note 3)			**(4,127)**	**(52)**	**(4,179)**
Reclassification of certain tax effects related to the Tax Cuts and Jobs Act of 2017 (Note 3)			**10,751**	**(10,751)**	
Net income			**47,983**		**47,983**
Other comprehensive income (loss)				**(451)**	**(451)**
Dividends - common stock ($0.13 per share)			**(19,782)**		**(19,782)**
Common stock issued	**6**	**99**			**105**
Common stock repurchased	**(64)**	**(1,051)**			**(1,115)**
Stock-based compensation expense		**1,931**			**1,931**
Stock activity under incentive compensation plans	**190**	**298**	**(259)**		**229**
Balance at March 31, 2018	**$ 152,172**	**$ 1,640,776**	**$ 447,696**	**$ (61,526)**	**$ 2,179,118**

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands)	Three Months Ended March 31, 2018	2017
Cash Flows From Operating Activities		
Net income	**$ 47,983**	$ 35,992
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	**5,833**	5,211
Amortization of other intangible assets	**3,609**	3,020
Amortization of tax credit investments	**716**	
Net premium amortization on investment securities	**3,845**	3,846
Stock-based compensation expense	**1,931**	1,331
Excess tax (benefit) expense on stock-based compensation	**536**	288
Provision for loan losses	**380**	347
Net securities (gains) losses	**(788)**	(1,500)
Recognition of deferred gain on sale leaseback transactions	**(395)**	(537)
Net (gains) losses on sales of loans and other assets	**5,365**	(2,520)
Increase in cash surrender value of company-owned life insurance	**(2,605)**	(2,149)
Residential real estate loans originated for sale	**(92,377)**	(51,823)
Proceeds from sales of residential real estate loans	**93,686**	127,656
(Increase) decrease in interest receivable	**5,481**	4,706
(Increase) decrease in other real estate owned	**2,075**	5,999
(Increase) decrease in other assets	**9,211**	2,548
Increase (decrease) in accrued expenses and other liabilities	**(22,172)**	(12,451)
Total adjustments	**14,331**	83,972
Net cash flows provided by (used in) operating activities	**62,314**	119,964
Cash Flows From Investing Activities		
Purchases of investment securities available-for-sale	**(113,525)**	(133,288)
Purchases of Federal Home Loan Bank/Federal Reserve Bank stock	**(16,520)**	(5,794)
Proceeds from maturities, prepayments, and calls of investment securities available-for-sale	**118,694**	93,040
Proceeds from sales of investment securities available-for-sale	**84,257**	33,588
Proceeds from maturities, prepayments, and calls of investment securities held-to-maturity	**26,117**	2,714
Proceeds from sales of Federal Home Loan Bank/Federal Reserve Bank stock		9
Proceeds from sales of trading securities	**128**	127
Net principal collected from (loans made to) loan customers	**(120,941)**	(121,582)
Proceeds from settlements on company-owned life insurance	**1,797**	1,319
Proceeds from sales of premises and equipment and other assets	**2,578**	

Purchases of premises and equipment and other assets	**(9,593)**	(5,093)
Net cash flows provided by (used in) investing activities	**(27,008)**	(134,960)
Cash Flows From Financing Activities		
Net increase (decrease) in:		
Deposits	**182,697**	78,099
Federal funds purchased and interbank borrowings	**(185,007)**	(151,987)
Securities sold under agreements to repurchase	**(76,621)**	(21,502)
Payments for maturities of Federal Home Loan Bank advances	**(772,928)**	(641,830)
Payments for maturities of other borrowings	**(32)**	(80)
Proceeds from Federal Home Loan Bank advances	**825,000**	730,000
Cash dividends paid on common stock	**(19,782)**	(17,602)
Common stock repurchased	**(1,115)**	(1,267)
Proceeds from exercise of stock options	**186**	2,590
Common stock issued	**105**	91
Net cash flows provided by (used in) financing activities	**(47,497)**	(23,488)
Net increase (decrease) in cash and cash equivalents	**(12,191)**	(38,484)
Cash and cash equivalents at beginning of period	**290,432**	255,519
Cash and cash equivalents at end of period	**$ 278,241**	$ 217,035
Supplemental cash flow information:		
Total interest paid	**$ 20,775**	$ 14,642
Total taxes paid (net of refunds)	**$ (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**	$

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

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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, 2018 and 2017, and December 31, 2017, and the results of its operations for the three months ended March 31, 2018 and 2017. 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, 2017.

