



COMPANY UPDATE/ ESTIMATES CHANGE/ TARGET PRICE CHANGE

Key Metrics

ONB - NASDAQ (as of 10/25/17)	\$18.75
Price Target	\$18.50
52-Week Range	\$14.18-\$18.95
Shares Outstanding (mm)	135.5
Market Cap. (\$mm)	\$2,541
3-Mo. Average Daily Volume (000)	723.3
Institutional Ownership	74.8%
Tangible Equity / Tangible Assets	9.5%
ROE	7.8%
Tangible Book Value Per Share	\$9.02
Price/Tangible Book Value	207.8%
Dividend Yield	2.8%
Price/LTM Earnings	17.2x

Operating EPS CY 12/31

	2016A	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.24	\$0.26A	\$0.26A	\$0.31	\$0.31
2Q	\$0.23	\$0.28A	\$0.28A	\$0.31	\$0.32
3Q	\$0.28	\$0.26	\$0.30A	\$0.33	\$0.34
4Q	\$0.27	\$0.26	\$0.23	\$0.33	\$0.32
Year	\$1.01	\$1.05	\$1.07	\$1.28	\$1.29
P/E	18.6x		17.5x		14.5x

Common Dividends

	2016A	Curr. 2017E	Prior % chg.	Curr. 2018E
1Q	\$0.13	\$0.13A	0.0	\$0.13
2Q	\$0.13	\$0.13A	0.0	\$0.15
3Q	\$0.13	\$0.13A	0.0	\$0.15
4Q	\$0.13	\$0.13	0.0	\$0.15
Year	\$0.52	\$0.52	0.0	\$0.58

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

Reports Big Q3 Beat; Reaffirming Neutral Rating

- **Earnings Results:** Excluding \$0.01 of non-core items, ONB reported operating EPS of \$0.30, which was \$0.04 above our estimate and the Street consensus.
- **Positive Highlights:** Net interest income rose 4.0% linked-quarter (LQ) to \$108.2 million on ten bps of net interest margin (NIM) expansion to 3.52%, a 0.9% rise in average earning assets and an additional day in the quarter. We had projected net interest income of \$104.7 million and a 3.39% NIM.

Operating noninterest expense decreased 2.1% LQ to \$99.0 million, which came in below our estimate of \$104.7 million. The company did not incur any tax credit amortization expenses that management had projected.

End-of-period loans increased 1.8% on a LQ basis, while average loans rose 1.5%. We had modeled end-of-period loan growth of 1.7%.

The provision for loan losses fell to \$0.3 million from \$1.4 million in 2Q17. Excluding performing restructured loans, NPAs/Assets decreased five bps to 0.86%, while the net charge-off ratio rose to five bps from one bp in 2Q17. We had modeled a provision of \$1.5 million and net charge-offs of five bps.

Growth in period end loans was 1.8%, while average loans were up 1.5%.

- **Negative Highlights:** Operating noninterest income declined 6.1% LQ to \$43.4 million driven primarily by declines in wealth management fees (8.7%), capital markets income (32.9%) and "other" income (20.3%). We had projected noninterest income of \$46.3 million.
- **Estimates:** We are raising our 2017 and 2018 operating EPS estimates to \$1.07 and \$1.29 from \$1.05 and \$1.28, respectively. We are increasing our 12-month price target by \$0.50 to \$18.50 and maintaining our Neutral rating.

