



COMPANY UPDATE/ ESTIMATES CHANGE

Key Metrics

ONB - NASDAQ (as of 07/25/17)	\$16.75
Price Target	\$17.50
52-Week Range	\$12.93-\$18.95
Shares Outstanding (mm)	135.5
Market Cap. (\$mm)	\$2,270
3-Mo. Average Daily Volume (000)	873.2
Institutional Ownership	73.0%
Tangible Equity / Tangible Assets	9.5%
ROE	7.8%
Tangible Book Value Per Share	\$8.85
Price/Tangible Book Value	189.2%
Dividend Yield	3.1%
Price/LTM Earnings	16.0x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.24	\$0.27A	\$0.26A	\$0.28	\$0.30
2Q	\$0.23	\$0.28	\$0.28A	\$0.30	\$0.30
3Q	\$0.28	\$0.25	\$0.26	\$0.30	\$0.31
4Q	\$0.27	\$0.24	\$0.25	\$0.31	\$0.31
Year	\$1.01	\$1.04	\$1.05	\$1.18	\$1.22
P/E	16.6x		16.0x		13.8x

Common Dividends

	2016A	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.13	\$0.13A	0.0	\$0.14
2Q	\$0.13	\$0.14A	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

Beats Street by a Penny; Reaffirming Neutral Rating

- **Earnings Results:** ONB reported GAAP and operating EPS of \$0.28, which was in line with our estimate and \$0.01 ahead of the Street consensus.
- **Positive Highlights:** Operating noninterest income surged 11.5% linked-quarter (LQ) to \$46.2 million driven by gains in a host of line items. We had projected noninterest income of \$45.9 million.

End-of-period loans increased 1.1% on a LQ basis, while average loans rose 1.1%. We had modeled end-of-period loan growth of 1.3%.

The provision for loan losses rose to \$1.4 million from \$0.3 million in 1Q17. Excluding performing restructured loans, Nonperforming Assets/Assets increased fifteen bps to 1.01%, while the net charge-off ratio remained stable at a single bp. The provision was meaningfully below our projection of \$2.1 million.

- **Negative Highlights:** Net interest income fell 1.4% LQ to \$104.3 million as eight bps of net interest margin (NIM) compression to 3.42% more than offset a 0.8% rise in average earning assets and an additional day in the quarter. We had projected net interest income of \$105.2 million and a 3.44% NIM.

Operating noninterest expense increased 0.8% LQ to \$101.3 million, which came in ahead of our estimate of \$99.0 million.

- **Estimates:** We are raising our 2017 and 2018 operating EPS estimates to \$1.05 and \$1.22 from \$1.04 and \$1.18, respectively. We are maintaining our \$17.50 price target and Neutral rating.

Note Important Disclosures on pages 5 and 6
Note Analyst Certification on page 5

OTHER KEY TAKEAWAYS & VALUATION

- The effective tax rate declined to 21.4% in 2Q17 from 22.6% in Q1.
- Management continues to anticipate recording expenses related to the company's investments in certain historic tax credit projects 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 22%, down from its previous guidance of 23%. The net benefit of these projects to 2017 net income is still expected to be approximately \$2 million.
- The erosion in the NIM was driven by lower purchase accounting accretion. Excluding accretion income, the core NIM climbed two bps sequentially to 3.12%.
- Commercial and commercial real estate loan growth surged to a 10.0% annualized pace following a muted Q1. Production yields increased to 3.88% in 2Q17 from 3.83% in the first quarter. Approximately 68% of the new commercial loans are variable rate loans.
- The company is continuing to reduce production volume in consumer indirect loans while still taking advantage of more profitable opportunities in indirect lending. Quarterly production decreased to \$104.9 million in 2Q17 from \$159.6 million in Q1, while the overall production yield increased from 3.13% to 3.60%.
- The provision benefitted from substantial recoveries during the quarter. Gross charge-offs totaled \$3.4 million, which was mostly offset by \$3.2 million of recoveries.
- Management anticipates that Q3 mortgage production will be greater than or equal to the level generated in Q2.
- Old National maintained guidance for 2017 noninterest expense of approximately \$405 million-\$410 million, including the charges related to the historic tax credit investments.
- Management noted that they have seen an increase in the amount of M&A pitch books.
- Our price target is derived from our discounted dividend model and the application of a 13.5X forward multiple to our 3Q18-2Q19 EPS estimates. The earnings multiple that we employ is appropriate relative to the company's risk/reward prospects, in our opinion.
- Major model assumptions include a Fed rate hike in December followed by two additional hikes in 2018, continued flattening of the yield curve and a 28% corporate tax rate in 2018. Given the considerable uncertainties regarding corporate tax reform, we are employing conservative hurdle rates in establishing our ratings.