All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to the 2018 presentation. Such reclassifications had no effect on net income or shareholders equity and were insignificant amounts.

NOTE 2 REVENUE RECOGNITION

In May 2014, the FASB issued an update (ASU No. 2014-09, *Revenue from Contracts with Customers*) creating FASB Topic 606, *Revenue from Contracts with Customers*. The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We finalized our in-depth assessment and identified the revenue line items within the scope of this new guidance. Neither the new standard, nor any of the amendments detailed below, resulted in a material change from our current accounting for revenue because the majority of Old National s financial instruments are not within the scope of Topic 606, and those that are require no change in the accounting.

In March 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*. The amendments relate to when another party, along with the entity, is involved in providing a good or service to a customer. Topic 606 requires an entity to determine whether the nature of its promise is to provide that good or service to the customer (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). This determination is based upon whether the entity controls the good or the service before it is transferred to the customer. Topic 606 includes indicators to assist in this evaluation. The amendments in this update affect the guidance in ASU No. 2014-09 above. The effective date is the same as the effective date of ASU No. 2014-09.

In April 2016, the FASB issued ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*. The amendments clarify the following two aspects of Topic 606: identifying performance obligations, and the licensing implementation guidance. Before an entity can identify its performance obligations in a contract with a customer, the entity first identifies the promised goods or services in the contract. The amendments in this update are expected to reduce the cost and complexity of applying the guidance on identifying promised goods or services. To identify performance obligations in a contract, an entity evaluates whether promised goods and services are distinct. Topic 606 includes two criteria for assessing whether promises to transfer goods or services are distinct. One of those criteria is that the promises are separately identifiable. This update will improve the guidance on assessing that criterion. Topic 606 also includes implementation guidance on determining whether as entity s promise to grant a license provides a customer with either a right to use the entity s intellectual property, which is satisfied at a point in time, or a right to access the entity s intellectual property, which is satisfied over time. The amendments in this update are intended to improve the operability and understandability of the licensing implementation guidance. The amendments in this update affect the guidance in ASU No. 2014-09 above. The effective date is the same as the effective date of ASU No. 2014-09.

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

In December 2016, the FASB issued ASU No. 2016-20, *Revenue from Contracts with Customers (Topic 606): Technical Corrections and Improvements*. The FASB board decided to issue a separate update for technical corrections and improvements to Topic 606 and other Topics amended by ASU No. 2014-09 to increase awareness of the proposals and to expedite improvements to ASU No. 2014-09. The amendment affects narrow aspects of the guidance issued in ASU No. 2014-09.

On January 1, 2018, we adopted ASU 2014-09, *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, Topic 606). We elected to implement using the modified retrospective application, with the cumulative effect recorded as an adjustment to opening retained earnings at January 1, 2018. Due to immateriality, we had no cumulative effect to record. Since interest income on loans and securities are both excluded from this topic, a significant majority of our revenues are not subject to the new guidance. Our services that fall within the scope of Topic 606 are presented within noninterest income and are recognized as revenue as we satisfy our obligation to the customer. Services within the scope of Topic 606 include wealth management fees, service charges on deposit accounts, debit card and ATM fees, and investment product fees.

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

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

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

Investment product fees: Investment product fees are the commissions and fees received from a registered broker/dealer and investment adviser that provide those services to our customers. We act as an agent in arranging the relationship between the customer and the third-party service provider. These fees are recognized monthly from the third-party broker based upon services already performed.

