



COMPANY UPDATE/ ESTIMATES CHANGE/ PRICE TARGET CHAGE/ RATING CHANGE

Key Metrics

ONB - NASDAQ (as of 04/26/17)	\$17.20
Price Target	\$17.50
52-Week Range	\$11.58-\$18.95
Shares Outstanding (mm)	135.4
Market Cap. (\$mm)	\$2,329
3-Mo. Average Daily Volume (000)	844.7
Institutional Ownership	73.9%
Tangible Equity/ Tangible Assets	9.5%
ROE	7.8%
Tangible Book Value Per Share	\$8.54
Price/Tangible Book Value	201.4%
Dividend Yield	3.0%
Price/LTM Earnings	15.9x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.24	\$0.25	\$0.27A	\$0.28	\$0.28
2Q	\$0.23	\$0.27	\$0.28	\$0.29	\$0.30
3Q	\$0.28	\$0.26	\$0.25	\$0.29	\$0.30
4Q	\$0.27	\$0.26	\$0.24	\$0.30	\$0.31
Year	\$1.01	\$1.03	\$1.04	\$1.17	\$1.18
P/E	17.1x		16.5x		14.6x

Common Dividends

	2016A	Curr. 2017E	Prior %chg.	Curr. 2018E
1Q	\$0.13	\$0.13A	0.0	\$0.14
2Q	\$0.13	\$0.14	7.7	\$0.15
3Q	\$0.13	\$0.14	7.7	\$0.15
4Q	\$0.13	\$0.14	7.7	\$0.15
Year	\$0.52	\$0.55	5.8	\$0.59

Company Description – Old National Bancorp (ONB) is a commercial banking organization headquartered in Evansville, Indiana. The company's footprint includes markets in Indiana, Kentucky, Michigan and Wisconsin. ONB is the largest banking organization based in Indiana and ranks among the top 100 banking companies in the country. In addition to traditional banking services, Old National offers trust, wealth management and investment brokerage services.

Banks

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Old National Bancorp

ONB – NASDAQ – Neutral – 2

Lower Tax Rate Drives Beat; Upgrading to Neutral on Valuation

- **Earnings Results:** ONB reported GAAP and operating EPS of \$0.27, which beat our estimate and the Street consensus by \$0.02.
- **Positive Highlights:** The effective tax rate declined to 22.6% in 1Q17 from 30.5% in Q4 due to the company's agreements to invest in historic tax credit projects.

End-of-period loans increased 1.3% on a LQ basis, while average loans rose 0.6%. We had modeled end-of-period loan growth of 0.7%.

The loan loss provision of \$0.3 million came in well below our estimate of \$1.9 million. Nonperforming Assets/Assets fell 15 bps to 0.96%, while the net charge-off ratio rose a single bp to 0.01%.

Operating noninterest expense plunged 6.9% linked-quarter (LQ) to \$100.5 million, but was modestly above our estimate of \$100.1 million.

- **Negative Highlights:** Net interest income plunged 3.7% LQ to \$105.8 million as 13 bps of net interest margin (NIM) compression to 3.50% and two fewer days in the quarter more than offset a 0.2% rise in average earning assets. We had projected net interest income of \$107.2 million and a 3.49% NIM.

Operating noninterest income declined 15.0% LQ to \$41.4 million driven by a lower, more normalized level of "other" income and, to lesser extent, reduced deposit service charges. We had projected noninterest income of \$42.9 million.

- **Estimates:** We are raising our 2017 and 2018 operating EPS estimates to \$1.04 and \$1.18 from \$1.03 and \$1.17, respectively. We are increasing our price target by \$0.50 to \$17.50. With the recent decline in ONB's share price, we are raising our rating to Neutral from Underperform.