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 A	3Q017 E	4Q017 E	FY 2015 A	FY 2016 A	FY 2017 E	FY 2018 E	FY 2016 A	FY 2017 E	FY 2018 E	YOY Change		
Balance Sheet Data:																		
Assets	11,932.3	14,420.3	14,703.1	14,860.2	14,869.6	14,957.3	15,140.5	15,326.0	11,991.5	14,860.2	15,326.0	16,077.7	15,326.0	16,077.7	16,077.7	23.9%	3.1%	4.9%
Gross Loans	7,029.6	8,974.6	8,965.5	9,101.2	9,149.1	9,259.5	9,421.5	9,586.4	6,962.2	9,101.2	9,586.4	10,141.2	9,586.4	10,141.2	10,141.2	30.7%	5.3%	5.8%
Average Earning Assets	10,331.0	11,726.4	12,575.5	12,713.3	12,742.9	12,844.5	13,012.6	13,172.0	10,363.3	11,828.6	12,943.0	13,532.6	12,943.0	13,532.6	13,532.6	14.1%	9.4%	4.6%
Deposits	8,588.9	10,451.6	10,466.7	10,743.3	10,821.4	10,683.7	10,814.6	10,947.1	8,400.9	10,743.3	10,947.1	11,484.0	10,947.1	11,484.0	11,484.0	27.9%	1.9%	4.9%
Equity	1,508.6	1,811.1	1,834.5	1,814.4	1,846.4	1,886.6	1,901.2	1,916.2	1,491.2	1,814.4	1,916.2	2,001.9	1,916.2	2,001.9	2,001.9	21.7%	5.6%	4.5%
Statement of Operations																		
FTE Net Interest Income	90.8	104.6	113.1	115.4	111.5	108.8	110.4	111.3	365.7	424.0	443.0	451.1	443.0	451.1	451.1	9.9%	4.5%	1.8%
Net Interest Income	85.6	99.3	107.8	109.9	105.8	104.2	104.7	105.7	366.1	402.7	420.4	428.1	420.4	428.1	428.1	10.0%	4.4%	1.8%
Provision for Loan Losses	0.1	1.3	1.3	-1.8	0.3	1.4	1.5	1.6	2.9	1.0	4.8	11.7	4.8	11.7	11.7	-67.2%	404.0%	141.0%
Non-Interest Income:																		
Wealth Management Fees	8.1	9.4	8.6	8.6	9.0	9.7	8.6	8.8	34.3	34.6	36.1	38.6	36.1	38.6	38.6	0.9%	4.1%	7.0%
Deposit Service Charges	9.6	10.4	11.1	10.4	9.8	10.0	10.9	10.5	43.3	41.6	41.3	40.9	41.6	40.9	40.9	-4.1%	-0.7%	-1.0%
Debit Card & ATM Fees	3.8	4.5	4.3	4.2	4.2	4.4	4.5	4.5	21.3	16.8	17.6	18.3	16.8	17.6	18.3	5.2%	5.2%	3.8%
Mortgage Banking Revenue	2.9	5.2	7.7	4.4	4.2	5.2	4.5	4.2	12.6	20.2	19.2	19.4	20.2	19.2	19.4	60.4%	-5.4%	1.5%
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	20.5	0.6	0.6	-52.0%	-97.2%	5.8%
Investment Product Fees	3.9	4.7	5.0	5.2	5.0	5.0	5.1	5.2	17.8	18.8	20.3	21.4	18.8	20.3	21.4	5.7%	7.6%	5.8%
Company-Owned Life Insurance	2.0	2.1	2.2	2.2	2.1	2.1	2.1	2.1	8.7	8.5	8.5	8.5	8.5	8.5	8.5	-2.1%	0.2%	-0.4%
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	0.2	0.0	0.0	-102.6%	-100.0%	NA
Other Income	5.5	47.2	6.6	26.4	6.9	9.6	9.7	9.8	53.0	85.7	35.9	40.4	85.7	35.9	40.4	61.7%	-58.1%	12.4%
Securities Gains	1.1	1.9	1.6	1.2	0.0	3.1	0.0	0.0	5.7	5.8	3.1	0.0	5.8	3.1	0.0	2.3%	-47.4%	-100.0%
Total Non-Interest Income	49.5	93.4	47.2	62.8	41.4	49.3	46.3	45.5	230.6	252.8	182.5	188.1	252.8	182.5	188.1	9.7%	-27.8%	3.1%
Non-Core Adjustment	-1.1	-43.7	-1.6	-14.0	0.0	-3.1	0.0	0.0	(34.2)	(60.5)	(3.1)	0.0	(60.5)	(3.1)	0.0	76.8%	-94.9%	-100.0%
Adjusted Non-Interest Income	48.3	49.7	45.6	48.7	41.4	46.2	46.3	45.5	196.3	192.3	179.4	188.1	192.3	179.4	188.1	-2.0%	-6.7%	4.9%
Non-Interest Expense:																		
Salaries and Employee Benefits	57.0	62.7	60.9	72.3	56.6	57.6	57.3	56.8	243.9	252.9	228.2	230.9	252.9	228.2	230.9	3.7%	-9.8%	1.2%
Occupancy	12.8	13.6	12.9	11.6	12.1	10.5	10.5	10.5	53.2	50.9	43.8	42.2	50.9	43.8	42.2	-4.2%	-14.1%	-3.6%
Equipment	2.9	3.3	3.6	3.7	3.2	3.4	3.4	3.4	13.2	13.4	13.3	13.5	13.4	13.3	13.5	2.2%	-0.9%	1.6%
Marketing	2.5	5.1	3.5	3.5	3.1	3.7	3.5	3.5	10.4	14.6	13.7	14.2	14.6	13.7	14.2	41.0%	-6.0%	3.7%