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The consolidated statements of income include all categories of noninterest income. The following table reflects only the categories of noninterest income that are within the scope of Topic 606:

(dollars in thousands)	Three Months Ended March 31, 2018	2017
Wealth management fees	**$ 9,026**	$ 8,999
Service charges on deposit accounts	**10,759**	9,843
Debit card and ATM fees	**4,865**	4,236
Investment product fees	**5,515**	4,989
Other income:		
Gain (loss) on other real estate owned	**135**	658
Merchant processing fees	**641**	597
Safe deposit box fees	**404**	307
Insurance premiums and commissions	**104**	107
Total	**$ 31,449**	$ 29,736

The adoption of Topic 606 did not have a material impact on our consolidated financial position, results of operations, equity, or cash flows as of the adoption date or for the three months ended March 31, 2018.

NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS

FASB ASC 825 In January 2016, the FASB issued an update (ASU No. 2016-01, *Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities)*. The amendments in this update impact public business entities as follows: (1) Require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. (2) Simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value. (3) Eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet. (4) Require entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. (5) Require an entity to present separately in other comprehensive income the portion of the total change in fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. (6) Require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements. (7) Clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity s other deferred tax assets. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2017 and did not have a material impact on the consolidated financial statements.

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. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. Based on leases outstanding at March 31, 2018, we do not expect the new standard to have a material impact on our income statement, but anticipate a $115 million to $135 million increase in our assets and liabilities. Decisions to repurchase, modify, or renew leases prior to the implementation date will impact this level of materiality.

FASB ASC 815 In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* The amendments in the update make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The amendments in

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this update better align an entity s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. To meet that objective, the amendments expand and refine hedge accounting for both nonfinancial and financial risk components and align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This update addresses several limitations that current GAAP places on the risk components, how an entity can designate the hedged item in a fair value hedge of interest rate risk, and how an entity can measure changes in fair value of the hedged item attributable to interest rate risk. In addition to the amendments to the designation and measurement guidance for qualifying hedging relationships, the amendments in this update also align the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements to increase the understandability of the results of an entity s intended hedging strategies. The amendments in this update require an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. Prior to the issuance of this update, GAAP provided special hedge accounting only for the portion of the hedge deemed to be highly effective and required an entity to separately reflect the amount by which the hedging instrument did not offset the hedged item, which is referred to as the ineffective amount. However, the concept and reporting of hedge ineffectiveness were difficult for financial statement users to understand and, at times, for preparers to explain. The FASB board decided on an approach that no longer separately measures and reports hedge ineffectiveness. This update also includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. Prior to the issuance of this update, GAAP contained specific requirements for initial and ongoing quantitative hedge effectiveness testing and strict requirements for specialized effectiveness testing methods that allowed an entity to forgo quantitative hedge effectiveness assessments for qualifying relationships. The amendments in this update become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. Early adoption is permitted in any interim period. Management has elected to early adopt this update effective January 1, 2018 using the modified retrospective method. The impact of the adoption resulted in a reduction to Old National s opening retained earnings of $3.2 million. In addition, as permitted by the amendments in the update, Old National reclassified $447.0 million in state and political subdivision securities with unrealized holding gains of $26.1 million from the held-to-maturity portfolio to the available-for-sale portfolio.

FASB ASC 718 In May 2017, the FASB issued ASU No. 2017-09, *Compensation Stock Compensation (Topic 718): Scope of Modification Accounting*. The amendments in this update provide guidance about which changes to the terms and conditions of a shared-based payment award require an entity to apply modification accounting. An entity should account for the effect of a modification unless all the following are met: (1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2017 and did not have a material impact on the consolidated financial statements.