Note Important Disclosures on pages 4 and 5
Note Analyst Certification on page 4

OTHER KEY TAKEAWAYS

- As mentioned, ONB has agreed to invest in certain historic tax credit projects. Management anticipates recording expenses related to these investments of approximately \$4.4 million and \$5.5 million in 3Q17 and 4Q17, respectively. As a result of these investments, management expects an effective tax rate in 2017 of 23%, down from its previous guidance of 25%. The net benefit of these projects to 2017 net income is expected to be approximately \$2 million.
- Old National guided to 2017 noninterest expense of approximately \$405 million-\$410 million, including the charges related to the historic tax credit investments.
- The erosion in the NIM was driven by lower purchase accounting accretion. Excluding accretion income, the core NIM was unchanged sequentially at 3.10%.
- Management noted that the core margin should be stable in Q2, with the potential for slight expansion.
- Commercial loan production was muted in Q1 as C&I customers paid down line balances and new production was seasonally down. End-of-period commercial real estate loans grew 2.9% LQ.
- ONB consolidated 15 branches in January, resulting in \$1.4 million in pre-tax charges in 1Q17.
- The provision benefitted from substantial recoveries during the quarter. Gross charge-offs totaled \$3.2 million, which was offset by \$2.9 million of recoveries.
- Our price target is derived from our discounted dividend model and the application of the stock's historical forward multiple of approximately 13.5X to our 2Q18-1Q19 EPS estimates.
- Major model assumptions include one additional Fed rate hike this year and two next year, continued flattening of the yield curve, slower loan growth in 2017 and a 28% U.S. corporate tax rate in 2018.

SUITABILITY

Our suitability rating on ONB is 2 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISK FACTORS

- **Economy** – If the economy softens, loan demand could wane and credit quality could deteriorate.
- **Geography** – The company's operations are clustered in a few states. Accordingly, its earnings are more vulnerable to any regional shock and/or slowdown.
- **Real Estate** – A significant percentage of the company's loans are real estate oriented. Any deterioration in real estate values would impair the value of the underlying real estate collateral.
- **Competition** – The industry is highly competitive and many of the company's competitors have greater resources.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.
- **Regulatory Environment** – Banks operate in a highly regulated environment. Consequently, the company is vulnerable to regulatory uncertainties that could negatively impact shareholders.
- **Other** – Please see the company's financial statements for a further discussion of risks and considerations.