Data Processing	7.1	8.7	8.2	8.0	7.6	8.2	7.8	7.8	27.3	32.0	31.4	31.5	32.0	31.4	31.5	17.1%	-2.0%	0.6%
Communication	1.9	2.5	2.8	2.8	2.4	2.3	2.4	2.5	9.5	10.0	9.6	9.9	10.0	9.6	9.9	4.8%	-3.7%	3.5%
Professional Fees	3.4	5.2	3.3	3.9	2.7	4.1	2.9	2.9	11.7	15.7	12.5	11.8	15.7	12.5	11.8	34.1%	-20.1%	-5.9%
Loan Expenses	1.3	2.1	2.2	2.0	1.6	1.7	1.7	1.7	6.3	7.6	6.7	6.9	7.6	6.7	6.9	20.9%	-11.9%	2.4%
Supplies	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	2.3	2.9	2.4	2.4	2.9	2.4	2.4	26.6%	-17.1%	2.8%
FDIC Assessment	1.9	2.0	2.1	2.6	2.5	2.1	2.2	2.2	7.5	8.7	9.0	9.0	8.7	9.0	9.0	15.5%	3.2%	0.1%
ORE Expense	0.4	2.1	0.7	0.9	1.1	1.0	0.9	0.9	2.8	4.2	4.0	3.0	4.2	4.0	3.0	50.8%	-4.1%	-25.4%
Intangible Amortization	2.6	3.4	3.2	3.2	3.0	2.8	2.6	2.4	11.9	12.5	10.8	8.2	12.5	10.8	8.2	5.2%	-13.2%	-24.1%
Other Expense	3.9	10.2	3.8	10.9	5.4	4.8	8.9	10.0	31.0	28.7	29.2	18.1	28.7	29.2	18.1	-7.5%	1.5%	-37.8%
Total Non-Interest Expense	98.4	121.5	108.1	126.3	101.9	102.8	104.7	105.2	430.9	454.1	414.6	401.7	454.1	414.6	401.7	5.4%	-8.7%	-3.1%
Non-Core Adjustment	-1.4	-19.8	-5.5	-18.3	-1.4	-1.7	0.0	0.0	(25.7)	(39.0)	(3.1)	0.0	(39.0)	(3.1)	0.0	51.6%	-92.0%	-100.0%
Adjusted Non-Interest Expense	97.0	107.7	102.6	108.0	100.5	101.1	104.7	105.2	405.2	415.2	411.5	401.7	415.2	411.5	401.7	2.5%	-0.9%	-2.4%
Pretax Income	36.9	40.0	49.5	52.4	46.4	47.9	44.8	44.3	154.3	178.9	183.4	202.8	178.9	183.4	202.8	15.9%	2.6%	10.6%
Income Taxes	9.8	10.7	12.3	16.2	11.0	10.1	10.0	9.8	43.2	49.0	40.9	37.2	49.0	40.9	37.2	13.5%	-16.6%	-9.0%
Operating Net Income	27.2	29.2	37.2	36.2	35.4	37.8	34.8	34.5	111.1	129.8	142.5	165.6	129.8	142.5	165.6	16.8%	9.8%	16.2%
Share & Per Share Data:																		
Diluted EPS	0.24	0.31	0.25	0.25	0.27	0.29	0.26	0.25	1.00	1.04	1.06	1.22	1.06	1.22	1.22	4.1%	2.2%	14.8%
Operating EPS	0.24	0.23	0.28	0.27	0.26	0.28	0.26	0.25	0.96	1.01	1.05	1.22	0.96	1.05	1.22	5.5%	4.0%	16.1%
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	0.59	0.48	0.55	0.59	8.3%	5.8%	7.3%
Tangible Book Value	7.80	8.23	8.43	29.72%	30.71%	28.13%	30.71%	30.10%	32.49%	8.30	9.11	9.81	32.49%	9.11	9.81	8.9%	9.8%	7.6%
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	135,159	135,435	135,435	18.3%	0.2%	0.0%
Average Diluted Shares	114,563	127,973	135,011	135,383	135,431	135,954	135,954	135,954	118,315	128,164	135,823	135,954	135,823	135,954	135,954	10.2%	6.0%	0.1%
Key Financial Statistics:																		
Return on Assets	0.91%	1.16%	0.96%	0.91%	0.98%	1.02%	0.92%	0.90%	0.98%	0.98%	0.95%	1.06%	0.98%	0.95%	1.06%	(3)	(3)	11
Return on Equity	7.18%	9.22%	7.62%	7.33%	7.89%	8.35%	7.29%	7.17%	7.88%	7.84%	7.67%	8.45%	7.88%	7.67%	8.45%	(16)	(16)	78
Net Interest Margin	3.52%	3.57%	3.60%	3.63%	3.50%	3.42%	3.36%	3.38%	3.72%	3.58%	3.42%	3.33%	3.58%	3.42%	3.33%	(16)	(16)	(9)
Operating Non-Int. Inc./Operating Rev.	36.08%	33.33%	29.72%	30.71%	28.13%	30.71%	30.10%	30.10%	34.91%	32.49%	29.90%	30.53%	34.91%	29.90%	30.53%	(259)	(259)	63
Efficiency Ratio	7.88%	8.10%	8.13%	7.92%	8.16%	8.41%	8.43%	8.43%	67.39%	68.28%	63.91%	61.56%	68.28%	63.91%	61.56%	(437)	(437)	(235)
Tangible Common Ratio	0.72%	0.58%	0.57%	0.55%	0.54%	0.55%	0.54%	0.54%	7.66%	7.92%	8.43%	8.62%	7.92%	8.43%	8.62%	51	51	19
Reserves/Loans	0.09%	0.01%	0.07%	0.00%	0.01%	0.01%	0.05%	0.05%	-0.03%	0.04%	0.03%	0.51%	-0.03%	0.03%	0.51%	(1)	(1)	(3)
NCOs/Average Loans																(1)	(1)	(9)