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

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purposes of meeting this standard. The committee has also selected a vendor to assist in generating loan level cash flows and disclosures. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

FASB ASC 740 In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. Current guidance prohibits the recognition of current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to an outside party. This prohibition on recognition is an exception to the principle of comprehensive recognition of current and deferred income taxes in generally accepted accounting principles. The exception has led to diversity in practice and is a source of complexity in financial reporting. FASB decided that an entity should recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this update eliminate the exception for an intra-entity transfer of an asset other than inventory. The amendments in this update do not include new disclosure requirements; however, existing disclosure requirements might be applicable when accounting for the current and deferred income taxes for an intra-entity transfer of an asset other than inventory. The amendments in this update became effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The amendments in this update were applied on a modified retrospective basis through a cumulative-effect reduction of $1.0 million directly to retained earnings as of the beginning of 2018.

FASB ASC 805 In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendments in this update provide a more robust framework to use in determining when a set of assets and activities is a business. Because the current definition of a business is interpreted broadly and can be difficult to apply, stakeholders indicated that analyzing transactions is inefficient and costly and that the definition does not permit the use of reasonable judgment. The amendments provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2017. We have completed our evaluation of adopting the new guidance on the consolidated financial statements and there is no impact to record.

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. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 610 In February 2017, the FASB issued ASU No. 2017-05, *Other Income Gains and Losses from the Derecognition of Nonfinancial Assets (Topic 610): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*. Subtopic 610-20 was originally issued as part of ASU No. 2014-09 to provide guidance for recognizing gains and losses from the transfer of nonfinancial assets in contracts with noncustomers. This update was issued to help clarify uncertainties and complexities of ASU 2014-09. The amendments in this update define the term in substance nonfinancial asset, in part, as a financial asset promised to a counterparty in a contract if substantially all of its fair value of the assets (recognized and unrecognized) that are promised to the counterparty in the contract is concentrated in nonfinancial assets. If substantially all of the fair value of the assets that are promised to the counterparty in a contract is concentrated in nonfinancial assets, then all of the financial assets promised to the counterparty are in substance nonfinancial assets. The amendments in this update also clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty. The amendments in this update require an entity to derecognize a distinct nonfinancial asset or distinct in substance nonfinancial asset in a partial sale transaction when it (1) does not have (or ceases to have) a controlling financial interest in the legal entity that holds the asset in accordance with Topic 810 and (2) transfers control of the asset in accordance with Topic 606. Once an entity transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial asset, it is required to measure any noncontrolling interest it receives (or retains) at fair value. The amendments were effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period and did not have a material impact on the consolidated financial statements.

FASB ASC 715 In March 2017, the FASB issued ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this update require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The amendments in this update improve the consistency, transparency, and usefulness of financial information to users that have communicated that the service cost component generally is analyzed differently from the other components of net benefit cost. The amendments in this update became effective for annual periods and interim periods within those annual periods beginning after December 15, 2017 and did not have a material impact on the consolidated financial statements.

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 become effective for annual periods and interim periods within those annual periods beginning after December 15, 2018. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements, but it is not expected to have a material impact.

FASB ASC 220 In February 2018, the FASB issued ASU No. 2018-02, *Income Statement Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this ASU help organizations address certain stranded income tax effects in AOCI resulting from the Tax Cuts and Jobs Act. The ASU provides financial statement preparers with an option to reclassify stranded tax effects within AOCI to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Management has elected to early adopt this update effective January 1, 2018, which resulted in a reclassification that decreased beginning accumulated other comprehensive income and increased beginning retained earnings by $10.8 million.

FASB ASC 825 In February 2018, the FASB issued an update (ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial*

Assets and Financial Liabilities). The amendments in this update clarified the guidance in ASU No. 2016-01 specifically for equity securities without a readily determinable fair value and financial liabilities for which the fair value option is elected. The amendments in this update become effective for annual periods beginning after December 15, 2017 and interim periods within those fiscal years beginning after June 15, 2018. We are currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

NOTE 4 ACQUISITION AND DIVESTITURE ACTIVITY

Acquisitions

Anchor Bancorp, Inc.