	OLD NATIONAL BANCORP					ONB: NEUTRAL							
	1Q016 A	2Q016 A	3Q016 A	4Q016 A	1Q017 A	2Q017 E	3Q017 E	4Q017 E	FY 2016 A	FY 2017 E	FY 2018 E	FY 2017 E	FY 2018 E
\$Millions, Except for Per Share Data													
Balance Sheet Data:													
Assets	11,932.3	14,420.3	14,703.1	14,860.2	14,869.6	14,999.8	15,183.5	15,369.5	11,991.5	14,860.2	16,123.3	15,369.5	16,123.3
Gross Loans	7,029.6	8,874.6	8,965.5	9,101.2	9,149.1	9,263.5	9,425.6	9,590.6	6,962.2	9,101.2	9,590.6	9,590.6	10,145.7
Average Earning Assets	10,331.0	11,726.4	12,575.5	12,713.3	12,742.9	12,888.8	13,024.2	13,183.8	10,363.3	11,828.6	12,959.9	12,959.9	13,544.7
Deposits	8,588.9	10,451.6	10,646.7	10,743.3	10,821.4	10,916.0	11,049.8	11,185.1	8,400.9	10,743.3	11,185.1	11,185.1	11,733.7
Equity	1,508.6	1,811.1	1,834.5	1,814.4	1,846.4	1,865.8	1,880.9	1,894.8	1,491.2	1,814.4	1,894.8	1,894.8	1,916.3
Statement of Operations:													
FTE Net Interest Income	90.8	104.6	113.1	115.4	111.5	110.8	110.3	110.2	365.7	424.0	442.8	442.8	445.6
Net Interest Income	85.6	99.3	107.8	109.9	105.8	105.2	104.7	104.5	366.1	402.7	420.2	420.2	422.8
Provision for Loan Losses	0.1	1.3	1.3	-1.8	0.3	2.1	2.2	2.2	2.9	1.0	6.8	6.8	13.9
Non-Interest Income:													
Wealth Management Fees	8.1	9.4	8.6	8.6	9.0	10.3	9.2	9.3	34.3	34.6	37.8	37.8	40.8
Deposit Service Charges	9.6	10.4	11.1	10.4	9.8	10.8	11.0	10.8	43.3	41.6	42.3	42.3	42.6
Debit Card & ATM Fees	3.8	4.5	4.3	4.2	4.2	4.5	4.6	4.5	21.3	16.8	17.8	17.8	18.3
Mortgage Banking Revenue	2.9	5.2	7.7	4.4	4.2	4.8	4.6	4.2	12.6	20.2	17.8	18.3	18.3
Insurance Premiums and Commissions	13.1	7.1	0.1	0.2	0.1	0.2	0.2	0.2	42.7	20.5	0.6	0.6	0.6
Investment Product Fees	3.9	4.7	5.0	5.2	5.0	5.3	5.4	5.4	17.8	18.8	21.0	22.5	22.5
Company-Owned Life Insurance	2.0	2.1	2.2	2.2	2.1	2.1	2.1	2.1	8.7	8.5	8.6	8.6	8.6
Change in FDIC Indemnification Asset	-0.7	0.9	0.0	0.0	0.0	0.0	0.0	0.0	(9.0)	0.2	0.0	0.0	0.0
Other Income	5.5	47.2	6.6	26.4	6.9	8.0	8.1	8.1	53.0	85.7	31.1	33.1	33.1
Securities Gains	1.1	1.9	1.6	1.2	1.5	0.0	0.0	0.0	5.7	5.8	1.5	0.0	0.0
Total Non-Interest Income	49.5	93.4	47.2	62.8	42.9	45.9	45.0	44.6	230.6	252.8	178.5	184.8	184.8
Non-Core Adjustment	-1.1	-43.7	-1.6	-14.0	-1.5	0.0	0.0	0.0	(64.2)	(60.5)	(1.5)	(1.5)	0.0
Adjusted Non-Interest Income	48.3	49.7	45.6	48.7	41.4	45.9	45.0	44.6	196.3	192.3	177.0	184.8	184.8
Non-Interest Expense:													
Salaries and Employee Benefits	57.0	62.7	60.9	72.3	56.6	55.0	55.3	55.2	243.9	252.9	222.0	225.3	225.3
Occupancy	12.8	13.6	12.9	11.6	12.1	11.0	11.1	11.1	53.2	50.9	45.3	44.4	44.4
Equipment	2.9	3.3	3.6	3.7	3.2	3.2	3.3	3.3	13.2	13.4	13.0	13.1	13.1
Marketing	2.5	5.1	3.5	3.5	3.1	3.5	3.5	3.5	10.4	14.6	13.6	14.3	14.3
Data Processing	7.1	8.7	8.2	8.0	7.6	7.7	7.7	7.7	27.3	32.0	30.7	31.3	31.3
Communication	1.9	2.5	2.8	2.8	2.4	2.4	2.4	2.5	9.5	10.0	9.7	9.9	9.9
Professional Fees	3.4	5.2	3.3	3.9	2.7	2.9	2.9	2.9	11.7	15.7	11.4	11.9	11.9
Loan Expenses	1.3	2.1	2.2	2.0	1.6	1.7	1.7	1.7	6.3	7.6	6.8	7.0	7.0
Supplies	0.6	0.6	0.6	0.9	0.6	0.8	0.8	0.8	2.3	2.9	3.0	3.0	3.3
FDIC Assessment	1.9	2.0	2.1	2.6	2.1	2.5	2.5	2.6	7.5	8.7	10.1	10.6	10.6
OREO Expense	0.4	2.1	0.7	0.9	1.1	0.9	0.9	0.9	2.8	4.2	3.8	3.0	3.0
Intangible Amortization	2.6	3.4	3.2	3.2	3.0	2.8	2.7	2.5	11.9	12.5	11.0	8.5	8.5
Other Expense	3.9	10.2	3.8	10.9	5.4	4.5	8.9	10.0	31.0	28.7	28.8	28.8	28.8
Total Non-Interest Expense	98.4	121.5	108.1	126.3	101.9	99.0	103.7	104.7	430.9	464.1	409.2	400.6	400.6
Non-Core Adjustment	-1.4	-13.8	-5.5	-18.3	-1.4	0.0	0.0	0.0	(25.7)	(39.0)	(1.4)	(1.4)	0.0
Adjusted Non-Interest Expense	97.0	107.7	102.6	108.0	100.5	99.0	103.7	104.7	405.2	415.2	407.8	400.6	400.6
Pretax Income	36.9	40.0	49.5	52.4	46.4	50.0	43.9	42.3	154.3	178.2	182.6	193.1	193.1
Income Taxes	9.8	10.7	12.3	16.2	10.5	11.6	9.9	9.4	43.2	49.0	41.3	34.8	34.8
Operating Net Income	27.2	29.2	37.2	36.2	35.9	38.4	34.0	32.9	111.1	129.2	141.3	158.2	158.2
Share & Per Share Data:													
Diluted EPS	0.24	0.31	0.25	0.25	0.27	0.28	0.25	0.24	1.00	1.04	1.04	1.04	1.18
Operating EPS	0.24	0.23	0.28	0.27	0.27	0.28	0.25	0.24	0.96	1.01	1.04	1.04	1.18
Dividends Per Share	0.13	0.13	0.13	0.13	0.13	0.14	0.14	0.14	0.48	0.52	0.55	0.55	0.55
Tangible Book Value	7.80	8.23	8.43	8.30	8.54	8.71	8.84	8.96	7.62	8.30	8.96	8.96	9.46
Common Shares Outstanding	114,352	135,005	134,985	135,159	135,435	135,435	135,435	135,435	114,297	135,159	135,435	135,435	131,435
Average Diluted Shares	114,563	127,973	135,011	135,383	135,431	135,954	135,954	135,954	116,315	128,164	135,823	135,954	133,954
Key Financial Statistics:													
Return on Assets	0.91%	1.16%	0.96%	0.91%	0.98%	1.03%	0.89%	0.85%	0.98%	0.98%	0.94%	0.94%	1.01%
Return on Equity	7.18%	9.22%	7.62%	7.33%	7.89%	8.30%	7.20%	6.92%	7.88%	7.84%	7.58%	7.58%	8.30%
Net Interest Margin	3.52%	3.67%	3.63%	3.63%	3.50%	3.44%	3.39%	3.34%	3.72%	3.58%	3.42%	3.42%	3.29%
Operating Non-Int. Inc./Operating Rev.	36.08%	33.33%	29.72%	30.71%	28.13%	30.38%	30.07%	29.93%	34.91%	32.49%	29.63%	29.63%	30.40%
Efficiency Ratio	69.11%	75.65%	63.95%	64.29%	63.13%	61.34%	65.02%	66.02%	67.39%	68.28%	63.87%	63.87%	62.23%
Tangible Common Ratio	7.88%	8.10%	8.13%	7.92%	8.16%	8.24%	8.25%	8.26%	7.66%	7.92%	8.26%	8.05%	8.05%
Reserves/Loans	0.72%	0.56%	0.57%	0.55%	0.54%	0.54%	0.54%	0.53%	0.75%	0.55%	0.53%	0.51%	0.51%
NCOs/Average Loans	0.09%	0.01%	0.07%	0.00%	0.01%	0.07%	0.08%	0.08%	-0.03%	0.05%	0.06%	0.13%	0.13%