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

OTHER KEY TAKEAWAYS & VALUATION

- The Q3 NIM benefitted from 34 bps of purchase accounting accretion versus 30 bps in 2Q17. Excluding accretion income, the core NIM climbed six bps sequentially to 3.18%. The increase in the core NIM was attributable to three bps of higher than normal interest recoveries on nonaccrual loans and three bps of benefit from the June Fed rate hike.
- Growth in average loans was primarily attributable to gains in commercial & industrial (4.3%) and commercial real estate (1.8%) loans. Indirect auto loans continued to decline as the company continues to focus on loans with superior risk/reward profiles.
- Management noted that the loan pipeline is down from an historic high at June 30.
- An anticipated historic tax credit project slated to occur in Q3 was deferred to 4Q17. Management expects to record income tax benefits from tax credit projects of \$14.9 million to \$25.1 million and associated amortization expense of \$12.7 million to \$22.2 million for the full year 2017. As a result, the effective tax rate is expected to be between 16%-21% in 2017.
- Management anticipates that tax credit ventures will produce a similar net benefit in 2018.
- Substandard and doubtful loans declined 12.2% on a LQ basis.
- Our price target is derived from our discounted dividend model and the application of a 13.5X forward multiple to our 4Q18-3Q19 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 A	4Q017 E	FY 2016 A	FY 2017 E	FY 2018 E	FY 2016 A	FY 2017 E	FY 2018 E
\$Millions, Except for Per Share Data														
Assets	11,932.3	14,420.3	14,703.1	14,860.2	14,869.6	14,957.3	15,065.8	17,101.6	11,991.5	14,860.2	17,101.6	17,878.5	17,101.6	17,878.5
Gross Loans	7,029.6	8,874.6	8,965.5	9,101.2	9,149.1	9,257.3	9,428.3	11,099.1	6,962.2	9,101.2	11,099.1	11,698.6	11,099.1	11,698.6
Average Earning Assets	10,331.0	11,726.4	12,975.5	12,713.3	12,742.9	12,844.5	12,989.7	13,992.8	10,363.3	11,828.6	13,135.0	15,248.0	13,135.0	15,248.0
Deposits	8,568.9	10,451.6	10,646.7	10,743.3	10,821.4	10,983.7	10,606.8	10,662.5	8,400.9	10,743.3	10,662.5	12,920.9	10,662.5	12,920.9
Equity	1,508.6	1,811.1	1,834.5	1,814.4	1,846.4	1,886.6	1,906.8	2,217.1	1,491.2	1,814.4	2,217.1	2,325.1	2,217.1	2,325.1
Statement of Operations:														
FTE Net Interest Income	90.8	104.6	113.1	115.4	111.5	110.0	114.1	120.2	385.7	424.0	465.8	523.1	465.8	523.1
Net Interest Income	85.6	99.3	107.8	109.9	105.8	104.3	108.5	114.3	366.1	402.7	432.9	497.3	432.9	497.3
Provision for Loan Losses	0.1	1.3	1.3	-1.8	0.3	1.4	0.3	1.5	2.9	1.0	3.5	11.4	3.5	11.4
Non-Interest Income:														
Wealth Management Fees	8.1	9.4	8.6	8.6	9.0	9.7	8.8	9.0	34.3	34.6	36.5	39.1	36.5	39.1
Deposit Service Charges	9.6	10.4	11.1	10.4	9.8	10.0	10.5	11.2	43.3	41.6	41.6	45.7	41.6	45.7
Debit Card & ATM Fees	3.8	4.5	4.3	4.2	4.2	4.4	4.3	4.3	21.3	16.8	17.2	18.3	16.8	17.2
Mortgage Banking Revenue	2.9	5.2	7.7	4.4	4.2	5.2	5.1	4.7	12.6	20.2	19.2	21.4	20.2	19.2
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	0.8	20.5	0.6
Investment Product Fees	3.9	4.7	5.0	5.2	5.0	5.0	5.2	5.3	17.8	18.8	20.4	21.8	18.8	20.4
Company-Owned Life Insurance	2.0	2.1	2.2	2.2	2.1	2.1	2.0	2.0	8.7	8.5	8.3	8.1	8.5	8.3
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
Other Income	5.5	47.2	6.6	26.4	6.9	9.6	7.3	9.3	53.0	85.7	33.0	42.9	85.7	33.0
Securities Gains	1.1	1.9	1.6	1.2	0.0	3.1	3.0	0.0	5.7	5.8	6.0	0.0	5.8	6.0