Effective November 1, 2017, Old National completed the acquisition of St. Paul, Minnesota-based Anchor (MN) through a stock and cash merger. Anchor (MN) was a bank holding company with Anchor Bank (MN) as its wholly-owned subsidiary. Founded in 1967 and with 17 total branches, Anchor Bank (MN) was one of the largest community banks headquartered in the Twin Cities, and also served Mankato, Minnesota. Anchor Bank (MN) has no affiliation with the former AnchorBank (WI) in Madison, Wisconsin, which Old National acquired in 2016. 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 Anchor (MN) common stock received $2.625 in cash and 1.350 shares of Old National Common Stock per share of Anchor (MN) common stock such holder owned. The total fair value of consideration for Anchor (MN) was $332.8 million, consisting of $31.9 million of cash and the issuance of 16.5 million shares of Old National Common Stock valued at $300.8 million. This acquisition was accounted for under the acquisition method of accounting. Accordingly, Old National recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. Through March 31, 2018, transaction and integration costs of $14.6 million associated with this acquisition have been expensed and remaining integration costs will be expensed in future periods as incurred.

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

Cash and cash equivalents	$ 34,501
Investment securities	302,195
FHLB/Federal Reserve Bank stock	6,585
Loans held for sale	1,407
Loans	1,593,991
Premises and equipment	33,433
Accrued interest receivable	5,872
Other real estate owned	1,058
Company-owned life insurance	44,490
Other assets	30,036
Deposits	(1,777,588)
Federal funds purchased and interbank borrowings	(45,600)
Securities sold under agreements to repurchase	(22,965)
Other borrowings	(49,257)
Accrued expenses and other liabilities	(25,784)
Net tangible assets acquired	132,374
Definite-lived intangible assets acquired	26,606
Goodwill	173,785

Total consideration	$	332,765

Prior to the end of the one-year measurement period for finalizing acquisition-date fair values, if information becomes available which would indicate adjustments are required to the allocation, such adjustments will be included in the allocation in the reporting period in which the adjustment amounts are determined. During the first quarter of 2018, immaterial adjustments were made to the preliminary valuation of the assets acquired and liabilities assumed. These adjustments affected goodwill, definite lived intangible assets, premises and equipment, other assets, and deposits.

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

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The estimated fair value of the core deposit intangible was $26.6 million and is being amortized over an estimated useful life of 10 years.

Acquired loan data for Anchor (MN) 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	$ 10,555	$ 16,898	$ 4,787
Acquired receivables not subject to ASC 310-30	$ 1,583,436	$ 1,879,449	$ 87,767

Divestitures

Based on an ongoing assessment of our service and delivery network, Old National consolidated 29 branches during 2017. There are ten branches located throughout the footprint scheduled to be consolidated; nine in the second quarter and one in the third quarter of this year.

In addition, Old National entered into a branch purchase and assumption agreement for the sale of ten Old National branches in Wisconsin to Marine Credit Union of La Crosse, Wisconsin. The branch sale includes the assumption of approximately $274 million in deposits and no loans. Subject to regulatory approval and other terms and conditions, the sale is expected to close in the third quarter of 2018.

NOTE 5 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.

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The following table reconciles basic and diluted net income per share for the three months ended March 31, 2018 and 2017:

(dollars and shares in thousands, except per share data)	**Three Months Ended March 31, 2018**	**2017**
Basic Earnings Per Share		
Net income	**$ 47,983**	$ 35,992
Weighted average common shares outstanding	**151,721**	134,912
Basic Net Income Per Share	**$ 0.32**	$ 0.27
Diluted Earnings Per Share		
Net income	**$ 47,983**	$ 35,992
Weighted average common shares outstanding	**151,721**	134,912
Effect of dilutive securities:		
Restricted stock	**569**	445
Stock options (1)	**80**	74
Weighted average shares outstanding	**152,370**	135,431
Diluted Net Income Per Share	**$ 0.31**	$ 0.27

(1) Options to purchase 15 thousand shares and 55 thousand shares outstanding at March 31, 2018 and 2017, respectively, were not included in the computation of net income per diluted share because the exercise price of these options was greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

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NOTE 6 INVESTMENT SECURITIES