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Old National Bancorp is/was a client of Hilliard Lyons within the past 12 months, received non-investment banking securities-related services, and Hilliard Lyons received compensation for those services.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

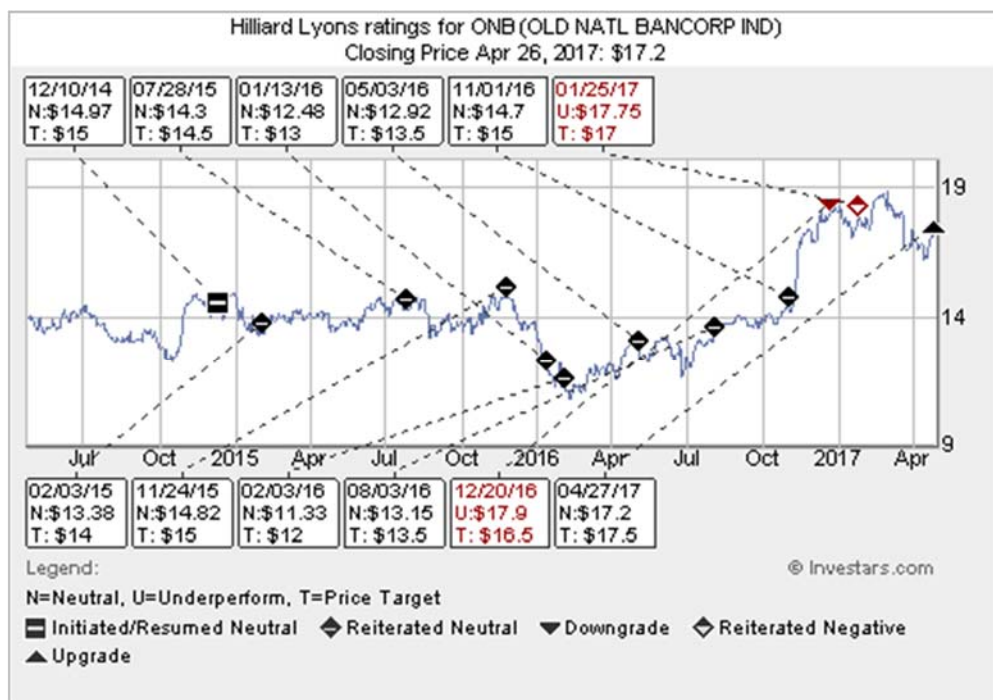
Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	30%	14%	86%
Hold/Neutral	71	58%	6%	94%
Sell	15	12%	7%	93%

As of 5 April 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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