Total Non-Interest Income	49.5	93.4	47.2	62.8	41.4	49.3	46.4	45.9	230.6	252.8	182.9	198.1	252.8	198.1
Non-Core Adjustment	-1.1	-43.7	-1.6	-14.0	0.0	-3.1	-3.0	0.0	(34.2)	(60.5)	(6.0)	0.0	(60.5)	0.0
Adjusted Non-Interest Income	48.3	49.7	45.6	48.7	41.4	46.2	43.4	45.9	196.3	192.3	176.9	198.1	196.3	198.1
Non-Interest Expense:														
Salaries and Employee Benefits	57.0	62.7	60.9	72.3	56.6	57.6	57.8	60.9	243.9	252.9	232.9	260.6	232.9	260.6
Occupancy	12.8	13.6	12.9	11.6	12.1	10.5	11.7	10.1	53.2	50.9	44.5	34.1	50.9	44.5
Equipment	2.9	3.3	3.6	3.7	3.2	3.4	3.5	3.5	13.2	13.4	13.6	16.8	13.2	13.6
Marketing	2.5	5.1	3.5	3.5	3.1	3.7	2.6	3.5	10.4	14.6	12.9	14.2	10.4	12.9
Data Processing	7.1	8.7	8.2	8.0	7.6	8.2	7.7	7.7	27.3	32.0	31.3	31.3	27.3	31.3
Communication	1.9	2.5	2.8	2.8	2.4	2.3	2.2	2.5	9.5	10.0	9.3	9.9	9.5	9.9
Professional Fees	3.4	5.2	3.3	3.9	2.7	4.1	4.6	2.7	11.7	15.7	14.0	10.9	11.7	14.0
Loan Expenses	1.3	2.1	2.2	2.0	1.6	1.7	1.5	1.7	6.3	7.6	6.6	6.9	6.3	6.6
Supplies	0.6	0.6	0.8	0.9	0.6	0.6	0.5	0.6	2.3	2.9	2.3	2.4	2.3	2.4
FDIC Assessment	1.9	2.0	2.1	2.6	2.5	2.1	2.2	2.2	7.5	8.7	9.0	9.1	7.5	8.7
OREO Expense	0.4	2.1	0.7	0.9	1.1	1.0	0.5	1.0	2.8	4.2	3.6	3.0	4.2	3.6
Intangible Amortization	2.6	3.4	3.2	3.2	3.0	2.8	2.6	3.0	11.9	12.5	11.4	11.4	11.9	11.4
Other Expense	3.9	10.2	3.8	10.9	5.4	4.8	6.2	23.8	31.0	28.7	40.3	46.1	28.7	40.3
Total Non-Interest Expense	98.4	121.5	108.1	126.3	101.9	102.8	103.7	123.1	430.9	454.1	431.5	456.8	430.9	456.8
Non-Core Adjustment	-1.4	-13.8	-5.5	-18.3	-1.4	-1.7	-4.7	0.0	(25.7)	(39.0)	(7.8)	0.0	(39.0)	(7.8)
Adjusted Non-Interest Expense	97.0	107.7	102.6	108.0	100.5	101.1	99.0	123.1	405.2	415.2	423.7	456.8	405.2	423.7
Pretax Income	36.9	40.0	49.5	52.4	46.4	48.1	52.1	56.6	154.3	178.9	182.6	227.2	154.3	182.6
Income Taxes	9.8	10.7	12.3	16.2	11.0	10.1	12.1	2.2	43.2	49.0	35.4	30.5	43.2	35.4
Operating Net Income	27.2	29.2	37.2	36.2	35.4	38.0	40.5	33.4	111.1	129.8	147.2	196.7	111.1	147.2
Share & Per Share Data:														
Diluted EPS	0.24	0.31	0.25	0.27	0.27	0.29	0.29	0.23	1.00	1.04	1.07	1.29	1.00	1.07
Operating EPS	0.24	0.23	0.28	0.27	0.26	0.28	0.30	0.23	0.96	1.01	1.07	1.29	0.96	1.01
Dividends Per Share	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.48	0.52	0.52	0.58	0.48	0.52
Tangible Book Value	7.80	8.23	8.43	8.30	8.54	8.85	9.02	9.00	7.62	8.30	9.00	8.78	7.62	8.30
Common Shares Outstanding	114,352	135,005	134,985	135,159	135,435	135,435	135,435	151,664	114,297	135,159	151,664	151,939	114,297	151,939
Average Diluted Shares	114,563	127,973	135,011	135,383	135,431	135,954	135,954	144,112	116,315	128,164	137,863	152,510	116,315	137,863
Key Financial Statistics:														
Return on Assets	0.91%	1.16%	0.96%	0.91%	0.98%	1.05%	1.05%	0.82%	0.98%	0.98%	0.97%	1.13%	0.98%	1.13%
Return on Equity	7.18%	9.22%	7.62%	7.33%	7.89%	8.33%	8.31%	6.42%	7.85%	7.84%	7.74%	8.66%	7.85%	7.74%
Net Interest Margin	3.52%	3.57%	3.60%	3.63%	3.50%	3.42%	3.52%	3.44%	3.72%	3.58%	3.47%	3.43%	3.72%	3.47%
Operating Non-Int. Inc./Operating Rev.	36.08%	33.33%	29.72%	30.71%	28.13%	30.69%	28.57%	28.65%	34.91%	32.49%	29.01%	28.49%	32.49%	29.01%
Efficiency Ratio	69.11%	75.65%	63.95%	64.29%	63.13%	61.75%	60.24%	72.35%	67.39%	66.28%	64.37%	61.77%	66.28%	64.37%
Tangible Common Ratio	7.88%	8.10%	8.13%	7.92%	8.16%	8.41%	8.50%	8.40%	7.66%	7.92%	7.90%	7.90%	7.66%	7.90%
Reserves/Loans	0.72%	0.58%	0.57%	0.55%	0.54%	0.55%	0.53%	0.45%	0.75%	0.55%	0.45%	0.46%	0.75%	0.45%
NCOs/Average Loans	0.09%	0.01%	0.07%	0.00%	0.01%	0.01%	0.05%	0.05%	-0.03%	0.04%	0.03%	0.07%	-0.03%	0.04%