The following table summarizes the amortized cost and fair value of the available-for-sale and held-to-maturity investment securities portfolio at March 31, 2018 and December 31, 2017 and the corresponding amounts of unrealized gains and losses therein:

(dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2018				
Available-for-Sale				
U.S. Treasury	**$ 9,292**	**$ 32**	**$ (29)**	**$ 9,295**
U.S. government-sponsored entities and agencies	**587,140**	**1**	**(14,452)**	**572,689**
Mortgage-backed securities - Agency	**1,527,777**	**648**	**(50,529)**	**1,477,896**
States and political subdivisions	**837,946**	**9,930**	**(4,388)**	**843,488**
Pooled trust preferred securities	**13,899**		**(5,704)**	**8,195**
Other securities	**312,763**	**594**	**(5,057)**	**308,300**
Total available-for-sale securities	**$ 3,288,817**	**$ 11,205**	**$ (80,159)**	**$ 3,219,863**
Held-to-Maturity				
U.S. government-sponsored entities and agencies	**$ 73,369**	**$**	**$ (1,925)**	**$ 71,444**
Mortgage-backed securities - Agency	**145,658**	**75**	**(2,966)**	**142,767**
States and political subdivisions	**316,126**	**8,278**	**(2,472)**	**321,932**
Total held-to-maturity securities	**$ 535,153**	**$ 8,353**	**$ (7,363)**	**$ 536,143**
December 31, 2017				
Available-for-Sale				
U.S. Treasury	$ 5,473	$ 83	$ (5)	$ 5,551
U.S. government-sponsored entities and agencies	675,643	3	(11,360)	664,286
Mortgage-backed securities - Agency	1,704,014	1,600	(37,932)	1,667,682
States and political subdivisions	529,835	5,085	(4,727)	530,193
Pooled trust preferred securities	16,605		(8,157)	8,448
Other securities	321,016	1,172	(2,141)	320,047
Total available-for-sale securities	$ 3,252,586	$ 7,943	$ (64,322)	$ 3,196,207
Held-to-Maturity				
Mortgage-backed securities - Agency	$ 6,903	$ 153	$	$ 7,056
States and political subdivisions	677,160	43,495	(8)	720,647
Total held-to-maturity securities	$ 684,063	$ 43,648	$ (8)	$ 727,703

As previously disclosed in Note 3, upon the early adoption of ASU No. 2017-12 on January 1, 2018, Old National reclassified $447.0 million in state and political subdivision securities from the held-to-maturity portfolio to the available-for-sale portfolio. Separately, on January 1, 2018, U.S. government-sponsored entities and agencies, agency mortgage-backed securities, and state and political subdivision securities with a fair value of $324.0 million were transferred from the available-for-sale portfolio to the held-to-maturity portfolio. The $10.8 million unrealized holding loss, net of tax, at the date of transfer shall continue to be reported as a separate component of shareholders equity and will be amortized over the remaining life of the securities as an adjustment to yield. The corresponding discount on these securities will offset this adjustment to yield as it is amortized.

Proceeds from sales or calls of available-for-sale investment securities, the resulting realized gains and realized losses, and other securities gains or losses were as follows for the three months ended March 31, 2018 and 2017:

(dollars in thousands)	Three Months Ended March 31, 2018	2017
Proceeds from sales of available-for-sale securities	**$ 84,257**	$ 33,588
Proceeds from calls of available-for-sale securities	**17,436**	10,520
Total	**$ 101,693**	$ 44,108
Realized gains on sales of available-for-sale securities	**$ 2,008**	$ 1,329
Realized gains on calls of available-for-sale securities	**1**	
Realized losses on sales of available-for-sale securities	**(1,257)**	(30)
Realized losses on calls of available-for-sale securities	**(49)**	(1)
Other securities gains (losses) (1)	**85**	202
Net securities gains (losses)	**$ 788**	$ 1,500

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

Trading securities, which consist of mutual funds held in trusts associated with deferred compensation plans for former directors and executives, are recorded at fair value and totaled $5.6 million at March 31, 2018 and December 31, 2017.