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.

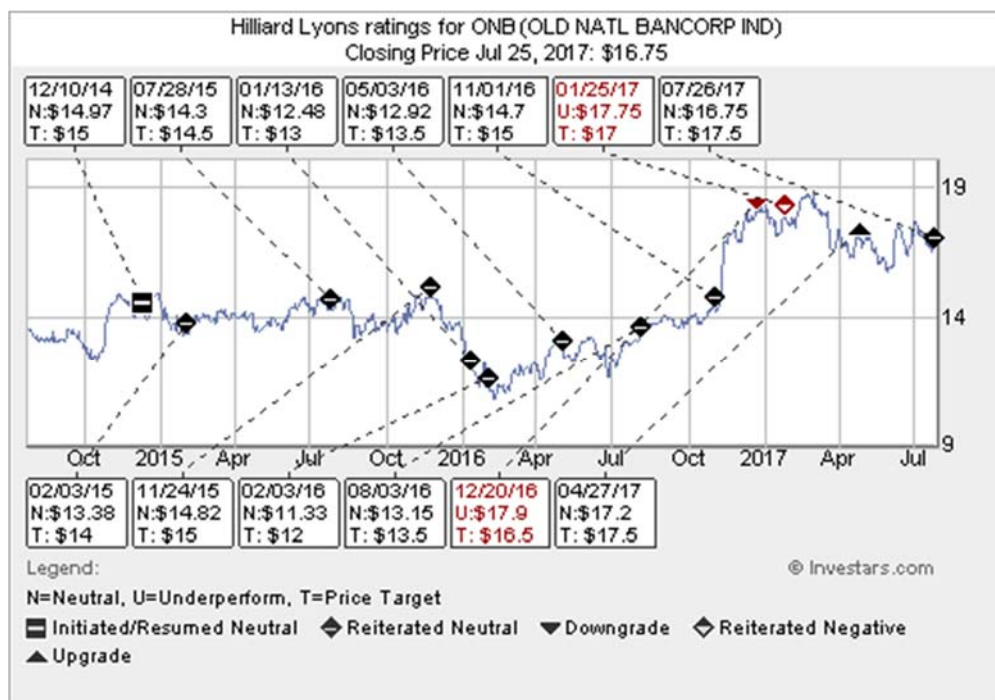
Definitions of Suitabilities:

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



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 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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