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.

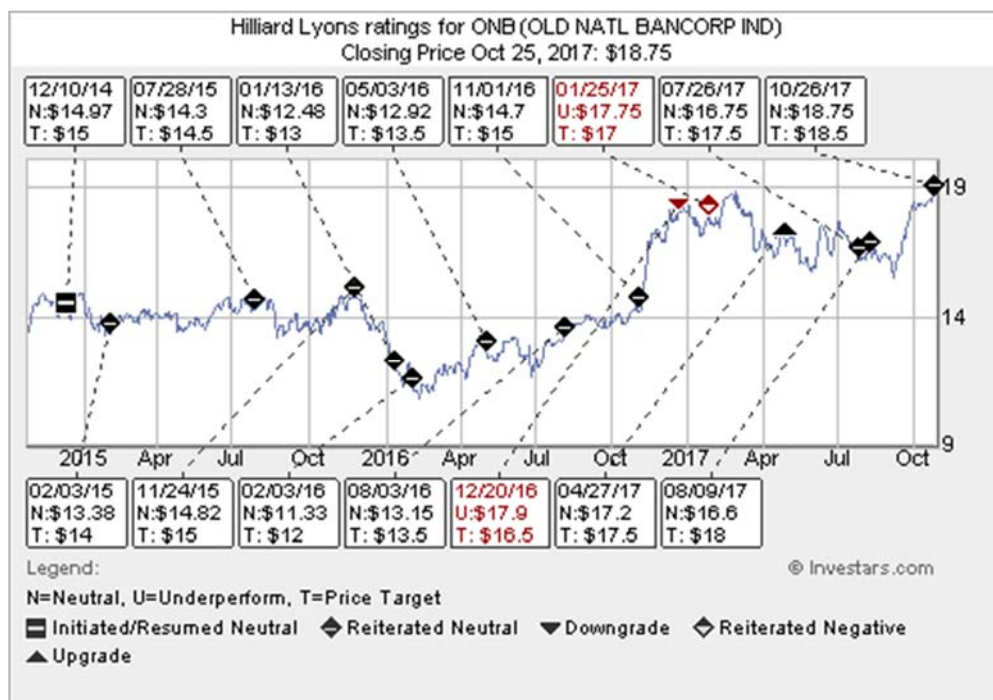
Definitions of Suitabilities:

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			Investment Banking	
Recommended Issues			Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 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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