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

(dollars in thousands) Maturity	At March 31, 2018 Amortized Cost	Fair Value	Weighted Average Yield
Available-for-Sale			
Within one year	**$ 60,568**	**$ 60,503**	**2.16%**
One to five years	**495,123**	**490,729**	**2.28**
Five to ten years	**377,525**	**374,850**	**2.83**
Beyond ten years	**2,355,601**	**2,293,781**	**2.61**
Total	**$ 3,288,817**	**$ 3,219,863**	**2.58%**

Held-to-Maturity			
Within one year	**$ 22,368**	**$ 22,563**	**3.74%**
One to five years	**36,340**	**37,201**	**4.04**
Five to ten years	**80,260**	**82,779**	**4.35**
Beyond ten years	**396,185**	**393,600**	**4.59**
Total	**$ 535,153**	**$ 536,143**	**3.74%**

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The following table summarizes the investment securities with unrealized losses at March 31, 2018 and December 31, 2017 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, 2018						
Available-for-Sale						
U.S. Treasury	**$ 5,273**	**$ (29)**	**$**	**$**	**$ 5,273**	**$ (29)**
U.S. government-sponsored entities and agencies	**240,181**	**(4,428)**	**331,504**	**(10,024)**	**571,685**	**(14,452)**
Mortgage-backed securities - Agency	**753,315**	**(19,422)**	**630,193**	**(31,107)**	**1,383,508**	**(50,529)**
States and political subdivisions	**294,601**	**(4,065)**	**7,782**	**(323)**	**302,383**	**(4,388)**
Pooled trust preferred securities			**8,195**	**(5,704)**	**8,195**	**(5,704)**
Other securities	**110,546**	**(2,522)**	**122,440**	**(2,535)**	**232,986**	**(5,057)**
Total available-for-sale	**$ 1,403,916**	**$ (30,466)**	**$ 1,100,114**	**$ (49,693)**	**$ 2,504,030**	**$ (80,159)**
Held-to-Maturity						
U.S. government-sponsored entities and agencies	**$**	**$**	**$ 71,444**	**$ (1,925)**	**$ 71,444**	**$ (1,925)**
Mortgage-backed securities - Agency	**37,880**	**(664)**	**103,727**	**(2,302)**	**141,607**	**(2,966)**
States and political subdivisions	**38,606**	**(860)**	**67,909**	**(1,612)**	**106,515**	**(2,472)**
Total held-to-maturity	**$ 76,486**	**$ (1,524)**	**$ 243,080**	**$ (5,839)**	**$ 319,566**	**$ (7,363)**
December 31, 2017						
Available-for-Sale						
U.S. Treasury	$ 1,480	$ (5)	$	$	$ 1,480	$ (5)
U.S. government-sponsored entities and agencies	201,773	(1,333)	408,493	(10,027)	610,266	(11,360)
Mortgage-backed securities - Agency	789,804	(8,692)	774,825	(29,240)	1,564,629	(37,932)
States and political subdivisions	196,024	(1,899)	90,637	(2,828)	286,661	(4,727)
Pooled trust preferred securities			8,448	(8,157)	8,448	(8,157)
Other securities	61,260	(429)	125,517	(1,712)	186,777	(2,141)
Total available-for-sale	$ 1,250,341	$ (12,358)	$ 1,407,920	$ (51,964)	$ 2,658,261	$ (64,322)
Held-to-Maturity						
States and political subdivisions	$ 2,309	$ (8)	$	$	$ 2,309	$ (8)
Total held-to-maturity	$ 2,309	$ (8)	$	$	$ 2,309	$ (8)

In addition to the unrealized losses at March 31, 2018 presented above, there is an additional $14.0 million of unrealized losses on securities that exist due to securities previously transferred from available-for-sale to held-to-maturity.

Management evaluates securities for OTTI at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Investment securities classified as available-for-sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320, Investments Debt and Equity Securities. In determining OTTI under FASB ASC 320, 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, 2018 or 2017.

At March 31, 2018, Old National s securities portfolio consisted of 1,690 securities, 850 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, 2018, 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, 2018, our securities portfolio contained two pooled trust preferred securities with a fair value of $8.2 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, 2018 and 2017, our analysis indicated no OTTI on these securities.

During the first quarter of 2018, Old National sold a pooled trust security that fell within the scope of FASB ASC 325-10 (EITF 99-20). Proceeds from the sale were $1.8 million, which resulted in a loss of $0.9 million. Although Old National typically does not sell securities in an unrealized loss position, this security was sold because the final liquidation value was significantly higher than our assessment of value for this position.

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, 2018 (dollars in thousands)	Class	Lowest Credit Rating (1)	Amortized Cost	Fair Value	Unrealized Gain/ (Loss)	Realized Losses 2018	# of Issuers Currently Performing/ Remaining	Actual Deferrals and Defaults as a % of Original Collateral	Expected Defaults as a % of Remaining Performing Collateral	Excess Subordination as a % of Current Performing Collateral

Pooled trust preferred securities:										
Pretsl XXVII LTD	B	B	$ 4,399	$ 2,442	$ (1,957)	$	35/44	16.7%	4.2%	46.7%
Trapeza Ser 13A	A2A	BBB	9,500	5,753	(3,747)		48/53	4.5%	4.5%	46.2%
			13,899	8,195	(5,704)					
Single Issuer trust preferred securities:										
Fleet Cap Tr V (BOA)		BBB-	3,409	3,325	(84)					
JP Morgan Chase Cap XIII		BBB-	4,780	4,650	(130)					
NB-Global		BBB-	808	941	133					
			8,997	8,916	(81)					
Total			$ 22,896	$ 17,111	$ (5,785)	$				

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

NOTE 7 LOANS HELD FOR SALE

Mortgage loans held for immediate sale in the secondary market were $17.6 million at March 31, 2018, compared to $17.9 million at December 31, 2017. 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 8 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 reach the 10% threshold.

The composition of loans by lending classification was as follows:

(dollars in thousands)	March 31, 2018	December 31, 2017
Commercial (1)	**$ 2,811,629**	$ 2,717,269
Commercial real estate:		
Construction	**351,448**	374,306
Other	**4,098,532**	3,980,246
Residential real estate	**2,158,532**	2,167,053
Consumer credit:		
Home equity	**487,237**	507,507
Auto	**1,117,027**	1,148,672
Other	**214,277**	223,068
Total loans	**11,238,682**	11,118,121
Allowance for loan losses	**(50,381)**	(50,381)
Net loans	**$ 11,188,301**	$ 11,067,740

(1) Includes direct finance leases of $27.4 million at March 31, 2018 and $29.5 million at December 31, 2017.
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.

The acquisition of Anchor (MN) on November 1, 2017 added $864.4 million of commercial real estate loans to our portfolio. At 208%, 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, 2018.

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. We assumed student loans in the acquisition of Anchor (WI) in May 2016. Student loans are guaranteed by the government from 97% to 100% and totaled $66.0 million at March 31, 2018, compared to $68.2 million at December 31, 2017. 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.

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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, 2018 and 2017 was as follows:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
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**
Three Months Ended March 31, 2017					
Balance at beginning of period	$ 21,481	$ 18,173	$ 1,643	$ 8,511	$ 49,808
Charge-offs	(470)	(568)	(414)	(1,787)	(3,239)
Recoveries	603	1,225	79	1,011	2,918
Provision	494	(877)	428	302	347
Balance at end of period	$ 22,108	$ 17,953	$ 1,736	$ 8,037	$ 49,834

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The following table provides Old National s recorded investment in loans by portfolio segment at March 31, 2018 and December 31, 2017 and other information regarding the allowance:

(dollars in thousands)	Commercial	Commercial Real Estate	Residential	Consumer	Total
March 31, 2018					
Allowance for loan losses:					
Individually evaluated for impairment	**$ 4,024**	**$ 6,054**			